

BLACK COUNTRY INTERNATIONAL

Export Explained: The UK - Japan
Free Trade Agreement



Black Country
Chamber of
Commerce

blackcountrychamber.co.uk



About Black Country International

At the Black Country Chamber of Commerce, we are committed to helping our members and businesses across the region with the smooth transition of goods and services across international borders.

Our Black Country International services can help you with export documentation, train and develop your teams and keep you up to date with trends and topics which impact how you export and import.

Whether you are new to trading internationally or an experienced exporter, we can help you develop a strategy that is right for you and help make the process of doing business easier.

About Black Country Chamber of Commerce

The Black Country Chamber of Commerce is the leading regional business support agency for firms based within or doing business across Dudley, Sandwell, Walsall, and Wolverhampton.

We operate in a not-for-profit capacity and work hard for our members across the region's business community.

Through our services and initiatives, we provide platforms and opportunities for businesses to grow, connect and become part of a thriving network, shining a spotlight on the amazing work local companies are doing and helping to make the region a great place to do business.

Introduction

On the 9 June 2020, the United Kingdom started negotiations with Japan to secure a comprehensive Free Trade Agreement (FTA). The two countries are already important economic partners and there is now an opportunity for the government to agree a trade deal with Japan which allows for an increased prosperity for many parts of the UK.

The Japanese economy was the third largest in the world in 2018 and the UK's fourth largest non-EU trading partner. Total trade between the UK and Japan was worth around £29.5 billion in 2018, with over 50% of this being goods trade. The UK is also the second largest recipient of Japanese direct investment.

The whole UK economy stands to benefit if the right deal is achieved. Small business could profit from simplified customs procedures. Services firms could be given greater market access and areas of modern trade, such as e-commerce, can be supported and developed.

This report sets out to explain the UK - Japan Free Trade Agreement and why it is important for businesses in the Black Country.

What is a Free Trade Agreement (FTA)?

A Free Trade Agreement (FTA) is an international agreement that aims to encourage trade by removing or reducing the tariff (a duty or tax imposed by the government of a country on goods as they cross national boundaries) and non-tariff barriers to trade an investment between partner countries.

The barriers to trade and investment can make it harder and costly to trade or invest overseas so by removing them with an FTA it makes it easier for business to export, import and invest.

Trade agreements also aim to remove quotas and can benefit consumers by providing a wider range of affordable imported products.



Snapshot: The Japanese Economy

Japan is the third largest economy in the world with a high income per capita (the average income earned per person in a given area each year). Japan is also the third largest economy in the world and the eleventh most populated country in the world, with an expected population of 121 million in 2030.

According to the Statistics Bureau of Japan, in 2016 there were around 5.6 million firms in Japan, employing nearly 57 million people.³ Most of these firms are in 'wholesale and retail trade', 'accommodations, eating and drinking services' and 'construction' ¹. The manufacturing sector contributed 20.7% to the Japanese economy in 2017. The major industries in this sector include machinery, chemical, iron and steel, and fabricated metal products industries.

How it compares:

Japan		United Kingdom	
GDP:	\$4.97 trillion	\$2.85 trillion	GDP:
GDP per capita:	\$39,289	\$42,962	GDP per capita:
Trade (% GDP)	36.7%	61.78%	Trade (% GDP)
Population:	126.5 million	66.6 million	Population:
Agriculture, value added (% of GDP)	1.2%	0.6%	Agriculture, value added (% of GDP)
Industry, value added (% of GDP)	29.1%	17.5%	Industry, value added (% of GDP)
Services, value added (% GDP)	69.1%	71%	Services, value added (% GDP)

Source: World Bank Development Indicators 2018

¹ <https://www.gov.uk/government/publications/uks-approach-to-negotiating-a-free-trade-agreement-with-japan/uk-japan-free-trade-agreement-the-uks-strategic-approach>

The Existing Trading relationship between the UK and Japan

Japan and the UK have a close working relationship built on shared interests in international affairs and cooperation. The two countries are close security and trading allies and work together in international organisations such as the UN, G7, G20 and World Trade Organisation.

Japan is an important trade and investment partner for the UK, to the Japanese economy the UK is its 13th largest export market accounting for 2% of Japan's total exports (2018). The UK is also the fifth largest investor in Japan, accounting for 8% of its incoming foreign direct investment.

For the UK, Japan is currently our fourth largest non-EU export market and accounts for just over 2% of the UK's total exports (2018) and in 2019/20 the Black Country region exported goods worth £13 million to Japan.

In 2018 the UK was the second largest recipient of foreign direct investment from Japan (accounting for 10% of Japan's outward FDI total). Japan is the UK's sixth largest investor.

What do we export to Japan?

The three goods sectors in which the UK exported the most to Japan (over the last three years) are:

- Turbojets, machinery, and engines
- Vehicles
- Pharmaceutical products

The three goods sectors in which the UK imported the most from Japan are:

- nuclear reactors and boilers.
- vehicles.
- pearls and precious metals, base metals.

Cars and trucks are the UK's largest export to Japan and the largest imported good from Japan.

- £0.9 billion car and truck exports
- £1.4 billion worth of car and truck imports

Export Explained: The UK – Japan Free Trade Agreement

The UK's largest service export to Japan is financial services and this is also the largest services sector imported from Japan.

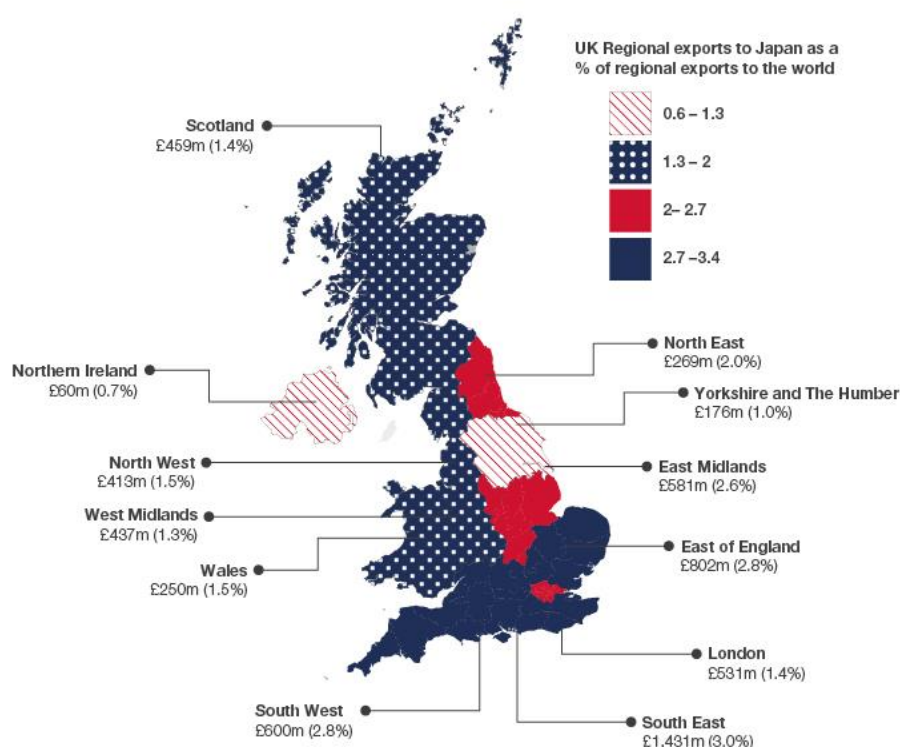
- £3.9 billion finance exports
- £1.9 billion finance imports

In 2018 just over 50% of all exports to Japan were in the services sector focusing on financial services and 'other business services'. 'Other business services' captures professional services, including auditing, accounting and legal services. The pattern of the UK's services exports to Japan is broadly mirrored by the pattern of Japan's services exports to the UK, apart from 'intellectual property', which accounts for around a third of Japanese exports, and a much lower share of UK exports.

UK Regional Exports to Japan

Japan is an important export destination for all regions of the UK.

In 2018, the regions with the highest proportion of their goods exports destined for Japan were the South East, the South West, and the East of England, with around 3% of each region's exports to the world going to Japan. The chart below displays the percentage of each region's goods exports that were destined for Japan ²



² HMRC regional trade statistics, 2018.

Our Position

The launch of the UK-Japan FTA negotiations is a big step forward in growing international trade between the two countries and the Black Country Chamber welcomes this new focus supporting exporters.

The trade and investment relationship between the UK and Japan is thriving thanks to our cohesive and diverse economies. Japan offers enormous potential for two-way trade and investment and we believe that the West Midlands economy could benefit substantially from an FTA which supports those firms seeking to export their goods and reach the Japanese markets, removing barriers to trade and developing trading relationships.

With complex technical and political challenges ahead, effective engagement between business and government can maximise opportunities by helping Ministers navigate the trickiest dossiers and potential trade-offs. The Black Country business community is prepared to work with government both here and overseas to shape a deal that works for our economy, building stronger links and connections to Japan.

**To share your views on this topic or ask us a question,
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