



# ‘Beyond the Galapagos Syndrome’: Mapping the Future of UK-Japan Economic Cooperation

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## **ABSTRACT**

When then British Prime Minister Theresa May visited Abe Shinzo in August 2017, the two issued a vision statement of their two countries as 'global strategic partners, sharing common interests as outward-looking and free-trading island nations with a global reach, committed to the rules-based international system'. Taking leave from this comment, made in the contexts of two island nations with ever-changing relations with their continental relations, this paper will analyse the current and future potential economic cooperation between the UK and Japan. The paper first assesses Anglo-Japanese economic cooperation, underlining the importance of closer trade and development ties at the current moment, before going on to suggest potential avenues for this cooperation.

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## EXECUTIVE SUMMARY

One of the first exhibitions that one sees upon entering the Japan collection of the Victoria & Albert Museum is a 2019 version of Ishii Toru's 'Going Work War', depicting Japanese neo-Samurai businessmen fleeing the uncertainty of a Brexit Britain for Tokyo. In the face of Britain's changing role in the world, it seems to point to Japan's vision of its would-be partner as weakened, volatile, and isolated.

And yet, a 'Japan-UK Joint Vision Statement' delivered in 2017 after the Brexit vote, declared that:

Japan and the UK are global strategic partners, sharing common interests as outward-looking and free trading island nations with a global reach, committed to the rules-based international system.<sup>1</sup>

This quotation makes a number of telling claims as to the commonalities between the UK and Japan:

- **The rules-based international order** - The UK has entered a post-Brexit landscape with a strong position in many of the world's leading multilateral organisations, from the UN Security Council to the G7 and G20. 2021 saw it assume G7 presidency and host COP26. For Japan, whose geographical proximity includes the geopolitical

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<sup>1</sup> Cited in 'UK-Japan comprehensive economic partnership: the view from both sides', Chatham House (5 February 2021) <https://www.chathamhouse.org/events/all/research-event/uk-japan-comprehensive-economic-partnership-view-both-sides> accessed 17 October 2021

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questions of the rise of China and the security threat of North Korea, the oft-cited 'rules-based international system' is a fundamental cornerstone of its foreign policy. It is no surprise that, with such closely aligned values (that this paper goes on to explore), the UK-Japan Comprehensive Economic Partnership Agreement became the first bilateral agreement signed by the UK after Brexit.

- **'Free trading island nations'** - In discussing Japan's island status, David Pilling makes reference to the Japanese language, where the word for island is *shima*. 'In written form', he writes, 'it is represented by the ideograph of a bird sitting on top of a mountain as though, exhausted in flight, it had found a place to perch in the vastness of the ocean'.<sup>2</sup> Both the UK and Japan have complex relations with their immediate continental neighbours and, with American primacy in the world no longer certain, both have cause to look across the seas as they renegotiate their position in the world.

This paper argues that the connections between the UK and Japan can and ought to rest on the economic opportunities that each provides to the other. It begins with an overview of the history of post-war UK-Japanese relations, charting a move towards increasing closeness when it comes to soft power, economics, and security issues. Recognising the limitations of assimilating the two based on the evident similarities in each country's worldview, the introduction considers both the similarities and differences between the countries, finding particular complementary

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<sup>2</sup> David Pilling, *Bending Adversity: Japan and the Art of Survival* (Penguin 2014)

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synergies in terms of their visions for the Indo-Pacific region, and in terms of a trade balance between the two countries.

When it comes to bilateral economic cooperation, the paper looks specifically at the UK-Japanese CEPA, noting that while the consequences of its outcomes remain unclear, it might set the tone for forging new partnerships at both the bilateral and multilateral level. As regards multilateralism, the paper finds that with emergent issues such as concerns over China's trade practices and economic strength, the UK and Japan are both required to move beyond their reliance on the US. In particular, it highlights the opportunity of The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) for both countries, with the UK being the first non-Asian country to have applied to join the union. The paper also finds these opportunities for cooperation mirrored in the development space. Finally, these findings are explored with reference to a case study, considering how UK-Japanese links could be leveraged to develop connectivity across South Asia.

In exploring the above, the paper makes several recommendations to the governments of both the UK and Japan:

- Continue to build multilateral partnerships to bolster free trade and the rules-based international order
- Cooperate further to advance digital trade provisions bilaterally and multilaterally
- Utilise each country's respective development strengths to collaborate in the infrastructure development space

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Overall, the authors of this paper argue that there is compelling evidence to suggest that the UK and Japan have reached an era where new avenues of trade and development, and the strengthening of former connections, are possible. Thus, short of the geographical factor of sheer distance between the two nations, which may serve as a stumbling block for bilateral trade, this paper suggests that the increased cooperation between these two countries over the coming years could be mutually beneficial for Japan and the UK.

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## I. INTRODUCTION

### I.I Moving Towards Cooperation

It is possible to trace the history of relations between Japan and the UK over the past hundreds of years, demonstrating how these nations have become progressively closer. Japanese isolationism has previously been marked as a key hurdle to cooperation, however, this has arguably been in decline since the 220-year period known as '*Sakoku*' (which strictly limited trade with the rest of the world, as well as a near ban on migration) came to an end after the signing of the Convention of Kangawa in 1854 and the opening of the ports of Shimoda and Hakodate to American vessels.<sup>3</sup>

Fast-forwarding to the post-World War II era, Japanese willingness to expand its horizons beyond its own national borders continued. As Laura Hein has argued, during this period 'the sense of Japanese uniqueness that had undergirded pre-surrender nationalism was muted in favour of an emphasis on what Japan had in common with the rest of the advanced industrial world' marking a brief era of cooperation in which trade between Britain and Japan increased.<sup>4</sup> The Japanese economy grew at an accelerated pace, with an annual average growth of approximately 9% from 1950-1963.<sup>5</sup> Diplomatic relations between Japan and the UK were also strengthened during this era; the British Council in Japan was established in Japan in 1953.<sup>6</sup> Furthermore, in 1971, Emperor Hirohito made a state visit to the UK, which was reciprocated by the Queen in 1975.<sup>7</sup> Relations were strengthening economically *and* diplomatically.

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<sup>3</sup>Sakoku, <[https://en.wikipedia.org/wiki/Sakoku#:~:text=Sakoku%20\(%E9%8E%96%E5%9B%BD%2C%20%22locked%20country,nationals%20were%20barred%20from%20entering](https://en.wikipedia.org/wiki/Sakoku#:~:text=Sakoku%20(%E9%8E%96%E5%9B%BD%2C%20%22locked%20country,nationals%20were%20barred%20from%20entering)> , accessed 29/09/2021

<sup>4</sup> Laura Hein, *The Cultural Career of the Japanese Economy*, (2008) Third World Quarterly, Vol 29, Issue 3

<sup>5</sup> Robert S. Ozaki, 'Trade, Growth and the Balance of Payments of Post-War Japan', (1967) Social and Economic Studies, Vol. 16, No.2

<sup>6</sup> British council, 'About the British Council In Japan' (*British Council*, 2021)

<<https://www.britishcouncil.jp/en/about>> accessed 27 October 2021

<sup>7</sup> '[Ceremonies: State visits](#)'. Official web site of the British Monarchy. Archived from [the original](#) on 6 November 2008. Retrieved 27 November 2008.; Mineko Iwasaki (2012). *Geisha of Gion: The True Story of Japan's Foremost Geisha*. p. 287. ISBN 9781471105739.

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There was, however, a brief hiatus in the opening up of Japan during the late 1970s and 1980s, where a form of Japanese isolationism, and a belief in its inherent uniqueness re-emerged within its foreign and economic policy.<sup>8</sup> Such a belief has been expressed in the term *Nihonjinron*, that is, (as described by David Pilling) ‘a treatise on what makes Japan separate’.<sup>9</sup> This doctrine suggests that there is a pure Japanese essence that cannot and should not be distilled by interacting with other nations. The peak in the Japanese economy that had been felt during the post war boom was, as Laura Hein puts it, a ‘validating feature of national culture’ which promoted the idea of Japanese uniqueness.<sup>10</sup> However, during the economic downturn felt in the 1990s, this belief lost credibility. Cultural nationalism associated with the *Nihonjinron* doctrine became mainly confined to books, performative displays and military outlooks, whilst economic policy shifted more towards neoliberal models adopted by other parts of the world. All the way until the beginning of the 1990s, most Japanese companies operated under a system known as ‘*zaibatsu*’ whereby a company sticks to the same contractors that they have previously used, even if they could not match the prices offered by current competition.<sup>11</sup> Cross-mutual shareholding was also effectively phased out in Japan during the 1990s.<sup>12</sup> Such a transition within their economy meant Japan was now operating on a much more similar plane to Britain.

Yoshio Sugimoto summarises this transition in the last decade of the 20<sup>th</sup> century, emphasising that there was a realisation within Japan that ‘the representation of Japanese society as one with an impenetrable mystique backfired and proved counter-productive’; the isolationism that had served

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<sup>8</sup> Laura Hein, *The Cultural Career of the Japanese Economy*, (2008) *Third World Quarterly*, Vol 29, Issue 3

<sup>9</sup> David Pilling, *Bending Adversity: Japan and the Art of Survival* (Penguin 2014)

<sup>10</sup> Laura Hein, *The Cultural Career of the Japanese Economy*, (2008) *Third World Quarterly*, Vol 29, Issue 3

<sup>11</sup> Alan McFarlane, *Japan Through the Looking Glass*, (Profile Books 2008)

<sup>12</sup> Hideaki Miyajima, *The Unwinding of Cross-Shareholding in Japan: Causes, Effects and Implications*, (SSRN< 2005)

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Japan so well during the years of *Sakoku* and later during the pre-War period, had come to an end.<sup>13</sup>

The image that Japan had sought to construct of itself as internally self-sufficient and intrinsically different from the rest of the world has been picked up by Yoichi Funabashi in 2009, when he coined the term 'Galapagos Syndrome'. Here, he was referring to Japan's tendency to produce goods and services which were too narrowly catered to their own home markets, such as 3G phones which could not be used on phone networks outside of Japan. This term was first applied only to Japanese mobile phones, but was later expanded to refer to other products such as cash machines, which would not accept non-Japanese cards. Without an economy that attempted to compete in the international sphere, Japan was simply unable to rival other international actors. Funabashi describes how such a doctrine leads to the impression that nothing can be gained from the diffusion of information and goods across the border, noting that 'this Galapagos mentality is really toxic because it inflates our narcissism, our belief in Japan's unique way'.<sup>14</sup> With the gradual dismantling of this belief, matched with an awareness of the pitfalls of the excessive specialisation, the nation has become far more receptive to the transmission of information and ideas across international borders.

This attitudinal shift in Japanese policy was matched with a material change. In 1986, Nissan set up a car plant in Sunderland, giving it access to European markets and becoming a huge employer in the region.<sup>15</sup> Since then, there has been exponential growth in the number of Japanese businesses setting up factories in Britain, such as the first Toyota plant being founded in 1989.<sup>16</sup>

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<sup>13</sup> Sakuko,

<[https://en.wikipedia.org/wiki/Sakoku#:~:text=Sakoku%20\(%E9%8E%96%E5%9B%BD%2C%20%22locked%20country,nationals%20were%20barred%20from%20entering](https://en.wikipedia.org/wiki/Sakoku#:~:text=Sakoku%20(%E9%8E%96%E5%9B%BD%2C%20%22locked%20country,nationals%20were%20barred%20from%20entering)> , accessed 29/09/2021

<sup>14</sup> David Pilling, *Bending Adversity: Japan and the Art of Survival* (Penguin, 2014)

<sup>15</sup> Nissan, '10 Millionth Car Built at Nissan Sunderland Plant' (*Nissan*, 20 June 2019)

<<https://www.nissan.co.uk/experience-nissan/news/ten-millionth-vehicle-built-at-nissan-sunderland-plant.htm>> accessed 27 October 2021

<sup>16</sup> 'Toyota Manufacturing UK' - [https://en.wikipedia.org/wiki/Toyota\\_Manufacturing\\_UK](https://en.wikipedia.org/wiki/Toyota_Manufacturing_UK) > accessed 17 Feb 2022

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Much like the post-War era, this economic boom in relations was followed by an increase in diplomatic ties; in 2001 the 'Japan 2001' cultural exchange project between the UK and Japan was deemed a success, with a variety of Japanese cultural, educational and sporting events held in the UK.<sup>17</sup> In 2007, Emperor Akihito paid his second state visit to the UK. In 2016, Japan requested that Britain remain a member of the single-market post Brexit, emphasising the value it places on the UK as an access point to Europe. By chronologically tracing the shifts in relations between Japan and Britain, it is easier to see how these two countries are arguably primed for cooperation.

Whilst this section has primarily stressed the change in Japanese attitudes, it is important to also recognise the role that Western perceptions played in changing the terms upon which Japan and Britain have come to interact. It is particularly worth considering the role British Orientalism played in keeping the two nations apart. Even before the 20<sup>th</sup> century, anti-Asian sentiments were pervasive throughout the West, and Japanese immigrants in America and the UK were openly discriminated against. This feeling intensified after events such as the Japanese attack on Hong Kong and Malaysia in 1941.<sup>18</sup> Figures such as James Weingartner have discussed the Allied decision to bomb Hiroshima and Nagasaki, suggesting that 'the widespread image of the Japanese as sub-human constituted an emotional context which provided another justification for decisions which resulted in the death of thousands'.<sup>19</sup> Ultimately, we can see the role that the antagonistic attitudes of both nations towards one another played in inhibiting cooperation.

## I.II. Cultural Compatibility

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<sup>17</sup> 'Japan-United Kingdom relations'

[https://en.wikipedia.org/wiki/Japan%E2%80%93United\\_Kingdom\\_relations](https://en.wikipedia.org/wiki/Japan%E2%80%93United_Kingdom_relations) > accessed 17 Feb 2022

<sup>18</sup> 'Battle of Hong Kong' - [https://en.wikipedia.org/wiki/Battle\\_of\\_Hong\\_Kong](https://en.wikipedia.org/wiki/Battle_of_Hong_Kong) > accessed 17 Feb 2022

<sup>19</sup> James J Weingartner, *Trophies of War: U.S. Troops and the Mutilation of Japanese War Dead, 1941-1945*, (1992), Pacific Historical Review, Vol 61, No 1.

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For many years, the cultures of Japan and the UK were seen as too fundamentally different to facilitate cooperation. For instance, the cultural foundations of both nations’ economic models were seen as wholly different, with the UK economy being perceived as market driven and detached from socio-cultural life, and the Japanese economy being historically governed by more socially oriented principles, such as the aforementioned ‘zaibatsu’.<sup>20</sup> In addition to the collapse of these cultural divides, there are other factors which appear to make the UK and Japan sufficiently culturally compatible to facilitate future cooperation.

For example, both Japan and the UK have comparable national identities as small island nations, which are culturally similar to the nearby continental landmass (China and Europe respectively) with large aspects of British culture being derived from Roman-Greco influence in Europe and the Confucian ways of the Sino-Sphere being transferred from China to Japan.<sup>21</sup> Crucially, both Japan and the UK work hard to distance themselves from their derivative roots – for instance, both nations have royal families and associated traditions and customs which stretch back over years, which marks them out as distinct. Kornicki, Best and Cortazzi’s book on the British Royal and Japanese Imperial Relations documents the diplomatic significance of the relationship between the two royal families, as both a point of similarity, and a point of diplomatic closeness.<sup>22</sup> This similar cultural factor places Britain and Japan in a unique position to understand the other’s world status, and thus cooperate in a mutually beneficial way. These similarities are not new – however, in light of Japan’s recent receptiveness to international cooperation, these cultural

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<sup>20</sup> Alan McFarlane, *Japan Through the Looking Glass*, (Profile Books 2008)

<sup>21</sup> Martha Peraki and Catherine Vougiouklaki, ‘How has Greek influenced the English language’ (British Council, 18 May 2015), < <https://foreignpolicy.com/2020/06/23/japan-immigration-policy-xenophobia-migration/> > accessed 27/08/2021 // Jeffrey A. Bader ‘China’s Role in East Asia: Now and the Future’ (Brookings, 6 September 2005) < <https://www.brookings.edu/on-the-record/chinas-role-in-east-asia-now-and-the-future/> > accessed 27/08/2021

<sup>22</sup> Peter Kornicki, Anthony Best and Hugh Cortazzi, *British royal and Japanese imperial relations, 1868-2018: 150 years of association, engagement, and celebration*, (Renaissance Books, 2019)

similarities may well strengthen the groundwork upon which a successful partnership can be built.

## I.III. Current outlooks on foreign policy and commitment to globalisation

When assessing the viability of future cooperation between the UK and Japan, it is prudent to investigate how their foreign policy goals and global interests are converging. Japan appears to be continuing its trajectory away from isolationism towards increasing globalisation; Japan's new Prime Minister, Fumio Kishida, has stressed his desire to strengthen several of Japan's international agreements such as the US-Japan Security Treaty, and is keen to encourage countries like Taiwan to participate in multilateral organisations such as the CPTPP.<sup>23</sup>

Regarding Britain's foreign policy, many saw Brexit as an attempt to turn inwards, and away from the distant bureaucracy of the European Union. Charles Grant described Brexit as the beginning of a narrative of 'disintegration, not integration', marking an ostensible turn away from Britain's position at the forefront of the globalised world.<sup>24</sup> However, this is not the predominant view amongst policy makers, many of whom see it as an opportunity to refocus British attention on the rest of the world, in particular emerging markets.

Specifically, both countries are currently heavily focussed on the Indo-Pacific region. Japan's 'Free and Open Indo-Pacific Regional Vision' which has been developed through American and Japanese cooperation emphasises the value of freedom and cooperation in this region.<sup>25</sup> This is a goal also

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<sup>23</sup> 'Fumio Kishida', < [https://en.wikipedia.org/wiki/Fumio\\_Kishida#Policy\\_views](https://en.wikipedia.org/wiki/Fumio_Kishida#Policy_views) > accessed 8 November 2021

<sup>24</sup> Charles Grant, *The Impact of Brexit on the EU*, (Centre for European Reform, 24 June 2016) accessed 2 November 2021

<sup>25</sup> Free and Open Indo-Pacific – Foreign Policy (Ministry of Foreign Affairs, April 1, 2021) accessed 12 September 2021

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supported by many members of The Association of Southeast Asian Nations (ASEAN), an organisation within which Japan is highly influential.<sup>26</sup> Likewise Britain, in its 2021 ‘Integrated Review of Security, Defence, Development and Foreign Policy’, highlights the significance of the Indo-Pacific as a strategic area for cooperation.<sup>27</sup> Thus, this new region of focus for both nations represents a new shared interest that may demarcate the beginning of an era of successful cooperation.

In addition to this, both countries have a fundamentally similar approach to foreign policy: they remain committed to the rules based, free trade, soft power-governed liberal international order, and strongly benefit from this form of international government. In the UK’s new combined post-Brexit international strategy, there is explicit commitment to ‘revitalise’ rules-based free trade. Cooperation with Japan on this front has already begun – for instance, The ‘Japan-UK Joint Vision Statement’ was signed on the 31<sup>st</sup> August 2017, which declared that Britain and Japan are global strategic partners ‘committed to the rules based international system’.<sup>28</sup> The unity of these countries in this area provides a degree of solidarity and security against the current climate of power politics played out by America and China during the ongoing trade wars.

As well as their commitment to consolidate the actual rules of international trade and cooperation, both the UK and Japan could be ideal trade partners for each other, on account of their similar size, development and commitment to free trade, which means they are likely to be able to reach mutually beneficial deals. As of 2019, UK exports to Japan were valued at £15.2 billion and UK imports from Japan were £16.3 billion.<sup>29</sup> This close trade balance

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<sup>26</sup> Ibid

<sup>27</sup> HM Government, *Global Britain in a competitive age*, (CP403) (March 2021)

<sup>28</sup> HM Government, *Japan-UK Joint Vision Statement*, (August 2017)

<sup>29</sup> Department for International Trade, *The United Kingdom’s Future Trading Relationship with Japan*, (October 2020)

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goes to demonstrate that the economic similarities between the countries mean neither is at a major disadvantage in a trading relationship.

In many ways, British and Japanese foreign policies can be seen to complement each other's interests well. For instance, in terms of soft power, Tomohiko Taniguchi has described how 'Japan and the UK seem to be at opposite ends of the soft power spectrum' with the UK gaining far more recognition in this area than Japan.<sup>30</sup> Whilst in terms of soft-power cooperation, Japan could accrue the most gains from Britain, generalised cooperation will facilitate British access to Japanese markets (which is the third biggest economy in the world). Thus, whilst in many ways Japan and British interests and priorities are very different, their differences appear to offer the potential for a symbiotic relationship. Individual differences in each country's priorities are complemented by the other's strengths.

There are, however, important differences between the two economies. The UK has had a trade deficit since 1998 with services making up an increasing proportion of its total exports.<sup>31</sup> Japan has often had a trade surplus, but this is mostly accounted for by its trade in goods. Although this shows a significant difference between the two markets, it also provides an opportunity for cooperation. Hiroshi Matsuura, the lead Japanese negotiator for CEPA, cites Japan's robotics expertise and Britain's expertise in artificial intelligence as just one example of where this difference in emphasis on services and goods between the two economies actually presents an opportunity for both.<sup>32</sup>

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<sup>30</sup> Tomohiko Taniguchi, *Brexit: The view from Japan*, (In the Long Run, 20 August 2018) <<http://www.inthelongrun.org/articles/article/brexit-the-view-from-japan-or-the-tokyo-consensus>> accessed 1 September 2021

<sup>31</sup> Matthew Ward, 'UK Trade, 1948-2019: Statistics' (House of Commons Briefing Paper, 10 December 2020) <<https://commonslibrary.parliament.uk/research-briefings/cbp-8261/>> accessed 19 February 2022

<sup>32</sup> Chatham house, '*UK-Japan comprehensive economic partnership: The view from both sides*' (Chatham House, 5 February 2021) <<https://www.chathamhouse.org/events/all/research-event/uk-japan-comprehensive-economic-partnership-view-both-sides>> accessed 27 October 2021



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Another difference between the countries is their current foreign trading arrangements. Despite Brexit, the UK’s largest trading partner is still overwhelmingly the EU, with America some way behind. In contrast, Japan’s trade is split between the USA and China somewhat evenly, with neither making up such a significant proportion of its trade as the EU does with the UK. Japan is also much more established within other trading blocs. It is the leading member of the CPTPP, part of RCEP and has a trade deal with the EU. However, Japan is the only country with which Britain has reached a bespoke trade agreement whereas its other deals are either roll-overs from the EU or temporary.<sup>33</sup> Obviously, this is because Britain was for decades part of the EU, whereas Japan has not been part of an economic bloc during this time. The significance of this unique deal should not be understated. Japan has already indicated its willingness to help Britain in its ambition to accede to the CPTPP. While Japanese support is a far-cry from the necessary endorsement needed from all the CPTPP member nations to allow Britain to join, it can be regarded as progress in the right direction. For Japan, Britain provides a useful ally in promoting a rules-based free trading order. A self-styled ‘Soft-Power Superpower’, Britain’s diplomatic clout can be thrown behind promoting the aligned ambitions of the two similar economies, such as the high standards in the CPTPP or women’s economic empowerment, a key aim of CEPA.<sup>34</sup>

The extent to which a post-Brexit Britain is an attractive trading partner for Japan should not be overstated. It is worth remembering that Japan’s economy is significantly larger than the UK’s. Although this does not present the same imbalance that would exist between either country and the European Union, China or the USA, it is still a significant difference. Furthermore, Britain no longer has the same access to European markets that it once did. This may make it a less attractive proposition for Japanese businesses. However, Britain’s

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<sup>33</sup> ‘UK and Japan agree historic free trade agreement’ - < <https://www.gov.uk/government/news/uk-and-japan-agree-historic-free-trade-agreement> > accessed 13 October 2021

<sup>34</sup> Cabinet Office, ‘Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy’ (March, 2021), p.49

# 'Beyond the Galapagos Syndrome': Mapping the Future of UK-Japan Economic Cooperation

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exit from the European Union does present an opportunity to form trade deals independently which has not existed for many decades previously. The impact of Brexit for Japan is perhaps best characterised as a trade-off. Although the British market no longer comes with the attendant European benefits, there has never been a time when it was more accessible.

The major problem for both countries is the distance between them. Both trade mostly with their close geographical neighbours. Even in a globalised economy, distance matters. Britain does more trade with Ireland than either Spain or Italy, showing that geography is often more important than economic size. Not only do both Britain and Japan sit between large trading blocs, those blocs actually present a geographical barrier between them. Therefore, the potential for cooperation should not be overstated. The evidence above demonstrates that for both countries the majority of their trade and trade agreements have been with geographically close countries. The potential for cooperation is certainly there, but we must avoid rose-tinting the logistical difficulties which stand in the way.

## **I.IV. Interim Conclusion**

The title 'Beyond the Galapagos Syndrome' was chosen because both the UK and Japan are attempting to reach beyond their immediate vicinity and internally facing ideas, and interact with the rest of the world. Britain's post-Brexit foreign policy agenda is focused on emerging from Europe and reconnecting with the rest of the world, especially emerging markets. The new integrated foreign policy strategy sees use of soft power, trade and development as a means to advance Britain's interests in other areas, such as security. Japan is looking to become a global diplomatic player and embrace globalisation, with great disappointment expressed that the Tokyo Olympics did not (due to COVID-19) give them the opportunity to showcase this to the rest of the world. It has also made efforts to expand its international trade, for example through

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its agreement with the EU, and took the lead in saving the TPP and creating the CPTPP. The countries are therefore looking in the same direction making them ideal cooperative partners.

The two countries also benefit from significant ideological similarities. Both are committed to the rules-based international free trading order and are supporters of liberal democracy around the world. They are also both large, developed island economies which exist outside the world's three major markets. That which makes them different allows them to cover each other's weaknesses. Japan has long experience of brokering deals as a sole nation on the international stage, something Britain will have to learn to do after years within Europe. In return, Japan can learn from Britain about how to leverage soft power in multilateral organisations and through international development to promote its interests.

The case study, which focuses on how development projects in Southeast Asia can be used to promote international, rules-based free trade, combines the two key pillars of soft-power examined in this paper. It demonstrates that development and trade ambitions are highly connected and how Britain and Japan's compatible similarities and complementary differences can be used effectively. This paper shows the potential Japan and Britain have to promote their values and interests most effectively by working together and leveraging their soft power through trade and development.

## II. BILATERAL ECONOMIC COOPERATION

### II.I UK-Japan Bilateral Trade Cooperation

Both Japan and the UK are deeply integrated in their regional economies and have strong trade ties with the United States, aligning with their firm strategic and political bilateral ties with this key partner. However, the UK and Japan also have a strong bilateral trading relationship that significantly impacts both of their economies, making cooperation in this area a priority.

Japan is the UK’s 11<sup>th</sup> largest trading partner and 4<sup>th</sup> largest non-EU partner, while the UK is Japan’s 13<sup>th</sup> largest trading partner in terms of exports.<sup>35</sup> The top export goods from the UK to Japan are mechanical power generators, cars, medicinal products and pharmaceutical products, while services exports, predominantly in financial and professional services, are valued at around £8.0bn (2019). In turn, Japan exports cars, mechanical power generators, and electrical goods, along with services such as intellectual property valued at around £6.6bn (2019).<sup>36</sup> Japan has been an attractive market for British businesses, evidenced by the fact that the UK was Japan’s fourth largest foreign investor in 2018.<sup>37</sup> Furthermore, an estimated 9,500 VAT registered British businesses export £6.3bn worth of goods to Japan, and around 6,700 VAT registered businesses import £9.9bn worth of goods from Japan. British businesses which have chosen to establish a base in Japan have found it a stable

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<sup>35</sup> Secretary of State for International Trade, ‘The United Kingdom’s Future Trading Relationship with Japan’ (October 2020)

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/929175/UK-Future-Trading-Relationship-with-Japan-accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/929175/UK-Future-Trading-Relationship-with-Japan-accessible.pdf) accessed 17 October, 2021; Daniel Workman, ‘Japan’s Top Trading Partners’ (*World’s Top Exports*), <https://www.worldstopexports.com/japans-top-import-partners/> accessed 17 October, 2021.

<sup>36</sup> Secretary of State for International Trade, ‘The United Kingdom’s Future Trading Relationship with Japan’ (n 39)

<sup>37</sup> Secretary of State for International Trade, ‘The United Kingdom’s Future Trading Relationship with Japan’ (n 39)

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and well-regarded location for international business, but its complex market can be difficult for new firms to adjust to.<sup>38</sup> Obstacles include recruiting talented staff and adjusting to the strict and complicated administrative regulations in Japan.<sup>39</sup>

Indeed, Japan has been slow in courting inward foreign direct investment (FDI), ranking last in a 2019 United Nations report on cumulative inward FDI as a share of GDP. Attracting more inward FDI could help combat stagnation in the Japanese economy by injecting new approaches and finance. The Japanese market itself is not the issue, as multinational companies have long highly ranked Japan for its large market, well-educated workforce and customer base, and high technological capacity. However, what stands in their way is the difficulty of mergers and acquisitions of healthy Japanese companies. In part, this is because of the power of corporate groups, 'keiretsu', which still dominate many parts of the economy. There is hope, though, if Japan's bureaucratic system makes it easier for companies, including British companies, to establish themselves in the market and provides support for their success. The UK-Japan CEPA, which will be discussed further, is one such step in this direction that could give British businesses an advantage in attempting to enter the Japanese market.<sup>40</sup>

Building support for businesses seeking to operate between the UK and Japan stands out as a major area for continued improvement, as will be further discussed later in this paper. While British businesses are still learning to adapt

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<sup>38</sup> Sterling Content, 'Doing Business in Japan – Market Opportunities and Insights', (*BCCI*, October 22, 2020) <https://bccjapan.com/news/doing-business-in-japan-market-opportunities-and-insights/> accessed 17 October 2021

<sup>39</sup> 'Perception of the Business Environment in Japan among Foreign-affiliated Companies', *Invest Japan Report 2017*, [https://www.jetro.go.jp/ext\\_images/en/invest/reports/report2017/pdf/report2017\\_4.pdf](https://www.jetro.go.jp/ext_images/en/invest/reports/report2017/pdf/report2017_4.pdf) accessed 17 October, 2021.

<sup>40</sup> Richard Katz, 'Why Nobody Invests in Japan', (*Foreign Affairs*, October 13, 2021) [https://www.foreignaffairs.com/articles/japan/2021-10-13/why-nobody-invests-japan?utm\\_medium=promo\\_email&utm\\_source=lo\\_flows&utm\\_campaign=registered\\_user\\_welcome&utm\\_term=email\\_1&utm\\_content=20211017](https://www.foreignaffairs.com/articles/japan/2021-10-13/why-nobody-invests-japan?utm_medium=promo_email&utm_source=lo_flows&utm_campaign=registered_user_welcome&utm_term=email_1&utm_content=20211017) accessed 17 October 2021

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to the Japanese market, Japanese businesses have long been involved in Britain. Japan has focused on investment and business in the UK as a hub for its European trade since the 1980s, and around 40% of its total foreign direct investment (FDI) in Europe is concentrated in the UK. Over 800 Japanese businesses operate in the UK, ranging from large manufacturing firms such as Fujitsu to smaller SMEs.<sup>41</sup> Japanese firms are considered reliable partners for Britain, especially as other economic powers such as China have more complicated political relationships with the UK. This was highlighted in mid-2021, when the British government banned Chinese telecommunications giant Huawei from supplying the equipment for British 5G wireless networks, and instead approached Japanese technology companies NEC and Fujitsu as potential suppliers, along with reaching out to companies in Europe.<sup>42</sup> Potentially indicating future cooperation, NEC has begun establishing an Open RAN (technology which facilitates the adoption of 5G for mobile providers) promotion centre in the UK, a development facilitated by CEPA provisions on free data flows that will be discussed further in this paper.<sup>43</sup>

The UK and Japan have been, and look likely to continue to be, strong trading partners who share values of free, open and rules-based trade. Liz Truss, former British International Trade Secretary (current Foreign Secretary), stated at the UK-Japan Free Trade Summit in January 2020 that ‘Japan and the UK are natural partners... As island nations, we both have to trade in order to improve the prosperity of our people and to secure the goods that we need... As fellow democracies, we have a strong shared interest in ensuring trade does not

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<sup>41</sup> ‘Brexit: Japan ‘would welcome’ UK to TPP says Abe’ (*BBC News*, 8 October 2018) <https://www.bbc.com/news/uk-politics-45780889> accessed 17 October 2021

<sup>42</sup> ANI, ‘UK seeks Japan’s help to develop its 5G wireless networks’ (*Economic Times Telecom*, 21 July 2021) <https://telecom.economictimes.indiatimes.com/news/uk-seeks-japans-help-to-develop-its-5g-wireless-networks/77081468> accessed 17 October 2021

<sup>43</sup> ‘UK-Japan digital cooperation: 5G and beyond’ (*Chatham House*, 9 March 2021) <https://www.chathamhouse.org/events/all/research-event/uk-japan-digital-cooperation-5g-and-beyond> accessed 17 October 2021

undermine our values and the way of life we have built over generations.’<sup>44</sup> The adoption of the UK-Japan Comprehensive Economic Partnership Agreement (CEPA) later in 2020 appeared to validate this position and has reinforced the significance of British-Japanese trading ties.

## II.II. The UK-Japan Comprehensive Economic Partnership Agreement (CEPA)

In October 2020, the UK and Japan signed a free trade agreement known as the UK-Japan Comprehensive Economic Partnership Agreement (CEPA). This was a significant moment, as this deal was the first trade deal the UK had negotiated independently of the EU since Brexit, representing the importance of this bilateral trading relationship.<sup>45</sup> While the deal has important economic implications, projected to increase trade between the UK and Japan by over £15bn, it is also politically important for British policymakers, as it projects an image of ‘Global Britain’ and potentially strengthens the UK’s position in the Asia-Pacific.<sup>46</sup> This is itself tied to the UK’s efforts to join a multilateral trading pact, the CPTPP, which a closer relationship with Japan could help secure. These multilateral trading links will be explored in more depth later in this paper.

In many ways the UK-Japan CEPA maintains similar provisions to the Japan-EU trade agreement, for example it keeps the same plan for tariffs on Japanese exports of passenger cars, planning for them to be cut gradually until they are eliminated fully in 2026.<sup>47</sup> However, the new agreement diverges from the EU-Japan agreement in terms of its digital trade provisions, intellectual

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<sup>44</sup> ‘The UK-Japan Free Trade Summit’, Keynote speech UK-Japan Free Trade Summit (20 January 2021) <https://www.gov.uk/government/speeches/the-uk-japan-free-trade-summit> accessed 17 October 2021

<sup>45</sup> British Embassy Tokyo, ‘UK and Japan sign free trade agreement’ (23 October 2020) <https://www.gov.uk/government/news/uk-and-japan-sign-free-trade-agreement> accessed 17 October 2021

<sup>46</sup> Graham Lanktree, ‘5 Things to know about the UK-Japan trade deal’ (*Politico*, September 11, 2020) <https://www.politico.eu/article/five-things-from-the-uks-trade-deal-with-japan/> accessed 17 October 2021

<sup>47</sup> Takako Gakuto and Masaya Kato, ‘Japan ratifies UK trade deal to take effect Jan. 1’ (*Nikkei Asia*, December 5, 2020) <https://asia.nikkei.com/Economy/Trade/Japan-ratifies-UK-trade-deal-to-take-effect-Jan.-1> accessed 17 October 2021

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property regulations, and a Chapter on Trade and Women’s Economic Empowerment. The chapter on Women’s Economic Empowerment reflects both nations’ stated commitment to this issue and commits them to enhancing opportunities for women and female-operated businesses, cooperating through sharing experiences and improving access to pursue this, and establishing a Working Group to investigate further avenues for improvement.<sup>48</sup>

The digital trade provisions are particularly significant, as few trade deals other than the CPTPP have modernised provisions on this topic. Significantly, the CEPA diverges from the EU-Japan agreement in its rules governing the transfer of digital data by: agreeing on provisions on cross-border data flows; giving assurances to businesses that they will face fewer restrictions in transferring data between Japan and the UK; making commitments on data localisation rules; agreeing to form a legal framework to protect users’ personal information; and protects business trade secrets by banning states from demanding source codes and banning the forced disclosure of artificial intelligence algorithms and encryption keys.<sup>49</sup> In contrast, the EU’s agreement with Japan has far vaguer provisions and is more protectionist in terms of data access.<sup>50</sup>

The UK-Japan CEPA allows for more market access to Japan for British financial services firms such as Revolut and Transferwise by streamlining the licences application process: it stipulates transparency obligations under which the UK and Japan must publish their requirements for obtaining and renewing authorisations to provide financial services, and be more transparent about the outcome of applications. The CEPA also establishes groundwork for more cooperation between British and Japanese financial regulators, for example

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<sup>48</sup>Secretary of State for International Trade, ‘The United Kingdom’s Future Trading Relationship with Japan’ (n 39), p.32

<sup>49</sup>Secretary of State for International Trade, ‘The United Kingdom’s Future Trading Relationship with Japan’ (n 39), p.25; <https://asia.nikkei.com/Economy/Trade/Japan-ratifies-UK-trade-deal-to-take-effect-Jan.-1>

<sup>50</sup>Secretary of State for International Trade, ‘The United Kingdom’s Future Trading Relationship with Japan’ (n 39), p.25



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inaugurating an annual forum between regulators to address market access barriers or regulatory developments.

However, in the future more work has to be done on increasing consistency in regulation between the two countries, perhaps aided by annual meetings.<sup>51</sup> Currently, this remains uncertain as firms wait for the resolution of a new trade agreement between the UK and EU: if regulatory barriers increase between the UK and EU, Japanese clients based in the UK will lose the unrestricted access to European financial markets they used to hold.<sup>52</sup> This uncertainty extends to other Japanese businesses beyond the financial sector, notably to Japanese auto companies, railcar makers and industrial groups. These groups were reassured somewhat by the UK-Japan CEPA as this assured their access to the UK, but concerns remain as many Japanese manufacturers rely on parts that come from continental Europe to build their final products in the UK for export back to European markets.<sup>53</sup> As the outcome of Brexit remains uncertain, compounded by disruptions due to the Covid-19 pandemic, there is no surety that Japanese businesses will continue to focus on the UK as a prime location for business and trade. The CEPA alone should not be regarded as solving this issue, as the appeal of Britain as a gateway to Europe continues to depend on the outcome of prolonged negotiations with the EU.

## II.III. Challenges ahead for the UK-Japan bilateral trading relationship

As noted previously, a major concern in the UK and Japan’s current bilateral relationship is uncertainty over the UK’s relationship with the EU, as this

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<sup>51</sup> ‘A New Chapter in UK-Japan Economic and Trade Relations’, *Clifford Chance* (September 2020) <https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2021/02/a-new-chapter-in-uk-japan-economic-and-trade-relations.pdf> (p.2) accessed 17 October 2021

<sup>52</sup> *Ibid.* (p.3)

<sup>53</sup> Takako Gakuto and Masaya Kato, ‘Japan ratifies UK trade deal to take effect Jan. 1’ (*Nikkei Asia*, December 5, 2020) <https://asia.nikkei.com/Economy/Trade/Japan-ratifies-UK-trade-deal-to-take-effect-Jan.-1> accessed 17 October 2021

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endangers its prime position as a gateway to Europe for Japanese businesses. It is critical to recognise that while the bilateral trading relationship is on its own significant for both economies, this cannot be disentangled from the broader goals held by both British and Japanese businesses: both seek to interact directly with the other country, but also to use this country as a base from which they can establish themselves in the other’s respective region. For Japan, a priority is continued access to European markets, while Britain’s ‘tilt to the Indo-Pacific’ marks a desire to establish a greater economic and strategic presence in that region. Therefore, challenges to the bilateral relationship may arise from this broader context of regional geopolitical and economic dynamics.

This paper previously noted that some Japanese businesses have questioned their ties to the UK in the aftermath of Brexit due to their need for easy access to European markets. Indeed, a January 2021 survey of Japanese businesses based in the UK indicated that a third were concerned with Brexit’s negative impact on their business, while one in ten were considering reducing their presence in the UK to offset this. While some major companies have committed to remaining in the UK, notably Nissan, other large firms have already announced plans to relocate, with Panasonic announcing it would move to Amsterdam, and Honda announcing in 2019 that it will permanently close its UK plant.<sup>54</sup> Automotive companies such as Honda face challenges as their factories are closely linked with European supply chains, while financial firms rely on ease of business, travel and financial flows, hence they are particularly susceptible to changes in the EU-UK relationship<sup>55</sup>

It remains to be seen how the UK will reinforce its value to these companies and investors, although some reassurance has been provided by the UK-Japan CEPA

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<sup>54</sup> ‘Japan-UK Relations After Brexit’, *Asia House* (March 2021)

<https://asiahouse.org/wp-content/uploads/2021/03/Japan-UK-Relations-after-Brexit-Asia-House-2021.pdf> accessed 17 October 2021; ‘Brexit: Japan ‘would welcome’ UK to TPP says Abe’ (*BBC News*, 8 October 2018) <https://www.bbc.com/news/uk-politics-45780889> accessed 17 October 2021

<sup>55</sup> Pernille Rudlin, ‘Top 30 Japanese Companies in the UK – Brexit Impact’ (Rudlin Consulting, June 28, 2016) <https://rudlinconsulting.com/top-30-japanese-companies-in-the-uk-brexit-impact/> accessed 17 October 2021

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that stabilises bilateral trading relations. However, the CEPA alone is not sufficient to provide security for Japanese businesses and investors, and Brexit remains a critical source of concern and uncertainty that will likely not be resolved in the near future. If Britain is unable to maintain its position as a strong European base for international business, Japanese companies may seek to move into the EU or reduce their presence in the UK, hence proactivity from British leaders is much needed.

On the other side of the relationship, British businesses seeking to capitalise on the trade deal with Japan also face some uncertainty in terms of assessing Japan's future strategies and navigating the complex geopolitical situation in the Asia-Pacific. Japan's tense political relationship with China (complicated by their close economic ties) and the UK's own ambiguous relationship with China will strongly influence both of their economic activities in Asia, regardless of the strength of the UK-Japan bilateral relationship. The geopolitical and strategic aspects of the UK and Japan's relationship, while closely linked to their economic relationship, cannot be explored in depth in this paper, which will instead, in the recommendations, focus upon steps each government can take to strengthen and further their economic relationship on both a bilateral and multilateral level.

The UK-Japan CEPA has been praised by policymakers from both countries as opening new avenues for trade between the two countries, bringing the two economies even closer. While the trade agreement itself represents a commitment to cooperation and partnership, to reach its full potential it will require long-term commitment from businesses and government in both countries. It could serve to alleviate concerns about political and economic changes in both Europe and the Asia-Pacific by providing both countries with a steady partner, but the outcome of this remains unclear. By building on the success of UK-Japan negotiations on CEPA, both governments can continue to forge new partnerships, possibly in tandem, on the multilateral level.

## III. COOPERATION IN THE MULTILATERAL SPACE

### III.I. Approaches and Views on Multilateralism

Japan and the UK both benefit from, and have long actively engaged with, the ‘rules-based international order’, as represented by international organisations including the United Nations and World Trade Organisation, and as represented by concepts such as ‘free and open trade’. Both countries emphasise their ‘soft’ power, seeking to operate through diplomacy and trade: the UK has historically held a privileged position in many multilateral organisations established in the post-World War II era, notably represented by its permanent United Nations Security Council seat, and continually reasserts a commitment to upholding these institutions.<sup>56</sup> In contrast, Japan only began to gain influence in multilateral forums after the 1960s, when it became the second-largest economy in the world. Japanese policymakers have typically exercised ‘directional leadership’ by using soft power and diplomacy to exert more subtle influence, in line with the ‘Yoshida Doctrine’, which emphasised economic development and regional integration, leaving military security to Japan’s ally the United States.<sup>57</sup>

Regional multilateral engagement has been a Japanese policy priority for decades, reflected in Japan’s extensive overseas development assistance

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<sup>56</sup> House of Commons Report Session, *the UK’s role in multilateral diplomacy* (June 2021) <https://publications.parliament.uk/pa/cm5802/cmselect/cmaff/199/19902.htm> accessed 17 October 2021

<sup>57</sup> See Seng Tan, ‘Japan and Multilateralism in Asia’, in Rizal Sukma and Yoshihide Soeya (eds), *Navigating Change: ASEAN-Japan Strategic Partnership in East Asia and in Global Governance* (Tokyo: Japan Center for International Exchange, 2015), pp.60-61

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programmes within the region, including its nearly \$80 billion assistance package to countries affected by the 1997 Asian financial crisis.<sup>58</sup> This commitment is also evident in Japan’s active fostering of multilateral forums such as the Asia-Pacific Economic Cooperation (APEC) forum, and more recently the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The UK, on the other hand, appears to have retreated from regional multilateralism post-Brexit, although Prime Minister Johnson’s ‘Global Britain’ plan asserts the UK’s commitment to multilateralism. Significantly, this includes a ‘tilt to the Indo-Pacific’, bringing some of its goals into line (as indicated in the introduction of this paper) with Japanese involvement in the region.<sup>59</sup>

Both British and Japanese engagement on a multilateral level is influenced by their strong bilateral relationships with the United States.<sup>60</sup> At times this has helped, and at other times hindered, their multilateral engagement in the world: Japanese efforts to build and strengthen regional groupings such as APEC and the ASEAN Regional Forum have been amplified thanks to American support, whereas other projects such as its ‘Asian Monetary Fund’ idea in 1997-8 had to be abandoned due to American opposition.<sup>61</sup> Similarly, the UK’s ‘special

<sup>58</sup> <https://www.mofa.go.jp/files/000119315.pdf> pp.3-4

<sup>59</sup> Cabinet Office, ‘Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy’ (March, 2021), p.14 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/975077/Global\\_Britain\\_in\\_a\\_Competitive\\_Age- the\\_Integrated\\_Review\\_of\\_Security\\_Defence\\_Development\\_and\\_Foreign\\_Policy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/975077/Global_Britain_in_a_Competitive_Age- the_Integrated_Review_of_Security_Defence_Development_and_Foreign_Policy.pdf) accessed 17 October 2021

<sup>60</sup> Tan, ‘Japan and Multilateralism in Asia’, p.61

<sup>61</sup> Tan, ‘Japan and Multilateralism in Asia’, p.61; ; The Asian Monetary Fund proposal was a response to the 1997 Asian Financial Crisis, and particularly to frustration with the slow response of the International Monetary Fund in supporting affected countries and mitigating the effects of the crisis. It faced opposition from the IMF, the US, and from China and was abandoned relatively quickly in favour of IMF intervention. ([https://en.wikipedia.org/wiki/Asian\\_Monetary\\_Fund](https://en.wikipedia.org/wiki/Asian_Monetary_Fund))

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relationship’ with the US has been a foreign policy priority for decades, even at the risk of angering regional allies, as seen in the result of the 2021 trilateral security partnership formed with the US and Australia which has damaged relationships with France.<sup>62</sup> Despite such a strong partnership, the UK, like Japan, has often found itself the secondary partner of this alliance, as exhibited during the American-led withdrawal of Western troops from Afghanistan in summer 2021 which angered many in Britain.<sup>63</sup> While the current US Biden administration has asserted its commitment to its multilateral and bilateral partnerships around the world, the US has increasingly retreated from multilateralism since 2016 and allies such as Japan and the UK are in turn seeking to forge new relationships around the world.

Japan, while maintaining its alliance with the US, has worked to show itself to be a more assertive regional leader: expanding its security cooperation with Australia and India, and running joint naval drills with the UK in the Pacific as part of its ‘Free and Open Indo-Pacific’ strategy.<sup>64</sup> Similarly, the UK’s focus has shifted to this region, as emphasised in the 2021 Integrated Review of Security,

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<sup>62</sup> Julian Borger and Dan Sabbagh, ‘US, UK and Australia forge military alliance to counter China’ (*The Guardian*, 16 September 2021) <https://www.theguardian.com/australia-news/2021/sep/15/australia-nuclear-powered-submarines-us-uk-security-partnership-aucus> accessed 17 October 2021

<sup>63</sup> Diana Villiers Negroponte, ‘The British Response to the Fall of the Afghan Government’ (*Wilson Center*, August 23 2021) <https://www.wilsoncenter.org/article/british-response-fall-afghan-government> accessed 17 October 2021

<sup>64</sup> Ayako Kusunoki, ‘Has Japan’s Foreign Policy Gone Beyond the Yoshida Doctrine?’ (*The Diplomat*, March 10, 2020) <https://thediplomat.com/2020/03/has-japans-foreign-policy-gone-beyond-the-yoshida-doctrine/> accessed 17 October 2021

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Defence, Development and Foreign Policy.<sup>65</sup> However, this is not merely a security issue. Shows of soft power, notably through trade deals and influence, are a critical space for cooperation between Japan and the UK as they seek to strengthen their influence globally.

## III.II. Multilateral Trade: Avenues for Cooperation

The World Trade Organisation is the largest global forum for international multilateral trade, representing values of free, rules-based trade that both the UK and Japan are committed to. As the UK only joined the WTO as a independent member on the 31<sup>st</sup> December 2020 (previously it was part of the EU delegation), there are few specific instances thus far of specific UK-Japan cooperation within the organisation. However, they do share an emphasis upon certain aspects of WTO work which may make them suitable collaborators in the future, most notably, digital trade. This is one of the priority areas that former British Trade Minister Liz Truss emphasised during meetings of G7 trade ministers in mid-2021, while Japan has championed efforts to launch the ‘Osaka Track’, a collective commitment by like-minded WTO Members to advance policy discussions on electronic commerce and the digital economy.<sup>66</sup> The ‘Osaka Track’ built upon former Japanese Prime Minister Abe’s idea of ‘Data Free Flow with Trust’ (DFFT) which proposed eliminating restrictions on

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<sup>65</sup> Cabinet Office, ‘Global Britain in a Competitive Age’

<sup>66</sup> Department for International Trade, ‘Liz Truss Calls on G7 Partners to Modernise World Trade Organization’ (26 May 2021)

<https://www.gov.uk/government/news/liz-truss-calls-on-g7-partners-to-modernise-world-trade-organisation> accessed 17 October 2021; Director-General, ‘Azevêdo joins Prime Minister Abe and other leaders to launch ‘Osaka Track’ on the digital economy’, (*WTO*, 28 June 2019) [https://www.wto.org/english/news\\_e/news19\\_e/dgra\\_28jun19\\_e.htm](https://www.wto.org/english/news_e/news19_e/dgra_28jun19_e.htm) accessed 17 October 2021

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cross-border data flows.<sup>67</sup> These negotiations on e-commerce are still ongoing at the WTO, however progress is slow. Nonetheless, the UK and Japan have pursued their mutual interest in advancing digital trade rules through their bilateral trade agreement and through the plurilateral forum of the CPTPP, which will be further discussed in this paper.

More generally, the UK and Japan share a general desire for reform of the organisation’s rules with most Members, specifically focusing upon the need to re-establish a fully functioning dispute settlement body and reforms to WTO rules to more effectively address China’s unique economic model.<sup>68</sup> These concerns with ‘unfair’ trade practises are not unique to the UK or Japan, but may provide common ground for collaboration between the two within the WTO along with other like-minded states. Furthermore, these shared priorities and outlooks are already proving fruitful for Japan and the UK to pursue further cooperation on trade-related issues in multilateral fora beyond the WTO, most notably through their mutual interest in the CPTPP and Asia-Pacific region more broadly.

### III.III. Looking towards future cooperation: The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

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<sup>67</sup> ‘The G20 Osaka Track raises controversy’, (*Digwatch*, 1 July 2019)

<https://dig.watch/updates/g20-osaka-track-raises-controversy> accessed 17 October 2021

<sup>68</sup> ‘Now or Never’ for WTO reform, Britain to tell G7 allies’ (*Reuters*, May 26 2021)

<https://www.reuters.com/world/uk/now-or-never-wto-reform-britain-tell-g7-allies-2021-05-26/> accessed 17 October 2021



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The CPTPP, a free-trade agreement currently involving 11 countries from the Pacific Rim, came into force in 2018 after 8 years of negotiations.<sup>69</sup> While the US was a major member of the initial TPP negotiations and agreement, former President Donald Trump withdrew America from the agreement in 2016, leaving the remaining members to rework the TPP into the CPTPP. Once launched, the CPTPP almost completely removed tariffs between members (with exceptions for select highly sensitive goods), has a single set of rules of origin, and outlines numerous other rules and market access measures. With its current membership, the CPTPP accounts for approximately 13% of global GDP, and is likely to continue to grow as numerous countries have now formally and informally indicated their desire to accede to the group.<sup>70</sup>

Among these applicants is the UK, which officially applied to join the group on 1 February 2021. While the UK already has trade agreements with 7 of the 11 CPTPP members, it is hoped that joining the group will increase British access to growing markets in the region and increase British presence and influence in the Indo-Pacific.<sup>71</sup> The UK’s exports to the current members of the CPTPP is expected to increase by 65% by 2030, amounting to £37bn: membership in the

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<sup>69</sup> Current founding members are Japan, Canada, Mexico, Peru, Chile, New Zealand, Australia, Brunei, Singapore, Malaysia, Vietnam.

<sup>70</sup> James Kane, ‘Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)’, Institute for Government (February 2, 2021) <https://www.instituteforgovernment.org.uk/explainers/trade-cptpp> accessed 17 October 2021

<sup>71</sup> Jagannath Panda, ‘Japan-UK: ‘Progressive’ Ties and a Case for Britain in the CPTPP’, (April 13, 2021) <https://isdpa.eu/content/uploads/2021/04/Japan-UK-Progressive-Ties-and-a-Case-for-Britain-in-the-CPTPP-IB-13.04.21.pdf> accessed 17 October 2021

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CPTPP would likely increase this further and benefit the British economy.<sup>72</sup> If the UK becomes a member of the CPTPP, up to 99.9% of its exports could be tariff-free with members, allowing for lower tariffs on popular exports including whiskey and cars. Membership would also enable Britain to export more meat products such as beef and lamb to a region which is estimated to comprise up to 25% of global import beef demand by the end of the decade. Similarly, as the world’s second-largest global services exporter, the UK could also benefit from facilitated digital trade, streamlined data rules, and expand its technological sector to the Asia-Pacific region, aided by lower barriers to market entry and more legal certainty.<sup>73</sup> The Asia-Pacific region is predicted to be home to 65% of the world’s middle-class consumers by 2030, making it a key location for British businesses to establish themselves.<sup>74</sup>

The Department for International Trade’s report on the UK’s approach to joining the CPTPP also highlights that if Britain is accepted as the first new member of the pact, it will be in a position to shape its future expansion and development, a point of particular importance as China has also since applied for membership in September 2021. This will be a keenly-watched issue as its accession would involve significant new regulations to be applied to its trade

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<sup>72</sup> Department for International Trade, ‘UK Accession to CPTPP: The UK’s Strategic Approach’ (June 2021)

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/995485/cptpp-strategic-case-accessible-v1.1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995485/cptpp-strategic-case-accessible-v1.1.pdf) accessed 17 October 2021

<sup>73</sup> Panda, ‘Japan-UK: ‘Progressive’ Ties and a Case for Britain in the CPTPP’, p.7

<sup>74</sup> Department for International Trade, ‘UK Accession to CPTPP: The UK’s Strategic Approach’

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practises.<sup>75</sup> If the UK accedes to the CPTPP, it could benefit economically from the pact’s expansion (as could Japan), particularly if the US seeks to re-join the group. The economic benefits of membership are certainly not the only consideration, as projecting an image of a ‘Global Britain’ and allying with other defenders of the liberal international order and free, rules-based trade would also benefit the UK’s reputation globally, although China’s potential accession could complicate this for all members.<sup>76</sup>

Since the exit of the US from the TPP, Japan has taken on a leadership role in establishing the CPTPP, suggesting that in the absence of the US, it is seeking to establish itself as a regional leader, while still using its influence in the CPTPP to ensure that its terms are favourable to future US entry.<sup>77</sup> It has also emerged as a supporter of the UK’s application for admission to the pact, with both former Prime Ministers Abe Shinzo and Yoshihide Suga welcoming the UK’s interest and emphasising their desire to see the CPTPP expand. Prime Minister Suga, who only left office in September 2021, focused on digital transformation and reducing greenhouse gases, both areas emphasised in British trade rhetoric

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<sup>75</sup>Department for International Trade, ‘UK Accession to CPTPP: The UK’s Strategic Approach’; Jeffrey J. Schott, ‘China’s CPTPP bid puts Biden on the spot’ (*PIIE*, September 23 2021) [https://www.piie.com/blogs/trade-and-investment-policy-watch/chinas-cptpp-bid-puts-biden-spot?utm\\_source=update-newsletter&utm\\_medium=email&utm\\_campaign=piie-insider&utm\\_term=2021-09-29](https://www.piie.com/blogs/trade-and-investment-policy-watch/chinas-cptpp-bid-puts-biden-spot?utm_source=update-newsletter&utm_medium=email&utm_campaign=piie-insider&utm_term=2021-09-29) accessed 17 October 2021

<sup>76</sup> Yoichi Funabashi, ‘In America’s absence, Japan takes the lead on Asian free trade’ (*The Washington Post*, February 22, 2018) <https://www.washingtonpost.com/news/global-opinions/wp/2018/02/22/in-americas-absence-japan-takes-the-lead-on-asian-free-trade/> accessed 17 October 2021

<sup>77</sup> Funabashi, ‘In America’s absence, Japan takes the lead on Asian free trade’

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currently. This suggests there could be an interest-alignment facilitating cooperation within the CPTPP on these key issues.<sup>78</sup>

Indeed, the UK's bilateral trade agreement already has the most comprehensive digital provisions of any UK agreement with CPTPP members thus far, laying a precedent for expanding this further through membership in the CPTPP which has extensive rules for modern digital trade.<sup>79</sup> Japanese support could help assuage concerns that the UK, as a non-Pacific or APEC state, is not a natural partner for the CPTPP or that its membership may not benefit current members. As the largest economy in the CPTPP, Japan is an influential leader in the group: while Japanese leaders have consistently been positive about the UK's desire to enter the pact, China's request for admission has been greeted with more hesitancy, although the impact of this on their eventual admission or denial remains to be seen.<sup>80</sup>

The non-trade related implications of CPTPP membership could also sway opinion in the UK's favour, notably its existing security ties to the region with CPTPP members: it is a member of the Five Eyes arrangement with Australia, Canada and New Zealand, and has held joint security projects with Japan before,

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<sup>78</sup> 'Brexit: Japan 'would welcome' UK to TPP says Abe'; Kiyoshi Takenaka and Ju-min Park, 'Japan aims to expand CPTPP trade pact as UK, China eye membership' (*Reuters*, November 20 2020) <https://www.reuters.com/article/us-apec-summit-japan-idUKKBN2800AF> accessed 17 October 2021; Prime Minister's Office, 'PM Meeting with Japanese Prime Minister Suga' (11 June 2021) <https://www.gov.uk/government/news/pm-meeting-with-japanese-prime-minister-suga-11-june-2021> accessed 17 October 2021

<sup>79</sup> Panda, 'Japan-UK: 'Progressive' Ties and a Case for Britain in the CPTPP', p.8

<sup>80</sup> Jiji, 'Japan Faces Difficulty in handling respective CPTPP bids of China and Taiwan' (*The Japan Times*, September 24, 2021) <https://www.japantimes.co.jp/news/2021/09/24/business/cptpp-taiwan-japan-china/> accessed 17 October 2021

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including a recent agreement to hold joint naval drills in the Pacific.<sup>81</sup> Japan has expressed interest in joining the Five Eyes network before, and it is possible that this will influence it to consider the UK's application more favourably as well.<sup>82</sup>

The CPTPP provides an opportunity for both the UK and Japan to pursue concrete economic aims alongside influencing their global reputations: Japan would benefit from being regarded as a leader in expanding the benefits of the CPTPP for existing members, while the UK could reaffirm its global aspirations and increase its soft power influence in a critical region. There are challenges inherent in this, first and foremost that the UK's application to enter the CPTPP is still yet to be considered or approved by member countries, with the first negotiation meeting occurring on the 28<sup>th</sup> September 2021.<sup>83</sup> Secondly, its application to join has now been accompanied by the formal applications of China and Taiwan, applications which will certainly capture the attention and time of current member states due to the political and technical difficulties of their potential accessions.<sup>84</sup> Following these applications, South Korea and Ecuador have also requested accession, emphasising the increased global

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<sup>81</sup> Elly Darkin, 'The Politics of UK Accession to Pacific Free Trade Club' (*RUSI*, 25 February 2021) <https://rusi.org/explore-our-research/publications/commentary/politics-uk-accession-pacific-free-trade-club> accessed 17 October 2021; Okabe Noburu, 'Japan and 'Global Britain': Expanding the Trans-Pacific Partnership' (*Nippon*, June 22 2021) <https://www.nippon.com/en/in-depth/d00697/> accessed 17 October 2021

<sup>82</sup> Panda, 'Japan-UK: 'Progressive' Ties and a Case for Britain in the CPTPP', pp.3-4

<sup>83</sup> Department for International Trade, 'UK kickstarts talks to join £9 trillion global trade bloc' (28 September 2021) <https://www.gov.uk/government/news/uk-kickstarts-talks-to-join-9-trillion-global-trade-bloc> accessed 17 October 2021

<sup>84</sup> Shin Kawashima, 'Japan's Position on the CPTPP Applications of China and Taiwan' (*The Diplomat*, October 3 2021) <https://thediplomat.com/2021/10/japans-position-on-the-cptpp-applications-of-china-and-taiwan/> accessed 17 October 2021

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interest in admission.<sup>85</sup> As the addition of a new member requires unanimous consent from all CPTPP members, there is not a certain outcome ahead for the UK or for the other applicants, although currently the UK appears to face less opposition from members than China’s application has provoked.<sup>86</sup>

The ‘rules-based international order’ has served both Japan and the UK well in the past. However, in the face of challenges to this model in the form of protectionism, slow negotiations at the WTO, and concerns over China’s trade practises and economic strength, states such as Japan and the UK may need to move beyond reliance on their traditional ally the US. They have both vocally defended free trade and the rules-based order, but more significantly, are pursuing this through the CPTPP. As a relatively new trading pact, the CPTPP addresses critical topics like digital trade in a manner that many major trading pacts do not, highlighting that modernised rules for trade may need to emerge from plurilateral groupings of like-minded states separate from the US and China. While the UK’s application for entry has not yet been approved, its eagerness to engage in the CPTPP highlights its determination to project ‘Global Britain’ into the Asia-Pacific, an endeavour that will require partners such as Japan.

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<sup>85</sup> Christian Davies and Song Jung-a, ‘South Korea applies to join CPTPP in wake of China’s bid’ (*Financial Times*, 13 December 2021) <https://www.ft.com/content/3bb1ee0e-ae04-4836-88bb-fa5c859992ed> accessed 8 January 2022; Hidetake Miyamoto, ‘Ecuador applies for CPTPP membership to diversify trade’ (*Nikkei Asia*, 29 December 2021) <https://asia.nikkei.com/Economy/Trade/Ecuador-applies-for-CPTPP-membership-to-diversify-trade2> accessed 8 January 2022.

<sup>86</sup> Kawashima, ‘Japan’s Position on the CPTPP Applications of China and Taiwan’

## IV. DEVELOPMENT COOPERATION

### IV.I. British and Japanese Indo-Pacific Strategies

Japan’s Free and Open Indo-Pacific strategy is composed of three pillars: ‘the promotion and establishment of rule of law’ including freedom of navigation and free trade, ‘the pursuit of economic prosperity’ and ‘a commitment to peace and stability’. Whilst this report employs the second tenet as a metonym for the whole strategy, this is not to suggest that the tenets are interchangeable but rather, to emphasise how the second tenet plays the crucial role of materialising the ideas expressed in the others. Improving ‘economic prosperity’ entails improving a) physical connectivity ‘quality infrastructure development such as ports, railways and roads, energy, and ICT’, b) people-to-people connectivity ‘through human resources and development and c) ‘institutional connectivity’ through facilitating customs, among others.<sup>87</sup> Therefore, by increasing physical, people-to-people and institutional connectivity across the Asian and African continents, Japan seeks to reify the ‘Indo-Pacific’ as a region constructed through a shared commitment to the values of free trade and the freedom of navigation.<sup>88</sup>

Japan’s connectivity initiative consists of multiple infrastructural projects – ports, roads and railways – that will constitute new and improved economic corridors across the ASEAN region. Projects currently underway include the improvement of the North East Road Network and the Yangon-Mandalay Railway, the Thilawa Special Economic zone, the

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<sup>87</sup> Ministry of Foreign Affairs Japan, ‘Free and Open Indo-Pacific’ <<https://www.mofa.go.jp/files/000430632.pdf>> accessed 18th October 2020

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Development of Sihanoykville Port, Colombo Port, Nacala Port, Mombasa Port. In their completed form, these ports and roads will foster the creation and efficiency of new economic corridors. Japan is also working to bolster pre-existing economic corridors such as the East-West Economic Corridor and Southern Economic Corridor by building more ports, roads and bridges along their reach.

Similarly, in the recent publication outlining its post-Brexit foreign policy 'Global Britain in a competitive Age', the UK government states its strategic 'tilt to the Indo-Pacific'. This document suggests that fostering connectivity/ free trade is also crucial.

## **IV.II. British Foreign Policy and International Development Aims**

Britain's aims in the foreign development sphere have changed. The most obvious change has been the subsuming of the Department for International Development into the Foreign Office to create the Foreign, Commonwealth and Development Office. This is not just a title change or about trimming Whitehall, but signals a new direction for British foreign policy in the development sphere. In his letter to the head of the International Development Select Committee, Dominic Raab said that the UK would now focus its foreign aid budget 'only on countries where the UK's development, security and economic interests align' such as in the Indo-Pacific.<sup>89</sup>

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<sup>89</sup> Dominic Raab, 'Letter from the Foreign Secretary regarding the future of the UK aid budget' (Letter from the Foreign Secretary to the Chair of the International Development Committee, 2 December



This should not be taken to mean that the UK only sees foreign development as a financial opportunity. The recently unveiled strategy 'Global Britain in a Competitive Age' lists a number of ways in which the UK hopes to do good with its combined foreign policy strategy including improving human rights, gender equality, governance, the rule of law and civil liberties.<sup>90</sup> The UK's hope is that its status as a 'Soft Power Superpower' and its, despite recent cuts, significant foreign aid budget will be a means to advance its other foreign policy objectives whether those be creating new markets for trade or improving security around the world.

### **IV.III. New Challenges to Japan Development: The Fight for Infrastructure Development Contracts in Asia**

The new rise of Asian donors has been tentatively welcomed by Japan. Whilst Japan tended to be isolated as the only Asian donor in the international development community, it also enjoyed a monopoly on South-South development cooperation. Now that many countries have shifted from their status as a 'beneficiary' to 'donor' country, most explicitly China, Japan now has to compete for development initiatives in neighbouring Asian countries.

The rise of Asian donors who want to invest in infrastructure in the Indo-Pacific has created an emergent milieu that threatened to bolster or diminish Japan's regional and international status. Japanese Development

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2020) <<https://committees.parliament.uk/publications/3683/documents/38142/default/>> accessed 27 October 2021

<sup>90</sup> HM Government, *Global Britain in a competitive age*, (CP403) March 2021

Policy specialist Izumi Ohno stresses that Japan must respond to this new arena by sharpening its competitive niche.<sup>91</sup> Japan can claim 3 core competencies that make it an attractive choice of development partner. The first is Japan's long historical experience of exporting infrastructure to East Asia. Japan can use its knowledge of previous work in east Asian countries, either to collaborate with them if they are emerging donors, or to win contracts. Secondly, Ohno stresses Japan's strong track record of development initiatives (manufacturing-orientation, long term commitment and provision of partner support) that make it a strong contender for the title of 'quality leader in global business activity'.<sup>92</sup> Lastly, Japan can boast the quality of its own national infrastructure. Claimed in conjunction, Japan is in a strong position to become a leading example for new infrastructure donors in the Indo-Pacific. These 3 competences are expressed by Japan's new 'partnership for Quality infrastructure' (PQI) 2015. Its foundational pillars are the expansion of infrastructural assistance through the Japan International Cooperation Agency (JICA), collaboration with the Asian Development Bank (ADB) and promoting relevant international standards.

## IV. IV. Japan's Comparative Advantage: the Offer of Quality Infrastructure

Japan's PQI exhibits Japan's awareness of how its core competencies can help it compete with the rise of the Belt and Road Initiative (BRI), a global infrastructure development project adopted by the Chinese government in 2013. The fact that PQI was launched directly two years

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<sup>91</sup>

<https://cupdf.com/document/the-uk-and-japan-in-a-new-era-of-development-cooperation-izumi-ohno-national.html>

<sup>92</sup> Ibid

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after BRI, has led many, such as the University of Duisburg-Essen's Werner Pascha, to name it 'a reaction to BRI'.<sup>93</sup> Due to the financial magnitude of the BRI project, Japan is unable to offer a convincing counter proposal in terms of cost. Therefore, PQI demonstrates Japan's choice to advertise a high quality or high price approach instead. The way in which Japan can advertise this approach reveals Japan's key competences as an infrastructural development partner, or to use Ohno, its 'niche'. Moreover, it demonstrates why the UK would be an obvious choice of development partner.

The first marker of assured quality is Japan's reputation of delivering quality industrial solutions to Asian partners. Quality assurance can be supported by pointing to their domestic and international track record. Whilst the GoJ started some new mechanisms, like the Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development in 2014 to facilitate future Japanese corporations in the global infrastructure market (Hatano n.d), the focus was on established organisations to set itself apart from non-transparent and untested agencies in China or the Asian Infrastructure Investment Bank (AIIB).

To create a means of rating past and current project proposals against a criteria of 'quality', Japan used the 2016 G7 Ise-Shima Summit to pass the so-called 'Principles for Promoting Quality Infrastructure Investment'. As a culmination of these efforts, the 2019 G20 Summit in Osaka adopted a more elaborated list of 'G20 Principles for Quality Infrastructure

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<sup>93</sup> <https://link.springer.com/content/pdf/10.1007/s10368-020-00468-0.pdf>

Investment'. Whilst these principles are not obligatory, they are meant to help close the financing gap of infrastructure investment and support private sector and MDBs; the first principle states, 'Maximising the Positive Impact of Infrastructure to achieve Sustainable Growth and Development'. As market players expect these principles to become a more pervasive requirement in the future, they may tend to consider them now despite the added cost. This could pose a serious challenge to China's low price strategy.

## IV.V. Assessing the UK's Development Path

The UK's development strategy has changed significantly in recent years. In 2015, the government published its UK Aid policy. This titular difference was important. The UK intended to use its large 0.7% of GNI budget for aid projects like improving security in fragile states and humanitarian work.<sup>94</sup> The four key aims of the policy were to promote peace and security, improve crisis resilience, promote prosperity and tackle extreme poverty.<sup>95</sup> This strategy was overseen by the Department for International Development. The International Development Act 2002 made poverty reduction the main focus of DFID's work and in effect outlawed tied aid.<sup>96</sup> DFID was praised by the Development Assistance Committee of the OECD who described it as 'an international development leader in times of global crisis'.<sup>97</sup>

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<sup>94</sup> HM Treasury and The Department for International Development, *UK Aid: Tackling Global Challenges in the National Interest*, November 2021

<sup>95</sup> Ibid

<sup>96</sup> International Development Act 2002

<sup>97</sup> Organisation for economic co-operation and development, The United Kingdom Development Assistance Committee Peer Review (2010)

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The UK's aims under DFID and its 2015 policy were therefore much more focused on humanitarian and aid efforts, rather than using the development budget as part of a wider foreign policy strategy. As of 2021, the UK's current integrated review of security, defence, development and foreign policy has no section specifically considering development.<sup>98</sup> This change in direction, away from a focus on aid towards using development as a tool to advance self-serving foreign policy aims like trade and security has been criticised. It has been argued that this will take money away from the poorest countries which need it most and instead put money into middle income countries which are seen as more beneficial partners for the UK.<sup>99</sup> It has also been argued that the UK should return to a focus on poverty reduction and aid, rather than development as a means to advance other aims.<sup>100</sup>

These criticisms, while important, do not demonstrate that the new strategy is, in its own terms, flawed. They are levied at the change of aims, however, the new strategy may go on to be highly beneficial to the UK. Fundamentally, the now 0.5% of GNI foreign aid budget is not only quantitatively smaller but qualitatively different. Money is now being spent on using foreign aid as a means to develop countries overseas in ways which advance British interests. This new strategy, whilst arguably less generous, could prove highly valuable as a means of projecting Britain's soft power.

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<sup>98</sup> HM Government, *Global Britain in a competitive age*, (CP403) March 2021

<sup>99</sup> Simon Starling, 'Opinion: The UK is undoing its good work on international development' (Devex, 18 March 2021) <<https://www.devex.com/news/opinion-the-uk-is-undoing-its-good-work-on-international-development-99385>> accessed 27 October 2021

<sup>100</sup> Bond, *Setting a new Course: Principles and recommendations for the UK's international development strategy* (2021)

## IV.V. Compatibility between the UK and Japan in the Development Space

The UK’s new aid policy has increased its compatibility with Japan as a foreign development partner. The two countries, who have long had complementary strengths, now have aligned aims. Both have an interest in developing the Indo-Pacific region in order to advance their trading, security and ideological ambitions. The combination of Britain’s long history of bilateral engagement in the region and its expertise in development financing will help to complement Japan’s infrastructure building capabilities. The two countries are therefore ideal partners. They both see development as a key tool in projecting their soft power and advancing their foreign policy aims and they have differing but complementary strengths.

## IV.VI. UK: Leading examples of PPPs

### 1. Example of national waste removal & calculation of risk

To jumpstart the growth of sustainable infrastructure, donor states must mobilise Public Private Partnerships (PPP).<sup>101</sup> Helping to construct sustainable PPPs is a principal way in which the UK can bolster Japanese national investment. A shining example of UK PPP is its program for waste removal and the development of waste infrastructure. Amar Quereshi from the International Finance Corporation stresses the crucial role that waste removal plays in reducing greenhouse gas emissions and

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<sup>101</sup>

<https://www.brookings.edu/research/delivering-on-sustainable-infrastructure-for-better-development-and-better-climate/>

the importance of public private partnerships to speed up the adopting of transformative waste programs.<sup>102</sup> The accelerated development of transformative waste infrastructure has been achieved by the Department for the Environment, Farming and Rural Affairs (DEFRA), through its Waste Infrastructure Delivery Program (WIDP), a partnership among DEFRA, Infrastructure UK, and Local Partnerships. DEFRA, through WIDOP, is funding the production of residual waste treatment across the country and acting as an expert to make the PIPELINE a strong and more effective infrastructure.<sup>103</sup>

## 2. UK international development PPPs, the case of CP3

Despite this, recently public private partnerships came under fire in public British narratives. They were depicted as raising considerable surplus profits for the private sector investors, with projects running into difficulties and stalling. Nonetheless, when the UK chancellor, Philip Hammond made his budget announcement, he made it clear that the private sector was set to fund half of the UK's infrastructure pipeline and that he remained 'committed to the use of public-private partnerships where it delivers value for the taxpayer' and where it 'genuinely transfers risk to the private sector'.<sup>104</sup>

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<sup>102</sup> Handshake Issue #2: Climate Change PPPs. (2011). International Finance Cooperation. <https://library.pppknowledgelab.org/documents/1945/download>

<sup>103</sup> Ibid

<sup>104</sup>

<https://www.dlapiper.com/en/newzealand/insights/publications/2019/04/the-uk-has-signalled-the-demise-of-traditional-models-of-ppp/>

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In fact, the volume of private finance mobilised for climate change purposes increased from 2020 to 2021. The UK Government’s International Climate Finance (ICF) programs are delivered by three UK departments: the Foreign Commonwealth & Development Office (FCDO); the Department for Business, Energy & Industrial Strategy (BEIS); and the Department for Environment, Food & Rural Affairs (DEFRA). Results are presented against six key performance indicators (KPI), which measure a range of benefits from the different types of programs. KPI 12 ‘Volume of private finance mobilised for climate change purposes (£)’ is of particular relevance. This indicator ‘helps measure the UK’s contribution to the commitment made by developed countries to mobilise \$100 billion of public and private finance per year to help developing countries respond to climate change, as set out in SDG target 13.a.’<sup>105</sup> Measured against this performance indicator, results increased by 49% compared with 2020. The main drivers include increase in ‘UK Climate Investment Programs’, the ‘UK–INDIA Partnership on National Investment and Infrastructure Fund – Green Growth Equity Fund’ and lastly increases in the ‘Climate Public Private Partnership Program.’<sup>106</sup>

The Climate Public Private Partnership (CP3) program is a six-year, £130 million program funded by the Foreign, Commonwealth and

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<sup>105</sup>

<https://www.gov.uk/government/publications/uk-climate-finance-results-2021/2021-uk-climate-finance-results>

<sup>106</sup>

<https://www.gov.uk/government/publications/uk-climate-finance-results-2021/2021-uk-climate-finance-results>



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Development Office (FCDO) and the Department for Business, Energy and Industrial Strategy (BEIS) through the UK Government’s International Climate Finance (ICF). It aims to increase low carbon investment in renewable energy, water, energy efficiency and forestry in developing countries.<sup>107</sup> To test, stimulate and mobilise finance, CP3 is participating as an equity investor in two private equity funds. These investments – while expected to deliver climate and development benefits – are also expected to provide commercial returns to the UK Government. The ability to generate commercial returns is central to the CP3 theory of change.<sup>108</sup>

In the Annual report (2020) of CP3, (KPI 12) demonstrated very substantial amounts (US\$1bn+) of co-investment in large renewable energy companies with small CP3 stakes (<5%) drive apparent 'leverage'. To measure the continued success, A consortium led by Integrity, along with LTS-Niras and Climate Policy Initiative, acts as Monitoring and Evaluation (M&E) partner to the CP3 program.<sup>109</sup>

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<https://www.integrityglobal.com/our-work/projects/monitoring-and-evaluation-partner-for-the-climate-public-private-partnership-programme/>

<sup>108</sup>

<https://ltsi.co.uk/project/climate-private-public-partnership-programme-monitoring-and-evaluation/>

<sup>109</sup> <https://devtracker.fcdo.gov.uk/projects/GB-1-201733/documents>

## V. CASE STUDY:

### V.I. Economic Corridors

Both Japan and the UK can materialise their respective Indo-Pacific strategies through building economic corridors in South Asia.

Whilst multinational development organisations widely concur that economic corridors produce vital social and economic possibilities; they tend to disagree when it comes to a definition. The Asian Development Bank (ADB) defines an economic corridor (EC) by its capacity to connect economic agents along a defined geography. As the corridor evolves, economic and social opportunities emerge adjacent to and along the corridor. The World Bank (WB) generally does not use the term economic corridor and instead refers to transport, trade or freight corridors. Nonetheless, underlying both definitions is a recognition that the extent of economic development correlates to the evolutionary phase of the corridor. A transport route can evolve from a transport corridor to a trade/ freight/ industrial/ agricultural corridor and then into a fully-fledged economic corridor.<sup>110</sup> Conceptualising economic corridors as an evolving organism, fed by increasing soft and physical infrastructure investment, is useful for thinking about a) how Japan and the UK contextualise their individual infrastructural projects within a wider international agenda b) why economic corridors benefit from

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<sup>110</sup>Albie Hope and John Cox, 'Development Corridors' Coffey International Development EPS Peaks (2015, 12)

[https://assets.publishing.service.gov.uk/media/57a08995e5274a31e000016a/Topic\\_Guide\\_Development\\_Corridors.pdf](https://assets.publishing.service.gov.uk/media/57a08995e5274a31e000016a/Topic_Guide_Development_Corridors.pdf)> accessed 18th October 2021

investments by multiple donors despite their different structural agendas. This latter point will be elucidated when it comes to discussing the potential window for Sino-Japanese cooperation.

Two economic corridors that have already been instigated in South Asia by each country will provide the evidential body for the analysis and recommendations that follow. Whilst these two particular projects exemplify only a fragment of each nation's development strategy, they have been chosen for the way they exemplify, not only each country's key development strengths, but how they would benefit from cooperation with one another.

## **V.II. The Mumbai-Ahmedabad High-Speed Railway**

In a recent publication, the Japan International Cooperation Agency (JICA) declared the stability of South Asia vital to linking ASEAN, ME and Africa. When Indian Prime Minister Narendra Modi and former Japanese President Yoshihide Suga met recently to reaffirm their joint vision of a 'free and open' Indo-Pacific, they called the Mumbai-Ahmedabad High-Speed Railway 'the symbol' of Japan-India cooperation that lies behind their vision.<sup>111</sup>

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<sup>111</sup> The Economic Times News 'PM Modi, Japan's Suga for free, open Indo-Pacific; oppose 'economic coercion, unilateral attempts' to change status quo', Economic Times (2021, 09) <<https://economictimes.indiatimes.com/news/india/modi-japans-suga-reaffirm-commitment-for-free-open-in-do-pacific-ahead-of-quad-meeting/articleshow/86471954.cms>>accessed 18th October 2021

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The Mumbai-Ahmedabad High Speed Railway, the Delhi Mumbai Industrial Corridor (DMIC)/ Dedicated Freight Corridor (DFC), and the Bay of Bengal Industrial growth belt, are all currently being funded and constructed by the JICA. All three projects seek to increase the speed of transferring cargo and people between Delhi (main city) and Mumbai (which has an international port).<sup>112</sup> This project has been comprised of ODA loans, infrastructure building and knowledge sharing. In 2017, JICA provided ODA loan of 108,455 million Yen for the procurement of 200 Electric Locomotives for the Western Dedicated Freight Corridor. These locomotives, based on Japan’s special high speed bullet trains ‘Shinkansen’, have created what Sachhinder Mohan Sharma, head of the DDFC management agency, has called a technological ‘trickle down’ effect on Indian railways.<sup>113</sup> Yet the question remains: how can increasing the speed of travel between Delhi and Mumbai constitute India and Japan’s FOIP strategy?

Answering this question requires placing Japan’s recent infrastructural projects against the backdrop of the Belt and Road Initiative (BRI). India and Japan have come to fear how this infrastructural ambition will upset the distribution of power across the Indo Pacific. The Japanese expansion project in the 80s and 90s offers a useful historical example for understanding the type of power that accompanies overseas infrastructural investment. By the late 70s, after a decade of spectacular economic growth, Japanese firms began to expand in the direction of East

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<sup>112</sup> Ministry of Foreign Affairs Japan, ‘Free and Open Indo-Pacific’

<sup>113</sup> Sachinder Mohan Sharma ‘Indian Railways’ Dedicated Freight Corridors – set to transform transportation’ Global Railway Review (2021, 01)

<<https://www.globalrailwayreview.com/article/116660/indian-railways-dedicated-freight-corridors/>>accessed 18th October 2021

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and Southeast Asia. Under the 'flying geese model', manufacturing processes were transferred from Japan to countries such as Taiwan, Thailand, Singapore and Malaysia. Through Japan Development Bank (former JEXIM), the Overseas Economic Cooperation Fund (OECF) and JICA, the Japanese government designed and built power generators, telecommunications, harbours, airports, roads, and export processing zones across East Asia. Similar national economic concerns motivate China and Japan's infrastructural investments today. Abe's 2013 'Japan revitalization strategy: Japan is back' located the exportation of Japanese infrastructure products, including High Speed Railways (HSR), as a growth strategy to encourage private investment. Similarly, one of BRI's major objectives is to create new economic corridors that address the disparity in regional development.

Nonetheless, whilst these infrastructural ventures are built to favour national business, Boston University Professor William W. Grimes writes that Japan's focus on commercial infrastructure during the 60s and 70s was probably more effective than western multilateral aid projects that emphasised poverty alleviation.<sup>114</sup> While many East Asian actors at the time acknowledged the structural dependence that Japan's investment entailed, they also embraced the social infrastructure that accompanies evolving trade corridors. Similarly, whilst the Master Plan on ASEAN connectivity 2025 shows that regional connectivity has been a long-term goal of ASEAN community, there is also recognition that if the BRI ties 'Southeast Asia nations individually to China, rather than connecting

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<sup>114</sup> William W Grimes 'The Belt and Road Initiative as Power Resource: Lessons from Japan' The Asan Forum Vol.9 No.2 (2016,04) accessed <<https://theasanforum.org/the-belt-road-initiative-as-power-resource-lessons-from-japan/>> 18<sup>th</sup> October 2021

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China with ASEAN as a whole', then this 'would pose a threat to ASEAN connectivity, a key principle in the strength of the organisation'.<sup>115</sup>

Furthermore, the BRI's aspirations are far greater than the Japanese plans discussed above: the Chinese Development Bank has made plans to invest more than \$890 billion in over 900 projects, involving 60 countries.<sup>116</sup> For China's neighbours, these audacious promises of physical connections to the world's largest manufacturer imply a future of accelerated and integrated regional production networks. The fact that economic corridors create such clear win-win scenarios means that Japanese efforts to dissuade emerging economy governments from accepting Chinese investment out of political concerns, will almost certainly be counterproductive.<sup>117</sup> Nonetheless, as will become clear later in this paper, this commercial aspect of economic corridors can be mobilised to encourage private investment in sustainable technology.

On the one hand, Japan's FIOP races against China to institutionalise a reliance on Japanese funded infrastructure and hence, an allegiance to institutions aligned with Japan's values of 'free trade'. This is exemplified by the race to provide high-speed railway (HSR). In 2015, Japan lost a \$5 billion contract to China to build Indonesia's first HSR connecting Jakarta and Bandung. The same year Japan leveraged its burgeoning relationship with India to secure a \$15 billion deal to construct the HSR between Mumbai and Ahmedabad. In light of this, the 'Partnership For Quality

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<sup>115</sup> Zhao, Hong 'Chinese and Japanese infrastructure investment in Southeast Asia: from rivalry to cooperation?' Institute of Developing Economies Discussion Paper Vol.689 (2018-02) accessed <<https://core.ac.uk/download/pdf/288468979.pdf>> 18<sup>th</sup> October 2021

<sup>116</sup> Chin, G. T 'China's bold economic statecraft, Current History' 114, (2015, 09) 217-223.<<https://www.proquest.com/docview/1707854777?pq-origsite=gscholar&fromopenview=true>>access ed 18th October 2020

<sup>117</sup> William W Grimes 'The Belt and Road Initiative as Power Resource: Lessons from Japan'

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Infrastructure' (PQI) competes against the construction of an Indo Pacific reified by Chinese infrastructural vessels of control. However, the sheer size of China's infrastructure promises are far greater than that of Japan's. Moreover, despite the fact that Japan's infrastructure investment activities predate those of China, China's technological advances (such as HSR technology) are now growing a lot faster. Thus, the Indo-Pacific strategy should not attempt to replace BRI investments, but emphasise how high speed connectivity necessitates the protection of 'freedom of navigation' and 'free trade'.

However, it is incorrect to argue that Japan and India's plan to build an Asia-African growth corridor in 2015 can be seen as an *inversion* of the BRI. The success of economic corridors is contingent on their position within a thriving cooperative and competitive network. The scope of the DMIC has enormous overlap with China's BRI and the design of the Pakistan Economic Corridors Programme ensures its connections to the Central Asia Regional Economic Cooperation corridors 5 and 6 and the China-Pakistan economic corridor. Thus, whilst the launch of the PQI, including a partnership with India to build the DMIC, could appear as an attempt by Japan to temper Chinese influence in South Asia, the mutual benefits of overlapping economic corridors suggests that connectivity could become a locus of potential for Sino-Japanese cooperation. Abe's speech in 2017 stated that Japanese cooperation with the BRI 'will depend on whether the infrastructure funded through BRI is open to use by all' showing that Sino-Japanese cooperation is far from out of the question. However, for economic corridors to become *a locus of Sino-Japanese cooperation*, an effective mechanism of ensuring trust must be developed. Whilst the JICA funds the Western DFC, the Eastern DFC is constructed

by funds from the World Bank and the Ministry of Railways. This provides an example for one future way of fostering Sino-Japanese cooperation: by separating the economic corridor and allocating production processes to separate countries.

## V.III. The Pakistan Economic Corridors Programme: Climate Disaster or Sustainable Opportunity?

The Pakistan Economic Corridors Programme (PECP) demonstrates the UK’s strengths developing economic corridors in South Asia and illuminates further recommendations. DFID’s transport and urban infrastructure programs frequently aligned with two of the UK’s overall aid strategies: ‘promoting global prosperity’ and ‘strengthening resilience and response to crisis’ objectives. A 2018 performance review, published by the Independent Commission for Aid Impact (ICAI) states that PECP falls clearly into the ‘Promoting global prosperity’ objective.<sup>118</sup> However DFID’s single departmental plan (2017) that outlined its six aims, one of which was ‘Promote Global Prosperity’, was formally withdrawn on the 15<sup>th</sup> July 2021.<sup>119</sup> Subsequently, this plan was superseded by the FCO Outcome and Delivery Plan 2021-22 that is part of the recent ‘Global Britain in a competitive World’ policy document. In this new document,

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<sup>118</sup> Independent Commission for Aid Impact, *Report: DFID’s transport and urban infrastructure investments: A performance review* (2018, 10) <<https://icai.independent.gov.uk/html-version/infrastructure/>>accessed 18th October 2021

<sup>119</sup> Department For International Development, *Department for International Development Single Departmental Plan* (2019, 06) <<https://www.gov.uk/government/publications/department-for-international-development-single-departmental-plan/department-for-international-development-single-departmental-plan--2>> accessed 18th October 2021



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the terms 'global prosperity' only appear under a consideration of current contextual factors impacting the UK's foreign policy priorities. The bullet point in question, covers the 'geopolitical and geo-economic shifts' such as 'China's increasing growth and assertiveness' and 'the growing importance of the Indo-Pacific to global prosperity and security'.

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The PECP was born out of partnership between the DFID and the ADB to 'upgrade Pakistan's national highway infrastructure, including its trade links with China and the region'.<sup>121</sup> The DFID offered a total budget of 265 million, of which 210 million has been used to rehabilitate national highways and construct two new motorways in Pakistan's national trade corridor network, identified as 'important for growth'.<sup>122</sup> The programme, which has been extended to 2022, promotes national economic integration, by linking the poorest western regions of Baluchistan and wealthier provinces of Sindh and Punjab to the south and east respectively, and regional trade, by enabling landlocked Central Asian states to access to Pakistan's ports of Gwadar and Karachi (to the left of Mumbai port). Alongside this, the DFID provided additional funding for public-private partnerships and technical assistance.

However, when it comes to building infrastructure, the DFID's comparative advantages as an economic corridor donor does not include

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<sup>120</sup> Foreign, Commonwealth and Development Office, *FCDO Outcome Delivery Plan: 2021 to 2022* (2021, 07) <<https://www.gov.uk/government/publications/foreign-commonwealth-development-office-outcome-delivery-plan/fcdo-outcome-delivery-plan-2021-to-2022> > accessed 18th October 2021

<sup>121</sup> Independent Commission for Aid Impact, *Report: DFID's transport and urban infrastructure investments: A performance review*

<sup>122</sup> *Ibid*

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filling gaps for major infrastructure investment. Hence, whilst the size of the DFID grant allowed it to influence the ADB, e.g. by directing funds to Baluchistan, it is 'unclear that funding on such a large scale from DFID was needed to influence programme design'.<sup>123</sup> Additionally, data identifying 'value for money indicators' are not usually available until infrastructure projects are completed, making assessments of effectiveness during implementation restricted to efficiency. However, for the PECP, DFID worked with the ADB to develop a value for money matrix based on procurement, sound programme management, building systems, institutions and markets for sustainability and achievement of outcomes, that allowed the programme to achieve average savings of 15% from original estimates.<sup>124</sup> In light of these two points, this paper recommends that the UK should maintain a strict value for money assessment when it comes to allocating the reduced FCO budget to economic corridors. This includes directing the budget to where the UK can present a clear comparative advantage: enabling and monitoring 'markets for sustainability'.

In 'The Web of Transport Corridors in South Asia', co-publishers JICA, WB, ADB and DFID write that, 'only when transport corridors generate wider local benefits can they be considered economic corridors.' Under this subheading, the document considers Japan's period of economic expansion during the 1960s-70s that included, not only the overseas infrastructure investments explored in the above but, the construction of the Pacific Belt Zone. This involved the rapid production of economic corridors that increased the total shipment value of goods almost

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<sup>123</sup> Ibid

<sup>124</sup> Ibid

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fourfold. However, such rapid industrialization created serious environmental degradation, pollution, water contamination and asthmatic diseases, lending Japan the worldwide title of the 'Paradise of Pollution'.<sup>125</sup> Thus, the shape of Japan's contemporary landscapes speaks to the wider 'social costs' that come from not adequately considering environmental degradation in the planning and implementation stages of transport corridors.<sup>126</sup> As a result, economic corridors in their most comprehensive form must integrate the economic potential of geographical areas while simultaneously undertaking efforts to address the environmental and social adverse impacts of increased-connectivity.

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The JICA Annual Report (2020) on South Asia, states that the region has a great demand for 'developing physical and nonphysical infrastructure... that covers such aspects as water supply, solid waste management, and health care.' Under the PQI and their FIOP vision, the JICA is committed to building transport infrastructure in South Asia that contributes to sustainable growth and is centred around electric power.<sup>128</sup> The DFC is a prime example of how to reconcile the goal of increased connectivity with two other equally important goals: sustainable development and low-carbon growth.<sup>129</sup> In light of the rising demand for freight

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<sup>125</sup> Asian Development Bank, Department for International Development, Japan International Cooperation Agency, and the World Bank, *The WEB of Transport Corridors in South Asia* (2018) Washington, DC: World Bank. doi: 10.1596/978-1-4648-1215-6. License: Creative Commons Attribution CC BY 3.0 IGO

<sup>126</sup> Ibid

<sup>127</sup> Brookings Institution India Center 'Economic Corridors' (2013, 10) The Brookings Institution, <<https://www.brookings.edu/research/economic-corridors/>> accessed 18th October 2021

<sup>128</sup> JICA 'South Asia: Contributing to 'Quality Economic Growth' and 'Foundation-Building for a Free and Democratic Society'' <[https://www.jica.go.jp/english/publications/reports/annual/2020/c8h0vm0000fc7q2b-att/2020\\_07.pdf](https://www.jica.go.jp/english/publications/reports/annual/2020/c8h0vm0000fc7q2b-att/2020_07.pdf)> accessed 18th October 2021

<sup>129</sup> Albie Hope and John Cox, 'Development Corridors'

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transportation, the decision by the Government of India to undertake the DFC was based on a detailed study that showed how the DFC could reduce the total projection of greenhouse emissions by freight transport, compared to the situation in its absence.<sup>130</sup> In order to reach this low carbon future, the DFC intends to adopt various technological options allowing it to operate in an energy efficient fashion, such as the use of biofuels, whilst at the same time investing in low carbon assets such as solar power and afforestation<sup>131</sup>.

This report suggests that the UK should help future Japanese infrastructure projects achieve the twin goals of sustainable growth and enhanced connectivity across South Asia. The Integrated Review states 'in 2021 and beyond, Her Majesty's Government will make tackling climate change and biodiversity loss its number one international priority'.<sup>132</sup> Moreover, an ICAI report on 'The Effectiveness of DFID's Engagement with the Asian Development Bank' states that the DFID's increased involvement with the ADB on Climate Change, e.g. the Climate Public Private Partnership in Asia (CB3), represents 'a strong fit with ADB's expertise, as these projects involve raising private sector finance and developing infrastructure'. The CB3 mobilised a Public Private Partnership (PPP) structure to increase the role of private sector finance in driving low carbon growth in developing countries.<sup>133</sup> By predicting

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<sup>130</sup> DFCCIL 'GHG Emission Analysis'

<[http://dfccil.com/upload/DFC\\_write\\_up\\_GHG\\_emission\\_analysis2003\\_23012015.pdf](http://dfccil.com/upload/DFC_write_up_GHG_emission_analysis2003_23012015.pdf)> accessed 18th October 2021

<sup>131</sup> Ibid

<sup>132</sup> HM Government 'Global Britain in a competitive age, The integrated Review of Security, Defence, Development and Foreign Policy' (2021, 03) p.4

<sup>133</sup> UK Gov, 'Climate Public Private Partnership Programme (CP3), (2016)

<[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/575351/CP3-Dec-2016.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/575351/CP3-Dec-2016.pdf)> accessed 18th October 2021

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the future commercial returns of these investments to the UK government, the UK uses this initiative to demonstrate the profitability of climate investments.<sup>134</sup> Moreover, despite the recent drop in UK GNI in 2020 by almost a third, the fact that the PECP was funded by conjunction of PPPS meant that these budget reductions did not incur significant damages. In light of the GNI budget cut, this report suggests that the UK should refrain from filling the gaps in large scale investment and leave that to Japan. Instead, the UK should combine its strength in mobilising private finance with its climate ambitions, to ensure that the JICA builds PPPs with private actors with sustainable ambitions. Subsequently, a Japan-UK partnership can focus on building economic corridors according to strict sustainable infrastructure standards. Through this, the UK can perform a valuable cooperative role that coordinates its FIOP connectivity strategy with its climate change priorities, in spite of its reduced development budget.

Thus, both Japan and the UK should develop economic corridors across South Asia to achieve their Indo Pacific strategies. However, beyond just signalling a shared end goal, the UK and Japan should recognise this as an opportunity for fruitful collaboration because of their respective development strengths. Whilst Japan should make use of its experience to oversee the actual construction of economic corridors, the UK should focus on ensuring these corridors are funded by PPPs with sustainable commitments. Moreover, with the UK ensuring that green infrastructure

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<sup>134</sup> NIRAS LTS International, ‘Climate Private Public Partnership Programme – Monitoring and Evaluation’ <<https://ltsi.co.uk/project/climate-private-public-partnership-programme-monitoring-and-evaluation/>> accessed 18<sup>th</sup> October 2021

standards dictate both projects, Japan should invite China to develop aspects of the same economic corridor.

## VI. RECOMMENDATIONS

In light of the above discussion, the paper makes several recommendations:

- **Continue to build multilateral partnerships to bolster free trade and the rules-based international order**

The UK and Japan have the economic weight and soft power influence to establish themselves as advocates of free trade and the rules-based order globally, a position they should establish more firmly in international organisations and global fora. In the context of uncertainty around America's position on free trade and tensions over China's illiberal trading practises, it appears unlikely that the world's two largest economies will consistently champion the values that underlay institutions like the WTO. While the UK and Japan do not hold the same economic power or influence as the US or China, they should strive to group and lead other middle powers to work towards progress on key issues within or outside the WTO, as Japan has done as part of the CPTPP.

To do this, the governments of both countries need to clarify and establish what their regional and global strategies are: for example, what does 'Global Britain' aim for in concrete terms, what are its practical goals, and how will other states' partnership or resistance factor into this?

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Similarly, what kind of role and influence does Japan want to establish for itself globally, and how do efforts to counterbalance China influence its broader foreign and trade policy? These are broad questions that may take years, and crucially, decisive leadership, to be worked out; however it is nonetheless significant that these strategies be clarified for these countries to find support from like-minded partners, reassure private business, and garner public support for their efforts to protect the rules-based economic order.

This does not necessitate a reactionary or defensive policy: as recognised in the UK’s Integrated Review of Security, Defence, Development and Foreign Policy (2021), simply defending the post-Cold War ‘rules-based international system’ is no longer sufficient for tackling current challenges. However, to formulate a new vision for the global economic order, both Britain and Japan will need to produce a consistent rationale spanning their efforts to forge new multilateral partnerships. Decisive and proactive leadership is also necessary for both countries to assert themselves globally and in their respective regions.

The CPTPP is an excellent example of a multilateral forum in which the UK can work to show its broader vision for its future economic and strategic relationships. While Japan has so far been publicly positive about the UK’s application to join the pact, this does not assure the success of the UK’s application. In order to convince CPTPP members of the value of its application, British negotiators will need to add depth to their case for why the UK will be an advantageous partner for the group, notably through providing a convincing case to counter hesitations about

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adding a non-Pacific nation to the pact. In order to do so, while engaging with group CPTPP member talks, the UK should also make an active effort to engage in discussions and even negotiations with individual CPTPP members.

Steps are being made in this direction, with Trade Minister Penny Mordaunt visiting Chile and Peru to meet with government and business representatives to strengthen ties and explore avenues for future cooperation.<sup>135</sup> Similar visits and meetings would be advisable, particularly with countries which may express reservations about the UK’s application. Japan may be a valuable ally in this effort, as it is an influential member of the pact (and its largest economy) and has thus far been supportive of the UK’s application: both the UK and Japan could emphasise the value of expanding beyond the Pacific through further supporting businesses seeking to capitalise on the UK-Japan CEPA, which may provide evidence for the tangible and geopolitical benefits of these international ties.

The UK in particular is motivated to reach a resolution on its application, as if it becomes the first new member to the CPTPP, it would gain access to decision-making at a critical moment in the pact’s development: China’s application is currently also being considered, and is facing more hurdles than the British application due to a myriad of concerns about its willingness to abide by the strict regulations of the CPTPP. Similarly, if

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<sup>135</sup> Edmond Reeves, ‘It is critical to remain competitive by ensuring a stable and predictable business environment’ (*SmallCapNews*, 19 October 2021) <https://www.smallcapnews.co.uk/investing-in-peru-united-kingdom-it-is-critical-to-remain-competitive-by-ensuring-a-stable-and-predictable-business-environment-economie/> accessed January 8, 2022.



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the US seeks to join the pact again, the UK would stand to gain from a significantly expanded and more powerful CPTPP, and could play a role in determining the conditions under which this major economy would join. However, this remains speculative, as the upheavals of Covid-19, the delicate political manoeuvring around Taiwan and China's respective applications, and the need for unanimous approval from current members all continue to pose hurdles to Britain's admission to the CPTPP.

Policymakers in the UK and Japan should invest in strengthening existing partnerships and in forging new partnerships globally in order to establish themselves as champions of free trade and the rules-based international order. The WTO will be a prime institution through which to rally other states, but due to the relative stagnation of its negotiating functions which inhibit practical changes, other plurilateral institutions such as the CPTPP may be better suited for quicker outcomes on key issues, such as digital trade.

- **Cooperate further to advance digital trade provisions bilaterally and multilaterally**

A significant achievement of the UK-Japan CEPA and the CPTPP is their advanced provisions for digital trade, a recognition of the large and growing significance of this type of trade and economic activity in today's global economy. Absent from many bilateral and plurilateral trade agreements, and still locked in stagnating WTO negotiations, digital trade is a vital area for states to engage in: the UK and Japan should leverage their experience negotiating on digital trade to take a leadership role on

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The logo for TWS, consisting of the letters 'TWS' in a white serif font on a dark teal square background.

this issue, advancing provisions at both the bilateral and multilateral level.

At a bilateral level, the British and Japanese governments should encourage the expansion and facilitation of e-commerce and digital trade between their countries by providing logistical and regulatory support to businesses, in particular through encouraging transparency in regulations. It remains to be seen whether Japanese and British businesses will take full advantage of the CEPA to work together bilaterally and regionally, and in the context of supply-chain issues and economic downturns post-COVID-19 pandemic, businesses need and will continue to need extra support in expanding beyond their existing markets. Notably, Japanese businesses will need to be reminded of the benefits of doing business in the UK beyond it being seen as a gateway to Europe, particularly if Brexit continues to hinder the flow of goods and services between the UK and EU.

The British and Japanese governments should invest in promoting business ties through forums, facilitating contacts and links, and continuing to publicise the opportunities CEPA opens. Additionally, they should strive to increase regulatory cohesion in the field of digital trade and e-commerce: a potential starting point for these efforts could be the formation of an annual forum between regulators and businesses from both countries, similar to the annual forum established in the CEPA for financial regulators. A major area for advancement is the UK-Japan CEPA itself, which can be expanded and built upon in further negotiations. The initial CEPA negotiations were somewhat limited by the time constraints

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of the negotiating period, as both governments were eager to negotiate an agreement prior to Brexit, hence certain sections such as the digital, investment, and market access chapters, still have significant potential for further development. While dramatic changes to the digital trade sections of the CEPA are unlikely as major shifts would require re-negotiation and re-ratification of the treaty, there is scope for further negotiation and changes that would not require a complete revision. For example, enhancing regulatory-to-regulatory action, as suggested previously, would not require such a dramatic re-negotiation but could be introduced as a supplement to the UK-Japan CEPA.

The UK and Japan should look beyond their bilateral relationship to cooperate multilaterally on digital trade and to take a leadership role on this issue, leveraging their experience and expertise to champion technological innovation and digital trade on a regional and international scale. Some strides have been made in this direction by both governments. Notably, in June 2020 the UK launched a series of measures to increase digital trade and improve the competitiveness of the British tech industry. Aiming to increase tech exports to international markets and attract investment, these measures emphasise the importance of the Asia-Pacific as a key market. A central aspect of this plan is the Digital Trade Network for Asia-Pacific, which dedicates £8 million towards supporting UK tech businesses establish themselves in the region, forge new regional partnerships, and attract more investment. This package of measures also establishes a new Tech Exporting Academy to provide expert advice on topics including regulation,

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intellectual property, and compliance for high-potential SMEs seeking to enter markets like the Asia-Pacific.

We recommend that these efforts be intensified and carefully fostered to ensure they are not superficial, but rather engage closely with regional stakeholders and governments to offer the best chances for long-term success and returns. A critical aspect of this will be transparent information, as businesses seeking a foothold in the Asia-Pacific region will need to familiarise themselves with a variety of regulatory environments and consumer bases. The British government should continue to engage closely with businesses to monitor the Tech Exporting Academy and respond flexibly to changes in the region which may impact British trade and investment: further trade agreements, such as the CEPA, with countries in the Asia-Pacific could facilitate this and amplify opportunities for digital trade. Japan ranks 23rd globally in digital competitiveness and is very open to technology investments: its existing trade agreement with the UK makes it a prime destination for British business, especially thanks to the digital trade provisions in the CEPA. Japan is also a potential partner in assisting British business expansion in the region, particularly if it continues to support Britain’s application to join the CPTPP.

Japan, as the largest economy in the CPTPP and one of its founding leaders, can leverage the comprehensive digital and e-commerce section of this agreement to establish itself as a global leader on the topic. Japanese policymakers should continue to push for the CPTPP to maintain its position as a model on digital trade by updating its

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provisions consistently: for instance, inspiration can be taken from the Digital Economy Partnership Agreement (DEPA) signed in June 2020 by Singapore, New Zealand and Chile. The DEPA is now the most comprehensive trade agreement on this issue, having used the CPTPP as a starting point and building on this to address issues such as digital identities, financial technology regulation, fintech regulation, and even artificial intelligence. Japan, and possibly the UK if its application to join the CPTPP is successful, should drive the agreement forwards to keep it modern and flexible in response to developments in digital trade and e-commerce through taking inspiration from advancements made elsewhere (in the case of DEPA, the members are already CPTPP members and would likely be receptive to such efforts).

Beyond the CPTPP, Japan and the UK should take advantage of their positions within prominent multilateral institutions such as the WTO, G20 and G7 to encourage more engagement with and progress on digital trade. They could lead the way on standardising regulations on digital tax, digital currencies, digital payments, and more, providing impetus for other like-minded nations to join in plurilateral agreements. Plurilateral agreements are potentially the best path forwards on establishing new rules and regulations on digital trade, as negotiations on this have stagnated at the WTO. While e-commerce has been on the WTO negotiating agenda since 1998, the Work Programme on Electronic Commerce, like most aspects of the WTO Doha Round of negotiations, has not made substantive progress. While a Joint Statement Initiative on E-Commerce was made in 2019, this has not yet led to a consistent or specific focus on digital trade. Japan and the UK have already begun to position themselves as supporters of these topics, with Japan leading the

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'Osaka Declaration on Digital Economy' encouraging further negotiations, and former British Trade Minister (now Foreign Minister) Liz Truss emphasising digital trade at the G7 trade ministers' meeting in 2021.

Digital trade is a quickly evolving and increasingly important area of economic relations that many states have failed to promptly address in their trade agreements or relations. As the UK and Japan have both prioritised this topic and pursued concrete measures through trade agreements, they are well-placed to take on a leadership role to encourage other states to agree to both negotiations and decision-making on digital trade. By establishing themselves as experts on the issue, the UK and Japan could boost their global prestige and be well-placed to take part in more agreements on the topic, with significant potential economic benefits.

- **The UK should enable Japan's Production of Quality Infrastructure by Mobilising Sustainable Public-Private Partnerships**

The UK should maximize its potential to become a useful collaborative development partner in Japan's production of Quality Infrastructure. In light of recent changes to UK development policy, this involves using its expertise creating public private partnerships with a sustainable focus. In conjunction with the previous recommendation, this will align the UK's 'tilt to the Indo-Pacific' with Japan's Free and Open Indo Pacific Strategy.

Therefore, despite its reduced development budget, the UK can continue to use development as a means to foster trade and build security with relations in the Asian pacific.

- **Japan Should Advertise Its Provision of 'Quality Infrastructure'**

As infrastructural deals in Africa and Asia become an increasing site of contestation among Asian development partners, Japan should strive to win these deals by highlighting its comparative niche. This involves highlighting the high quality of its infrastructural investments in comparison to other Asian donors, namely China. Japan should assure countries of its long history and experience conducting infrastructural projects in the region, and recall their reputation for being high quality and long-term commitments. Most importantly, Japan should publicize a standard delineating what constitutes 'high quality'. This standard will help assure countries and private investments that their infrastructure is designed to prosper under long term considerations, such as environmental change.

## **VII. CONCLUSION**

Overall, the authors of this paper have attempted to demonstrate that cooperation between the UK and Japan is no longer constrained by the 'Galapagos Syndrome' or any other insurmountable incompatibilities. Previous stumbling blocks to cooperation have, in the most part, been dismantled, and it is from this basis that the authors have made several recommendations for the future direction of UK-Japan foreign policy.

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Arguably the biggest shift that has made *now* the appropriate time to act upon cooperation between Japan and the UK is the alignment of values. This shift in values has filtered through to all aspects of Japanese-UK relationships, with the turn away from Japanese isolationism being palpable in all aspects of their foreign policy. With the disintegration of Japanese isolationism, a new era of receptiveness and enthusiasm towards the West has emerged, priming Britain and Japan for cooperation. Previously, the value differences between the two nations have prevented many forms of cooperation from taking place; whilst it would be crudely over-simplistic to suggest that the countries now occupy identical positions on an imaginary 'values system', where they now differ appears to be in complementary areas, meaning that these differences can be capitalised upon to produce combined strength. Similarly, Britain's foreign policy goals have changed direction in the last few years, away from a narrow focus on Europe and America, to a broader reach; Japan and the UK's corresponding interests in the Indo-Pacific Area represent an obvious beginning to a new, stronger partnership.

There are many forms of cooperation that this paper can now recommend. Firstly, this paper has recommended that both nations clarify their exact aims and plans for a future relationship, suggesting that Japan defines what exactly they want their strategy to be, both in the crucial Indo-Pacific region, as well as their continued influence in Britain, whilst Britain clarifies their exact aims surrounding its talk of 'Global Britain'. From this clearer commitment towards working together in the



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global sphere, both nations can cooperate more easily. In certain circumstances, Britain and Japan have very different roles. For instance, with regards to Britain's potential accession into the CPTPP, this paper recommends that Britain compiles a more attractive portfolio to persuade other members that the UK will be an advantageous partner for the group. Whilst Britain does this, Japan can assist by continuing to use their connections to other members within this group, as well as strengthening pre-existing connections with Britain (such as the UK-Japan CEPA) so as to show the positive potential of collaboration with Britain. Through this cooperation, Britain and Japan can also easily establish themselves as leaders of the free-trade, rules based international order – by setting themselves up as the ideal type of international cooperation, they can begin to lead an order which fits the strengths and ideals of both Britain and Japan.

Another obvious route for cooperation is in areas in which these two countries can offer complementary areas of expertise. One of the key areas that this paper focuses on is the development of digital trade and information exchange. This trajectory of cooperation has already begun, with the UK and Japan both investing heavily in digital infrastructure in several key areas around the world; however, if these efforts, and the slightly differing expertise of both nations were combined, then it would project them towards the position of world leaders in this field. Not only can they strengthen this cause through the investment of capital and expertise, but also through utilising their positions within large multilateral institutions such as the WTO or the G20, to encourage wider engagement and progress in digital trade. As the UK and Japan have both put this branch of trade and cooperation high on their agenda, they are

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well placed to form a dual leadership role and guide other states towards an era of greater digital cooperation.

The authors of this paper have attempted to show how this kind of cooperation has and can be facilitated through the case study of the improvement of South-Asian infrastructure, where the combined expertise of the JICA working on infrastructure in India and the UK doing the same in Pakistan can be used to facilitate the growth of infrastructure travel corridors in South Asia. Not only can the UK and Japan strengthen each other's efforts in terms of combined expertise, but their slightly different financial strengths and connections enables them to draw in funding in different but complementary ways.

Whilst the authors of this paper offer an extremely positive outlook on many different avenues for cooperation, this is not to say they deny that there remain some potential hazards along the way. Whilst Brexit has in many ways released Britain from some constraints of the EU to form their own individual agreements with Japan, it has also caused a small confidence crisis amongst Japanese businesses about Brexit representing a severance of Japan's entrance to Europe. Over time, assuming Britain maintains strong links with the rest of Europe, these fears will be assuaged, but in the meantime, Britain must ensure that it holds Japanese confidence in their ability to retain a powerful international, and European status, so as to ensure that cooperation remains beneficial for Japan.

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Fundamentally, cooperation between the UK and Japan appears to be a mutually beneficial prospect, wherein both countries can bolster each other’s strengths, whilst also covering each other’s weaknesses; Britain’s soft power status can be combined with Japan’s growing economic prosperity to provide a powerful force in future international relations. However, whilst this cooperation remains an exciting prospect, it should not be interpreted that this paper is attempting to suggest that Japan can ‘fill the void’ created by Britain’s departure from the EU. Although this paper has attempted to emphasise that previous barriers to cooperation (such as cultural values, economic models, institutional statuses) are in large part gone, the one issue that cannot be solved is the geographical distance that separates these two countries, and makes certain types of cooperation difficult. Japan can certainly bolster the UK in many ways, but as a key trading partner of material goods will never be one of them. Instead of fixating on this, this paper recommends that the UK and Japan focus on the multitude of other ways they can cooperate, which include allies within multilateral institutions and as development partners.

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