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UK TRADE POLICY OBSERVATORY

Report on the UK-Japan Comprehensive Economic Partnership Agreement (CEPA)

UK Trade Policy Observatory

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1. An overview of the UK-Japan Comprehensive Economic Partnership Agreement (CEPA)

The UK-Japan CEPA was signed on 23rd October 2020. The Agreement is currently under scrutiny by the UK Parliament and the Diet of Japan. If successfully enacted, the Agreement is expected to enter into force on 1st January 2021, right after the UK's transition period is over.

The UK and Japan have a strong trade and investment relationship. Japan is the world's third-largest economy and the UK's 4th largest non-EU export market. UK goods exports to Japan account for 1.9% (£7,262 million in 2019) of its total goods exports and its services exports account for 1.6% (£7,987 million in 2019) of its total services exports. The UK goods imports from Japan account for 1.9% (£9,703 million in 2019) of its total goods imports and its services imports account for 3.0% (£6,615 in 2019) of its total services imports.¹ Supply chains constitute an important feature of UK-Japan trade given that 59% of UK goods imports from Japan and 44% of UK exports to Japan are intermediate goods.²

The investment relationship with Japan is important for the UK. The UK is the second-largest Foreign Direct Investment (FDI) destination for Japan accounting for \$171.9 billion of FDI stock in 2019.³ And it should be noted that Japan is the largest investor in the world accounting for 14% of the world total investment (2018).⁴ The UK has been a hub for Japanese business in Europe and a gateway to the EU market for Japanese companies since the 1980s. Japanese investment to Europe has been concentrated in the UK, accounting for almost 40% of its total FDI stock.⁵ Japanese companies play an important role in the UK economy, creating 167,000 jobs in the UK and generating £179 billion turnover (2018).⁶

The UK is a signatory of the EU-Japan Economic Partnership Agreement (EPA) which entered into force in February 2019, and the UK continues to enjoy the benefits of the EPA during the transition period. In order to ensure continuity after the end of the transition period on 31st December 2020, the UK and Japanese governments negotiated the UK-Japan CEPA based on the EU-Japan EPA.

The UK-Japan CEPA appears to be politically significant especially for the UK. Initially, the UK's top priority post-Brexit was to sign a FTA with the US. But its prospects are currently uncertain due to the US presidential election and British public concerns for the NHS and on safety standards of US agricultural products. By concluding the FTA with Japan, the UK was keen to demonstrate its capacity to strike a trade deal as an 'independent trading nation'.

In contrast to its political significance, the economic value of CEPA relative to the EU-Japan EPA looks limited. But importantly, the Agreement allows Japan and the UK to achieve a smooth transition from the EU-Japan Economic Partnership Agreement (EPA) to the Japan-UK FTA on 1st January 2021. Without CEPA, the UK would then have had to trade with Japan from the 1st January 2021 on WTO terms. Amid the increasing risk of no-deal between the EU-UK avoiding business disruption between Japan and the UK was paramount for British and Japanese business.⁷

¹ ONS (2020). UK total trade: all countries, non-seasonally adjusted.

² Value of UK-Japan trade in goods according to end-use, 2016-2018 average, DIT (2020) UK-Japan Free Trade Agreement: The UK's Strategic Approach, p35.

³ JETRO Investment data. <https://www.jetro.go.jp/world/japan/stats/fdi.html>

⁴ UNCTAD "World Investment Report 2020".

⁵ Source: JETRO investment data.

⁶ Department for International Trade (2020). Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, p22.

⁷ Morita-Jaeger (2020). Japan-UK Free Trade Agreement –What is missing?. UKTPO blog, 22 October 2020.

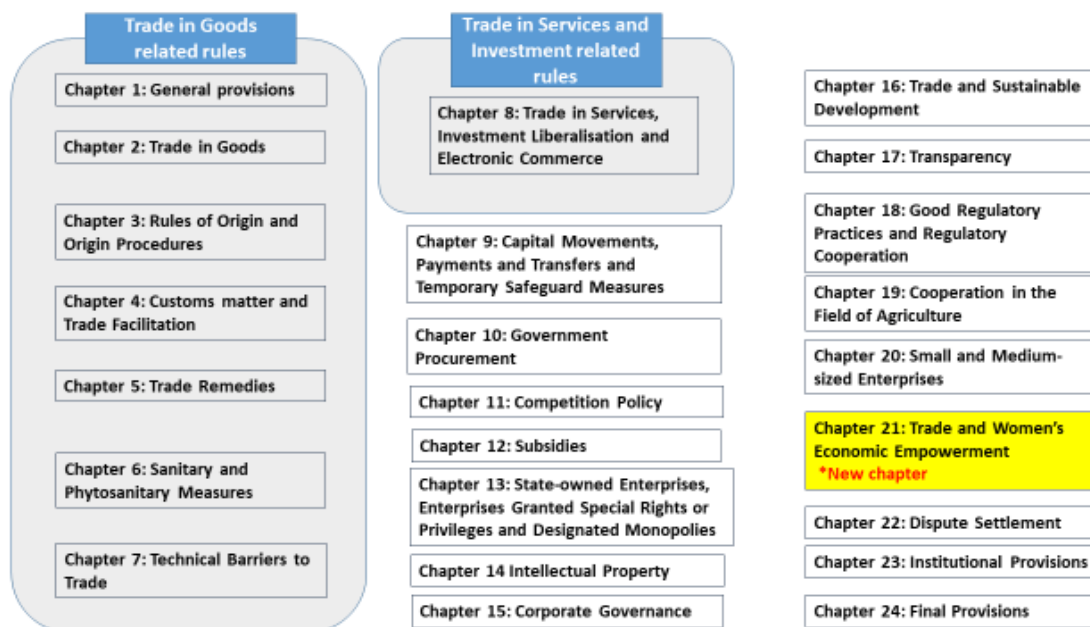
To understand the economic value of the Agreement on top of ‘continuity’, it is important to understand to what extent the UK-Japan CEPA goes beyond the EU-Japan EPA in terms of market access and rule-making. This report provides an initial review of the extent to which the UK-Japan CEPA goes beyond the EU-Japan EPA and outlines any additional impact of the CEPA on Wales and devolution.

2. Areas enhanced and/or regressed in the UK-Japan CEPA compared to the EU-Japan Economic Partnership Agreement (EPA)

The Structure of the Agreement

The UK-Japan CEPA is closely based on the EU-Japan EPA, and its structure is basically the same - except for a new chapter on ‘Trade and Women’s Economic Empowerment’ (Chapter 21) as can be seen in Figure 1. The main body of the Agreement is supplemented by annexes in order to provide further information, such as the technical issues in detail, tariff elimination schedules, and services and investment liberalisation schedules. The chapters which include annexes are: Chapter 2 (Trade in goods), Chapter 3 (Rules of origin and origin procedures), Chapter 6 (Sanitary and phytosanitary measures), Chapter 8 (Trade in services, investment liberalisation and electronic commerce), Chapter 10 (Government procurement), and Chapter 14 (Intellectual Property). These basically replicate the annexes in the EU-Japan EPA. The only difference with regard to annexes is an introduction of ‘Protocol on Mutual Recognition’, which aims to supplement Chapter 7: TBT.⁸

Figure 1: Structure of the UK-Japan CEPA (the main body of the Agreement)



⁸ The UK-Japan CEPA includes a ‘Protocol of Mutual Recognition’, which is not in the EU-Japan EPA. This is because between the EU and Japan this issue is covered by the Agreement On Mutual Recognition between Japan and the European Community (2018). Hence the Protocol in CEPA is designed to ensure continuity in this regard.

Trade negotiations can be categorised into market access negotiations and rule-making negotiations (negotiations for making provisions). In terms of substance, below we compare the differences between the UK-Japan CEPA and the EU-Japan EPA regarding (A) Market access and (B) Rule-making (changes in provisions in comparison with the EU-Japan EPA).

A. Market access

A-1. Trade in goods

In order to ensure ‘continuity’ between the EU-Japan EPA and the UK-Japan CEPA, the tariff schedules from the 3rd year in the EU-Japan EPA are immediately applied to the UK-Japan CEPA as the 1st year except for some products.

UK exports to Japan

Among the 9444 tariff line products, there are only 10 tariff lines for exports where the tariff in the UK-Japan CEPA is marginally lower than in the EU-Japan EPA. These products are: birds’ eggs, beverages, spirits and vinegars containing undenatured ethyl alcohol, raw hides and skins, leather, fur skins and articles, and handbags. However, the UK did not export any of these 10 products on these lower tariffs in 2017, 2018 and 2019. A small difference in tariff rates on these products lasts until 2030 and then becomes zero. The rest of the products have identical tariff schedules.

Comparing the share of UK exports to Japan in 2019 that would have faced zero tariffs, non-zero tariffs and non-ad-valorem duties under the UK-Japan CEPA tariff regimes and the EU-Japan EPA regime (Table 1), benefits which UK exports gain from tariff elimination schedule, is almost identical under the two FTA regimes. By 2039, 99.66 % of UK exports to Japan would have faced zero tariffs in both cases.

Table 1: Tariff UK Export faces to Japan under the UK-Japan CEPA and the EU-Japan EPA

Year	UK-Japan CEPA			EU-Japan EPA		
	Zero Tariff	Non-Zero Tariff	non ad-valorem duty	Zero Tariff	Non-Zero Tariff	non ad-valorem duty
2021	98.67	1.33	1.23	98.67	1.33	1.33
2022	98.69	1.31	1.16	98.68	1.32	1.26
2023	98.69	1.31	1.16	98.68	1.32	1.26
2024	98.94	1.06	1.02	98.93	1.07	1.13
2025	98.94	1.06	1.02	98.93	1.07	1.13
2026	99.01	0.99	1.02	99.00	1.00	1.13
2027	99.01	0.99	1.02	99.00	1.00	1.13
2028	99.01	0.99	1.02	99.01	0.99	1.13
2029	99.43	0.57	0.78	99.42	0.58	0.88
2030	99.43	0.57	0.78	99.42	0.58	0.88
2035	99.43	0.57	0.78	99.43	0.57	0.88
2039	99.66	0.34	0.75	99.66	0.34	0.85

Note 1: For Japanese duties years refer to 12-month periods starting on 1st April of the year named.

Note 2: ‘Non-zero tariff’: Tariff rates above zero; ‘Non-ad-valorem duty’: While ad-valorem duty means the customs duty which is calculated as a percentage of the value of the product, ‘non ad-valorem duty’ means other types of duty such as tariff rate quotas.

Source: Ayele, Y. (2020). UK-Japan FTA: Tariff gain or no change? UKTPO blog (<https://blogs.sussex.ac.uk/uktpo/2020/10/29/uk-japan-fta-tariff-gain-or-no-change/>)

As for agricultural products, 10 tariff rate quotas⁹ are accorded in the UK-Japan CEPA whereas 25 tariff rate quotas were accorded in the EU. A special arrangement was made for some products such as soft cheese, wheat, milk and butter related-products, and products using sugar, allocating EU's left-over quotas to these UK products. The UK will no longer have access to the remaining 15 tariff rate quotas accorded to the EU. This means that all UK exports of these products will face higher tariff rates and become less competitive relative to EU exports of these products to Japan.

UK imports from Japan

The UK applied the EU's tariff concessions in the EU-Japan EPA except for the speedier reductions of tariffs for some industrial goods. These include immediate tariff elimination on some automobile inputs, rail cars and rail car inputs (tariff elimination in the 13th year in the EU-Japan EPA); turbojets and turbojet inputs (tariff elimination in the 4th year in the EU-Japan EPA), and electronic control panels (tariff elimination in the 6th year in the EU-Japan EPA). However, for all but two of these products, the UK MFN tariff (the UK Global Tariff), was in any case zero.

A-2. Trade in services and investment liberalisation

As for the commitments on cross-border services trade liberalisation and investment liberalisation (Chapter 8-B: Schedules for Chapter 8), the UK-Japan CEPA applies the negative list approach which is also the approach taken in the EU-Japan EPA. Under the negative list approach, both countries commit to liberalisation covering all sectors except for measures provided in the (i) reservation lists for existing measures¹⁰ and (ii) reservation lists for future reservations¹¹. Also, the measures for public purposes such as security, environment, privacy protection and safety are outside the scope of liberalisation commitments.¹²

As for Japan's commitments, only three differences are observed.

- The reservation for an existing measure on distribution services (wholesale trade services for agricultural, animal and poultry farm and aquatic products)¹³ that affect market access of investment liberalisation and cross-border services trade in the EU-Japan EPA was removed in the UK-Japan CEPA. This can be considered as an improvement but not a substantial one. This is because distribution services are basically liberalised in the EU-Japan EPA.
- The reservation for existing measures on 'manufacturing and information and communications' services (manufacture of electronic parts, devices, and electronic circuits and information services) that affect national treatment of investment liberalisation was newly introduced in the UK-Japan CEPA.¹⁴ Since the relevant Japanese law and the Cabinet Order listed were enacted in 1949 and 1980 respectively, the reservation may be introduced for clarification purposes.¹⁵ In other words, the status of the UK's access to these services would not get worse in comparison with the EU-Japan EPA.

⁹ Tariff rate quotas let a limited quantity of a good in at low tariffs and charge a high tariff on the rest in order to restrict imports to the permitted low-tariff quantity.

¹⁰ Annex 8-B: Annex I.

¹¹ Annex 8-B: Annex II.

¹² Article 8.3 General exceptions.

¹³ Annex 8-I, Japan's reservations, '7. Distribution Services', in the EU-Japan EPA.

¹⁴ Annex 8-I, Japan's reservations, '13. Manufacturing and Information and Communications' in the UK-Japan CEPA.

¹⁵ Generally, states tend to improve its schedule of commitments on services in order to improve clarification and transparency.

- The reservation for future measures on transport services that affect market access, national treatment and some other obligations of investment liberalisation and cross-border services trade in the EU-Japan EPA¹⁶ was removed. This can be considered as an improvement.

The above indicates that Japan’s schedule of cross-border services and investment liberalisation is almost identical to that in the EU-Japan EPA. In other words, the UK did not get meaningful better access to the Japanese market in terms of liberalisation obligations concerned (i.e. market access, national treatment, most-favoured-nation treatment, prohibition of nationality requirements for senior management and boards of directors, and prohibition of performance requirements) except for the two areas mentioned above.

As for the UK’s schedule of commitments, the UK made its negative list reservations for the first time as an independent trading nation after leaving the EU. Thus, careful analysis of Annex 8-B: Annex I (Reservations for existing measures) and Annex 8-B: Annex II (Reservations for future measures) is required to compare the commitments made in the EU-Japan EPA.

As for the temporary movement of natural persons, the UK made some improvements in its schedule of ‘Business visitors for establishment purposes, intra-corporate transferees, investors and short-term business visitors’.¹⁷ In the EU-Japan EPA, the UK did not commit to Japan that ‘investors’ can stay in the UK. In the UK-Japan CEPA, however, it committed to an up to one year stay for ‘investors’ (Japan committed up to five years in the EU-Japan EPA and retained this commitment in the UK-Japan CEPA). Also, in the UK-Japan CEPA, the UK allowed for the entry and temporary stay of ‘partner and dependent children’ who accompany an intra-corporate transferee (Japan has already made this commitment in the EU-Japan EPA and retained this commitment in the UK-Japan CEPA). Furthermore, in the UK-Japan CEPA, the UK matched Japanese commitments on visa processing within 90 days. These improvements are likely to facilitate Japanese investment activities in the UK. However, the UK’s commitments in the area of temporary movement of natural persons have not yet entirely reached to the reciprocal basis. For example, the UK does not take commitments in respect of ‘short-term business visitors’ while Japan has already committed up to 90 days stay in the EU-Japan EPA.

B. Rule-making (changes in provisions)

B-1. Overview

Table 2 provides a comparison between the EU-Japan EPA and the UK-Japan CEPA. We checked changes/additional provisions of the UK-Japan CEPA in comparison with the EU-Japan EPA. Among 24 chapters, no changes were made in nine chapters: Customs matters and trade facilitation (Chapter 4); capital movements, payments and transfers and temporary safeguard measures (Chapter 9); government procurement (Chapter 10); subsidies (Chapter 11); corporate governance (Chapter 15); trade and sustainable development (Chapter 16); good regulatory practices and regulatory cooperation (Chapter 18); cooperation in the field of agriculture (Chapter 19) and dispute settlement (Chapter 22).

We observe that changes in provisions (text) can be seen in fifteen chapters (Table 1). These include both minor changes and substantial changes that can be evaluated as improvements. To facilitate understanding the degree of changes, we categorise these changes into the three levels: (i) Substantial improvements/changes (✓); (ii) moderate improvements/changes (✓); and (iii) minor improvements/changes (✓). Minor changes/improvements of the provisions is the case where both governments intended to improve languages for the clarification purpose. We explain the major changes/additional provisions in each chapter (Chapter 2-24) below. It should be noted that this is an

¹⁶ Annex 8-II, Japan’s reservation for future measure, ‘18. Transport’.

¹⁷ Annex III, Schedule of the United Kingdom.

initial review within a limited time. Further in-depth analysis is necessary to fully understand the legal and economic implications of these changes.

Table 2: Rule-Making - A checklist of changes/additional provisions from the EU-Japan EPA

	No changes from the EU-Japan EPA	Any change/additional provisions from the EU-Japan EPA
Chapter 2: Trade in goods		✓
Chapter 3: Rules of origin		✓
Chapter 4: Customs matters and trade facilitation	✓	
Chapter 5: Trade remedies		✓
Chapter 6: Sanitary and Phytosanitary measures		✓
Chapter 7: Technical barriers to trade		✓
Chapter 8: Trade in services, Investment liberalisation and Electronic commerce		✓
Section A: General provisions		✓
Section B: Investment liberalisation	✓	
Section C: Cross-border trade in services	✓	
Section D: Entry and temporary stay of natural persons		✓
Section E: Regulatory framework		✓ (Changes made only in Subsection 5: Financial services)
Section F: Electronic commerce		✓
Chapter 9: Capital movements, payments and transfers and temporary safeguard measures	✓	
Chapter 10: Government Procurement	✓	
Chapter 11: Competition policy		✓
Chapter 12 Subsidies	✓	
Chapter 13: State-owned enterprises, enterprises granted special rights or privileges and designated monopolies		✓
Chapter 14: Intellectual property		✓
Chapter 15: Corporate Governance	✓	
Chapter 16: Trade and sustainable development	✓	
Chapter 17: Transparency		✓
Chapter 18: Good regulatory practices and regulatory cooperation	✓	
Chapter 19: Cooperation in the field of agriculture	✓	
Chapter 20: Small and Medium-sized enterprises		✓
Chapter 21: Trade and Women's economic empowerment		New Chapter
Chapter 22: Dispute Settlement	✓	
Chapter 23: Institutional provisions		✓
Chapter 24: Final provisions		✓

Note 1: ✓ substantial improvements/changes ✓ moderate improvements/changes ✓ minor improvements/changes

Note 2: The results shown in Table 2 do not provide an exhaustive lists of changes covering the provisions in the annexes.

Rules of Origin (Chapter 3): The chapter shows moderate improvements/changes. Rules of origin were changed taking into account the UK's leaving the EU customs union by introducing extended cumulation for materials of origin and intermediate goods from the EU in many industrial goods.¹⁸ This means that the EU intermediate inputs in UK exports to Japan could count as UK for originating purposes and vice versa. However, trilateral diagonal cumulation with the EU is unresolved as this would require agreement also with the EU. The Agreement also simplified the rules of origin procedure for some traded products that Japan and the UK have shared interests in, such as automobiles.

Trade remedies (Chapter 5): Minor changes introducing the provisions referring to the WTO agreement on anti-dumping duties and countervailing duties were made.

Sanitary and phytosanitary measures (Chapter 6): SPS measures came outside the scope of the dispute settlement procedure in this Agreement whereas SPS measures are within the scope of the dispute settlement in the EU-Japan EPA. Where the parties do have to seek a resolution through a dispute, any differences would need to be settled through the WTO dispute settlement system.

Technical barriers to trade (Chapter 7): Some changes were made with regard to the functions of a national contact point on technical barriers to trade (TBT), and a new protocol on mutual recognition relating to TBT was introduced. These provisions provide a way to facilitate regulatory cooperation between the two countries.

Trade in services, investment liberalisation and electronic commerce (Chapter 8)

(i) Trade in services (Section A and C): The EU has been excluding audio visual services from services trade liberalisation as protection of culture. Even after the UK left the EU, audio visual services are still retained as an exemption in the UK-Japan CEPA. But information exchange of regulatory issues, cooperation in the sector, and possible inclusion of the sector in Chapter 8 are newly stipulated.

(ii) Investment (Section A): The EU-Japan EPA covers only provisions on investment liberalisation. The UK-Japan CEPA could have introduced a comprehensive investment chapter encompassing trade protection and dispute resolution mechanism. But the UK-Japan CEPA did not make any changes in the investment chapter. Only provisions on a review on investment protection and Investor State Dispute Settlement (ISDS) issues, and possibly including these into the Agreement in the future were included.

(iii) Entry and temporary stay of natural persons (Section d): The section shows moderate improvements. The definition of "incorporate transferees" and "investors" became more detailed and improved. In each category, the definitions under UK and Japanese law are provided for clarification. In the EU-Japan EPA, there is no precise definition in terms of each signatory's law.

(iv) Regulatory framework (Section E): This section shows substantial improvement. 'Condition for qualification and licensing' and 'licensing and qualification procedures' became more specified and detailed by introduction of new provisions.

Like the EU-Japan EPA, regulatory frameworks for four sectors (postal and courier services; telecommunications services; financial services; and internal maritime transport services) are provided. However, out of these four sectors, only the regulatory framework for financial services (sub-section 5) was substantially improved. For example, a new definition on "financial service computing facility"

¹⁸ For further discussion, see Gasiorek, M. and Magntorn Garrett, J. (2020). We're going to make them an offer they can refuse: Rules of origin and the UK-EU free trade agreement. <https://blogs.sussex.ac.uk/uktpo/publications/were-going-to-make-them-an-offer-they-can-refuse-rules-of-origin-and-the-uk-eu-free-trade-agreement/>

was introduced. Also, a detailed explanation about authorisation of “new financial services” was added. Furthermore, provisions on transfers of information and processing of information were improved. The provisions stipulate the rights of a financial supplier regarding information transfers and locating financial service computing facilities in detail. The provisions of data transparency regulation were also improved in comparison to the EU-Japan EPA.

(v) E-commerce (Section F): Many new provisions on e-commerce were introduced and the section was substantially improved. For example, the provisions on definitions became more detailed by adding the new terms, including "algorithm", "cipher" or "cryptographic algorithm"; "ciphertext"; "commercial information and communication technology product"; "computing facilities"; "covered person" and "cryptography". Also, the provisions of source code were greatly improved by reflecting technological progress. Furthermore, the provisions on certification; net neutrality; removing the ban on data localisation; and free movement of data go beyond the EU-Japan EPA.

Competition policy (Chapter 11): Provisions relating to consumer protection were included.

State-owned enterprises, enterprises granted special rights or privileges and designated monopolies (Chapter 13): A provision regarding publishing a list of state-owned enterprises was included.

Intellectual property (Chapter 14): The rules were substantially enhanced by improving provisions relating to transparency and cooperation among Intellectual Property Rights authorities. As for copyright, provisions on cooperation between respective collective management organisations were enhanced. In the area of trademarks, provisions on bad faith trademarks and registration and renewal process were introduced. With regard to geographical identifications (GIs), it newly stipulates that signatories can start consultation for adding more products to the list of GIs.¹⁹ The number of products GI certified accounts for 55 products for Japan and six products (Scottish Farmed Salmon; West Country farmhouse Cheddar cheese; White Stilton cheese Blue Stilton cheese; Scotch Whisky; Irish Cream; and Irish Whiskey/ Uisce Beatha Eireannach/ Irish Whisky) for the UK. These products were already covered in the EU-Japan EPA.

Transparency (Chapter 17): A provision of anti-corruption in international trade and investment was introduced.

Small and Medium-sized enterprises (Chapter 20): A new provision of promoting bilateral cooperation activities to assist SMEs in participating in global markets was introduced. It provides clauses in the areas of cooperation, including organising seminars, workshops, information sharing on best practices. The EU-Japan EPA can be considered as one of the best practices with regard to SME provisions and its institutional supports to implement the provisions. Since the UK government was completely depending on the European Commission to implement the SME provisions under the EU-Japan EPA framework, the UK government has to take an active role to support British SMEs in utilising the UK-Japan CEPA.²⁰

Trade and Women’s economic empowerment (Chapter 21): This is a new chapter that provides provisions on enhancing opportunities for women to participate equitably in the domestic and global economy. The Working Group on Trade and Women’s Economic Empowerment was newly established.

¹⁹ Annex-14-B provides the list of GIs.

²⁰ ²⁰ See Borchert, I. and Morita-Jaeger, M. (2020). The representation of SME interests in Free Trade Agreements: Recommendations for best practice. Co-published by UKTPO and Federation for Small Business. <https://blogs.sussex.ac.uk/uktpo/files/2020/01/FSB-Trade-TPO-Report.pdf>

Although the chapter is relatively short, consisting of only four provisions, the bilateral cooperation on the issue is expected to be promoted.

3. An outline of the impact of the UK-Japan agreement on Wales and devolution.

Limited economic value relative to the EU-Japan EPA

From our observations in the previous section, we can summarise the evaluation of the UK-Japan CEPA as follows:

- Neither the market access of UK goods exports nor that of services exports to Japan were meaningfully improved under the UK-Japan CEPA. Japan's tariff elimination schedule and services commitments are almost identical to those in the EU-Japan EPA except for some very minor details.
- As for Japanese goods imports to the UK, tariffs on some car and rail manufacturing products and inputs are immediately eliminated in order to support Japanese investors in the UK. Other than that, the UK retains the EU's tariff schedule in the EU-Japan EPA.
- Third, the UK deal offers better terms to Japan than its commitment in the EU-Japan EPA with regards to intercorporate transferees, allowing spouses and family members' the right to stay in the UK, and the inclusion of 'investors' (Japan has already committed to these in the EU-Japan EPA). It is understood that the UK made the improvement in order to facilitate Japanese investment.
- As for the other chapters, 15 out of the 24 chapters include some changes of provisions. The degree of changes made differs across chapters. Some are minor changes for clarification purposes and others are more substantive changes. The more substantial improvements appear to be with regard to e-commerce, the regulatory framework on financial services, intellectual property and rules of origin. These are expected to facilitate trade and improve predictability for business. Also, regulatory cooperation between the two countries would be enhanced in these areas.

Negligible economic impacts on the UK economy

All the above suggests that the economic value of the Agreement on top of 'continuity' seems to be rather limited. The Department for International Trade estimated the possible long-term economic gains from the Japan-UK CEPA at £1.5 billion in the case of the UK (0.07% increase in UK's GDP) and equally £1.5 billion (0.04% increase in Japan's GDP) in the case of Japan.²¹ These figures represent the economic gains relative to WTO terms, when the UK has no FTA with Japan. Given that the UK is enjoying the benefits of the EU-Japan EPA since 2019, these estimates do not represent the net benefit of the CEPA relative to the EU-Japan EPA, but relative to trading on WTO terms. These estimates were also based on the assumption that substantial tariff liberalisation and deep non-tariff measures reductions would be achieved. Given that added-value segments relative to the EU-Japan EPA look

²¹ Department for International Trade (2020). Final Impact Assessment of the Agreement between the United Kingdom of Great Britain and Northern Ireland and Japan for a Comprehensive Economic Partnership, p42. The assessment used in the final impact assessment is drawn from the estimate produced prior to the Japan-UK FTA negotiations. See Department for International Trade (2020). UK-Japan Free Trade Agreement: The UK's Strategic Approach, May 2020, p47.

limited with regard to the latter, the de facto gains are likely to be smaller than the DIT's estimate of 0.07% increase in UK's GDP over the long term.

Wales and the potential of the UK-Japan CEPA

Consequently, the economic impacts of the UK-Japan CEPA for Wales, both relative to trading on WTO terms, and even more so relative to the EU-Japan EPA are also likely to be negligible. First, it is worth noting that Wales' trade and investment relationship with Japan is not substantial. Currently, only 1.7% of Wales' exports to the world went to Japan in 2019. Hence, even if Wales were trading with Japan on WTO terms, the small share of Welsh trade to Japan, suggests that the impacts will be negligible. The top three Welsh exports to Japan (2019) were (SITC-71) power generating machinery and equipment (£121.5 million), (SITC-68) non-ferrous metals (£37.3 million), and (SITC-77) electrical machinery, appliances & electrical parts (£25.6 million).²² If Wales were trading with Japan on WTO terms, it would face the Japanese MFN tariffs on these exports. These tariffs are: SITC-71, 0%; SITC-69, 1.73%; and SITC-77, 0.15%. Of course it is possible that there could be higher non-tariff barriers if trading on WTO terms, but that is beyond the scope of this note. Hence, even if trading under WTO terms the tariffs appear to be close to zero or very low. In comparison to the EU-Japan EPA, similarly CEPA involves effectively no change as Japan's tariff schedule is virtually identical in both cases.

In terms of inward investment from Japan, Wales does not have a strong investment relationship with Japan. The share of FDI flow from Japan (2003-2019) accounts for only 5.5% of the total FDI from Japan to the UK.²³ The main FDI sectors from Japan are electronics, automotive, and education and training.²⁴ In terms of employment, estimated numbers suggest that Japanese investment in Wales created only 2,000-10,000 jobs, while in contrast Japanese investment in North East created 1.6% (17,000) local business jobs and in London 43,000 employees.²⁵

Although the macroeconomic impacts of the UK-Japan CEPA on Wales's economy looks negligible, there are perhaps some policies that the Welsh Government could consider, and clearly there could be individual companies that could be affected. For example, building on the SME chapter, the UK-Japan CEPA could provide an opportunity for SMEs in Wales to increase their participation in trade with Japan. This is of potential relevance for Wales, since 99.4% of total enterprises in Wales are SMEs and 95.0% are micro enterprises (0-9 employees) in 2019.²⁶ The Welsh Government could play a role in making the most of SME support schemes in the UK-Japan CEPA in cooperation with the UK government.²⁷

Since 66% of Japanese investment activities are in manufacturing in Wales,²⁸ to the extent that manufacturing in Wales is involved in the supply chains between Japan, the UK and the EU, then the provisions on ROOs may help some Welsh manufacturing to see a smaller negative impact from Brexit, than would have been the case without the UK-Japan CEPA. As the complexity of ROOs is a major

²² Department for International Trade (2020). p20.

²³ FDI markets data base.

²⁴ FDI markets data base.

²⁵ Department for International Trade (2020). p19 and p22.

²⁶ Source Welsh government (<https://gov.wales/sites/default/files/statistics-and-research/2019-12/size-analysis-active-businesses-2019-503.pdf>).

²⁷ See Borchert, I. and Morita-Jaeger, M. (2020). The representation of SME interests in Free Trade Agreements: Recommendations for best practice. Co-published by UKTPO and Federation for Small Business. <https://blogs.sussex.ac.uk/uktpo/files/2020/01/FSB-Trade-TPO-Report.pdf>

²⁸ Source of data: FDI markets data base. Over the period 2003-2020 (2020 data are provisional) there have been 35 FDI projects in Wales from Japanese firms. Of these, 23 projects (66%) are in manufacturing activities.

obstacle for SMEs to utilise FTAs,²⁹ ROOs could be a priority area when the Welsh Government implements SMEs support schemes.

²⁹ International Chamber of Commerce (2017). Business recommendations on rules of origin in preferential trade agreements. <https://iccwbo.org/content/uploads/sites/3/2017/05/ICC-Policy-Statement-on-rules-of-origin-in-preferential-trade-agreements.pdf>