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Post-Brexit Britain, the EU and Japan: The car industry, the aeronautical sector and military cooperation

Hitoshi Suzuki

Deputy Director of the Economic Partnership Division, Economic Affairs Bureau, Ministry of Foreign Affairs, Japan; suzukin@zb3.so-net.ne.jp

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Abstract

As a growing economic power Japan experienced trade conflicts with the European Communities (EC; from 1993 onwards the European Union, EU). Although the British government was criticised by EU partners and domestic groups – politicians, industry, trade unions and public opinion – the UK became Japan's primary gateway to the European single market. In 1973 Japanese multinationals began constructing manufacturing plants in Britain to reduce exports from Japan, to mitigate export duties and to ease these trade conflicts. Brexit, therefore, poses a serious risk and requires Japan to urgently reconsider and redefine its relations with Britain, the EU and other Member States of the EU. On the other hand, uneasy stand-offs in the Asia-Pacific region might push post-Brexit Britain to cooperate more closely with Japan in security matters. China's territorial disputes with neighbouring countries and North Korea's nuclear threat will require Japan and Britain to play a more active role in stabilising the region, not only by conducting joint military drills, but also by increasing collaboration in the arms industry. UK–Japan relations are drifting away from their traditional focus on trade and are expanding into the military field.

Keywords: UK–Japan relations; European Union; foreign direct investment; automotive industry; industrial cooperation; aeronautical industry; arms industry; military cooperation

1. Introduction

This article focuses on Japan's relations with Britain within the particular context of the latter's membership of the European Communities (EC) and from 1993 onwards the European Union (EU). Japan has long depended upon British membership in a complex way. Britain was an important partner in both economic and security matters. Japanese exports ignited trade conflicts with the EC Member States, but these were eased due to Britain's decision to welcome Japanese investment during the 1970s and 1980s.¹ British-made Japanese cars and electronics reduced exports from Japan. Japanese ventures have simultaneously boosted British local economies and reduced unemployment to some extent. In turn, Japanese multinationals benefited from operating their British plants as exporters to the single market.² The Japan–EU Economic Partnership Agreement (EPA) – entering into force from February 2019 – and Brexit threaten this mutually beneficial relationship. While the EPA applies until the end of the transition period³ – December 2020 – future relations between Japan, Britain and the EU require redefinition.

Trade has always dominated Japan's relations with the EC/EU.⁴ However, the end of the Cold War created new dynamics. As the second-largest donor to many post-Soviet states in Central and Eastern European countries, Japanese aid helped to stabilise the newly liberalised countries.⁵ Cooperation in security issues in post-conflict zones and counter-piracy missions have brought Japan and the EU closer.⁶ What started as a relationship characterised by 'mutual ignorance' has gradually increased in significance.⁷ The Royal Navy stands out as the Japanese Self Defense Forces' (SDF) most frequent visitor, second only to the US.⁸ Considering the fact that the US is the sole bilateral alliance partner of Japan, Britain's commitment in the Pacific was exceptional for an EU Member State. SDF ships and aircrafts are equipped with Rolls-Royce engines sourced from the UK.⁹ The aeronautical and arms industries are the sectors which best embody close UK–Japan industrial cooperation. It remains to be seen whether such a shift towards the military will lead to a 'return' to their pre-War role, which helped to shape the Asia-Pacific region.¹⁰ Britain's East- and Southeast Asian possessions were the furthest and most fragile shores of the Empire, but were where trade arguably mattered most.¹¹ However, recent military commitments in the Pacific seem to mark a break away from Britain's traditional 'minimalist formal presence' in the region.¹²

Japan is not the only state around the world that faces the task of reconsidering and redefining its relations with Britain, the EU and Member States in light of Brexit. Nevertheless, this article concludes that the impact of Brexit (depending on the exact terms) will be considerable for Japan. Therefore it provides a particularly important case study. A considerable reduction – if not a total retreat – of Japanese investments and UK–Japan industrial cooperation is inevitable, which has led to attention shifting towards

¹Marie Conte-Helm, *Japan and the North East of England: From 1862 to the Present Day* (Athlone Press 1989) 136–65.

²Hitoshi Suzuki, *Thatcher and the Nissan Sunderland Plant: The History of Negotiations, 1973–1986 (Thatcher to Nissan eikoku koujyou)* (Yoshida Publishing 2015) 166.

³<<https://asia.nikkei.com/Politics/International-relations/Japan-wants-auto-tariffs-scrapped-immediately-in-UK-trade-treaty>> accessed 17 December 2019.

⁴Jörn Keck, Dimitri Vanoverbeke and Franz Waldenberger (eds), *EU-Japan Relations, 1970–2012: From Confrontation to Global Partnership* (Routledge 2013) 131–54.

⁵Hitoshi Suzuki and Izuru Makihara, 'Japan-EEC/EU Relations, 1970–2005: Re-Emergence as Strategic Partners in Trade and Environment' (2019) 1 JEIH 29–31.

⁶Takako Ueta, 'Japan-Europe Security Cooperation: A View from Japan' in Dimitri Vanoverbeke, Takao Suami, Takako Ueta, Nicholas Peeters and Frederik Ponjaert (eds), *Developing EU-Japan Relations in a Changing Regional Context: A Focus on Security, Law and Policies* (Routledge 2018) 19–24.

⁷Paul James Cardwell, 'The EU-Japan Relationship: From Mutual Ignorance to Meaningful Partnership?' (2004) 2(2) JEA 11–18.

⁸Yasuaki Imaizumi, 'Anglo-Japanese Military Exchanges after the Second World War: From the Nineteenth Century to Present' in Yoichi Hirama, Ian Gow and Sumio Hatano (eds), *The History of Anglo-Japanese Relations, 1600–2000. Vol. 3, The Military Dimension* (Palgrave Macmillan 2003) 298–300.

⁹ibid.

¹⁰Antony Best (ed), *The International History of East Asia, 1900–1968: Trade, Ideology and the Quest for Order* (Routledge 2010) 1–3.

¹¹Antony Best (ed), *Britain's Retreat From Empire in East Asia, 1905–1980* (Routledge 2017) 1–2.

¹²ibid.

the remaining EU Member States.¹³ For Japanese industry and the Ministry of Economy, Trade and Industry (METI; before 2001 Ministry of International Trade and Industry, MITI) it was an unfulfilled ‘promise’ that Britain would retain its EU membership. On the other hand, Japanese multinationals have abandoned their ‘gentleman’s agreement’ with Thatcher’s administration and the Department of Trade and Industry (DTI) that they would achieve and maintain 80 per cent British local sourcing. Nissan, which is one of the outstanding examples of Japanese investment and operates the largest car assembly plant in Britain, is examined in Section 2. Among the wide-ranging issues covered in the Japan–EU EPA, this article will limit its focus to trade, investments and R&D – all of which are directly related to the automotive and aeronautical industries.¹⁴ The possibility of the EPA being ‘rolled-over’ to a new UK–Japan trade agreement will also be examined.

Unlike the case of the automotive industry, the aeronautical sector has maintained firm bilateral cooperation. Joint collaboration, R&D and exports in this sector were not sufficiently focused during the EPA negotiations, but are where Japanese ambitions – those of METI, Japanese industry and the Ministry of Defense (MOD) – lie. Due to Japan’s inability to develop home-made aircraft from scratch, Britain remains Japan’s closest partner in Europe, not only in the civil aeronautical industry, which is examined in Section 3 of this article, but also in collaborations and exports of military aircraft. Furthermore, post-Brexit Britain could face increased cooperation with Japan in security matters in the Asia-Pacific, due to the uneasy stand-offs in that region. China’s territorial disputes with neighbouring Asian countries and North Korea’s nuclear programme compel both Japan and Britain to play an even more active role in helping to stabilise the region through joint military drills and UN sanctions.

2. The rise and ‘fall’ of the Japanese car industry in Britain

Japan’s trade surplus was uninterrupted between 1968, when Japan’s GDP surpassed that of (West) Germany and it became the world’s second largest economy, and the end of the Cold War. Exports of textiles, steel, motorcycles, cars, ships and electronics had been flooding the US. Yet, in the late 1960s, Japan was facing increased pressure from the US to pivot towards the EC as its next outlet.¹⁵ Japan had joined the General Agreement on Tariffs and Trade (GATT) in 1955 and the Organisation for Economic Co-operation and Development (OECD) in 1964, but suffered bilateral import restrictions imposed by the European countries. Britain was the first European country to announce its opt-out (GATT Article 35) on Japan and entered into GATT terms by signing the UK–Japan Commercial Treaty in November 1962.¹⁶ Trade and investments were now ‘free’ and equal for the Japanese in Britain and vice versa, providing both countries with national treatment and most-favoured-nation (MFN) rights similar to those in the GATT provisions.¹⁷ The Treaty included a reservation that allowed for the continuance of Commonwealth preferences, as well as a provision for preferential treatment to be given by either party to third countries in customs unions or free trade areas such as an enlarged European Economic Community (EEC).¹⁸

Shortly before Britain joined the EC, the Japanese Ministries – Ministry of Foreign Affairs (MOFA) and MITI – had targeted Britain as a potential exporting base in the EC. Until then Japan had relied

¹³ ‘The most frequently cited measure taken by Japanese companies in non-UK EU was to secure financial passporting into non-UK EU’, <<https://rudlinconsulting.com/japanese-companies-europe-brexit-concern/>> accessed 31 January 2020.

¹⁴ Among the various sectors and items concerned with Brexit, cars, car components, electronics and the aero sector are seen as those that affect Japanese economic interests the most. Mizuho Bank, Brexit and its impact (*Eikoku no EU ridatsu to sono eikyou*) <<https://www.mizuho-ri.co.jp/publication/research/pdf/urgency/report160609.pdf>> accessed 8 July 2019. Nissan, Toyota and Honda account for nearly half of UK car production in a sector which provides around 820,000 domestic jobs and produces the biggest export product for the country, see <<https://www.japantimes.co.jp/news/2020/01/28/business/auto-tariffs-japan-uk-trade-talks-brexit/>> accessed 30 January 2020.

¹⁵ In 1969 Japan’s trade with the EEC accounted for 6.1% of exports and 5.5% of imports. For the EEC the ratio was 1.9% for exports and 2.4% for imports. MITI, *White Paper on International Trade, Japan* (Tsushou hakusho 1970) 333.

¹⁶ Toru Kuroiwa, ‘Anglo-Japanese Relations since the 1960s: Towards Mutual Understanding – Beyond Friction’ in Ian Nish and Yoichi Kibata (eds), *The History of Anglo-Japanese Relations, 1600–2000: Vol. 2: The Political-Diplomatic Dimension, 1931–2000* (Palgrave Macmillan 2000) 236–9.

¹⁷ Parliament debates of the Treaty of Commerce, Establishment and Navigation between the United Kingdom of Great Britain and Northern Ireland and Japan <<https://api.parliament.uk/historic-hansard/commons/1962/dec/05/anglo-japanese-treaty>> accessed 30 January 2020.

¹⁸ *ibid.*

on the Germans, who opposed import restrictions on Japanese products at the Council of Ministers.¹⁹ Nevertheless, the sharp and steady increase in Japanese exports necessitated more active solutions. A safeguard clause in the Franco-Japanese trade agreement and a sensible item list included in that with Italy left MITI-guided Japanese multinationals to consider investments in the EC. Britain was at the top of Japan's list, with a strategy of launching plants and reducing exports with Japanese products made in EC.²⁰ Ireland, Belgium and the Netherlands were also considered as alternatives.²¹ Despite the reservations and opposition raised from all sides in Britain, successive Labour and Conservative governments in the late 1970s gradually welcomed and accommodated Japanese investments. The EC gained competence in relation to external trade in 1970, while Member States maintained competence in relation to investments. Japanese assemblers chose Britain because it would provide tariff-free access to the internal market once it became a Member State and, at the same time, would also accommodate Japanese investments in favourable and non-discriminatory terms under the UK–Japan Commercial Treaty.

The European Commission launched the common commercial policy in January 1970 and entered into negotiations with MOFA. However, these collapsed in 1973 as a result of Member States' differing positions and Japan's stubborn opposition to European safeguards.²² The items concerned were Japanese electronics, televisions, cars and automotive components.²³ Japan, therefore, had to make inroads into the EC through bilateral trade with Member States, but such expectations were not met immediately. During the debates on joining the EC, Prime Minister Harold Wilson described the EC as an entity of 'free trade within the area . . . but vis-à-vis the outside world . . . a highly restrictive, discriminating trading bloc. [. . . The EC] is the sort of bloc . . . with the right safeguards and assurances . . . to which the Conservatives could agree and . . . the Labour Party could support joining'.²⁴ Britain should, in Wilson's terms, become the leader of a united Europe and make every effort to join the EC at the earliest possible opportunity.²⁵ Japan needed a close partner in order to become an 'insider' in the EC and to legally circumvent its trade barriers. Japan partnered with Britain. Wilson was also concerned that the Commonwealth countries were increasingly importing goods from Japan, Germany and the US but not Britain.²⁶ He stressed that 'the EEC [was] enormously [more] powerful than [Britain]' and that 'in some aspects of the race Japan has already passed [Britain]'.²⁷ It made sense to make Japan a stakeholder rather than letting it remain an external economic threat. While an overall trade agreement between the EC and Japan was lacking, the UK–Japan Commercial Treaty of 1962 guaranteed Japanese access – at least in car exports and investments – to Britain (and thus the EC) without discrimination.

British EC membership benefited Japan, not in an immediate way by reducing the trade surplus, but because 'Japan-friendly' members arrived in Brussels. Contrary to French and Italian calls to restrict Japanese exports at the EC level, Christopher Soames – Vice President of the European Commission and in charge of external relations – was keen not to discriminate against the Japanese.²⁸ Subsequently, Roy Jenkins became the President of the Commission in 1977 and brought with him more familiarity with

¹⁹Hitoshi Suzuki, 'Negotiating the Japan-EC Trade Conflict: The Role and Presence of the European Commission, the Council of Ministers, and Business Groups in Europe and Japan, 1970–1982' in Claudia Hiepel (ed), *Europe in a Globalising World: Global Challenges and European Responses in the 'Long' 1970s* (Nomos 2014) 216.

²⁰The EEC was referred to for the first time in MITI (n 15) in 1970. While evaluating the EEC as successfully boosting internal trade, MITI remained doubtful about its preferential tariffs. On British membership MITI calculated the pros as the scale merit of economy, increase in investments, and economic growth boosted by foreign capital (pp 306–19).

²¹Suzuki (n 2) 23–4; Robin Mountfield, 'Nissan Investment in Britain: History of a Negotiation 1980–84' in Hugh Cortazzi (ed), *Britain & Japan: Biographical Portraits* (Vol. 6, University of Hawaii Press 2007) 108.

²²Suzuki (n 19) 208–13; Michel Dumoulin (ed), *The European Commission 1958–72: History and Memories* (Office for Official Publications of the European Communities 2007) 366.

²³https://www.mofa.go.jp/mofaj/gaiko/bluebook/1976_1/s51-2-2-2.htm accessed 8 June 2019.

²⁴Stephen Wall, *The Official History of Britain and the European Community: Vol. 2 From Rejection to Referendum, 1963–1975* (Routledge 2012) 48.

²⁵Melissa Pine, *Harold Wilson and Europe: Pursuing Britain's Membership of the European Community* (IB Tauris 2012) 55–6.

²⁶Wall (n 24).

²⁷Pine (n 25).

²⁸Suzuki (n 19) 213–19.

Asia-Pacific nations;²⁹ he showed less hostility towards Japan. This was a rarity in those days. The Labour governments of Harold Wilson and James Callaghan were more cautious than their successor Margaret Thatcher and refrained from direct governmental intervention.³⁰ The voluntary restriction agreement on Japanese car exports (VER) was agreed in 1975 between the Society of Motor Manufacturers and Traders (SMMT) and its Japanese counterpart JAMA (*Jidousha-kougyou-kai*). British imports of Japanese cars were limited to 11 per cent of the British market.³¹ The non-governmental VER was a result of Labour's hesitation to directly intervene in the market³² but nevertheless put pressure on Japanese assemblers to launch plants in Britain.³³ The way to circumvent VERs, including those of other Member States, was local assembly. It was essential that Japanese plants would be launched in an amicable Member State familiar with car assembly and its exports.

Japanese car manufacturers were, however, still wary of assembling cars in Britain. It was electronics multinationals that opened the frontier. Sony and Panasonic (formerly Matsushita) launched plants in Bridgend and Cardiff respectively during the late 1970s. This was despite opposition from British trade unions, which was underpinned by a widespread public hostility towards the perceived threat of increased unemployment and the nightmare of 'being forced to work like the Japanese'.³⁴ Both firms signed single union agreements with the Electrical, Electronic, Telecommunications and Plumbing Union (EETPU), allowing only one trade union to organise workers in the plants. The EETPU accepted no-strike agreements in these Japanese plants, which was typical of Japanese trade unionism.³⁵

The largest Japanese investment during this time (and therefore the more contested) was Nissan's Sunderland deal. In February 1984 the DTI and Nissan signed a gentleman's agreement – a Memorandum of Understanding – obliging Nissan to source 80 per cent of their components locally and in turn the government to cover a third of Nissan's initial investment cost.³⁶ What is relatively unknown is the fact that the negotiations were supported by the simultaneous efforts made by British Members of the European Parliament (MEPs) and civil servants in Brussels, who criticised other Member States' protectionism and proposed that they welcome Japanese foreign direct investment.³⁷ These ideas were injected into the talks on the Single European Act (SEA). Julian Amery and John (Jack) Stuart-Clark, two of the Tory MPs/MEPs involved in these discussions, acted as a bridge between the Confederation of British Industry (CBI), the Thatcher administration and Brussels.³⁸

The CBI rejected its members' requests to restrict imports from Japan.³⁹ They instead persuaded them to compete with the Japanese in the Pacific through joint ventures.⁴⁰ It was argued that driving them away from Britain and the EC would merely lead to losing markets outside of Europe to the Japanese.⁴¹

²⁹Piers Ludlow, *Roy Jenkins and the European Commission Presidency, 1976–1980: At the Heart of Europe* (Palgrave Macmillan 2016) 142.

³⁰Hitoshi Suzuki, 'How British Corporate Interests and Their Views on Japan Were Transferred to Brussels. The Case of Nissan Sunderland Plant and the Single European Act' in Christine Bouneau and David Burigana (eds), *Experts et expertise en science et technologie en Europe, des années 1960 à nos jours. Société civile organisée, démocratie et prise de décision politique* (PIE Peter-Lang 2017) 74–5.

³¹The count was 165,000 units in 1980.

³²Suzuki (n 30) 74–5.

³³The National Archives (TNA), CAB130/1198, Cabinet Official Group on British Policy towards Japan, 2 February 1982.

³⁴Suzuki (n 2) 158–9.

³⁵*ibid* 155–7.

³⁶*ibid* 135–9; Mountfield (21) 350; Hugh Cortazzi, *Japan and Back and Places Elsewhere: A Memoir* (Global Oriental 1998) 170–2.

³⁷Suzuki (n 30) 78.

³⁸Modern Records Centre, University of Warwick (WMRC), WOO 996, 'CBI publications; International trade policy for the 1980s', May 1980; WMRC, MSS.200/C/2014 Box343, meeting of 18 May 1983; WMRC, MSS.200/C/3/INT/1/5A, meeting of 24 February 1977.

³⁹WMRC, MSS.200/C/2014 Box343, meeting of 18 May 1982. It was only after 1982 that Japan's flood of exports was discussed as a theme at the annual conference of the CBI. WMRC, MSS.200/C/2014 Box343, meeting of 26 May 1982.

⁴⁰WMRC, WOO 996, 'CBI publications; International trade policy for the 1980s', May 1980; WMRC, MSS.200/C/2014 Box343, meeting of 18 May 1983; WMRC, MSS.200/C/3/INT/1/5A, meeting of 24 February 1977.

⁴¹*ibid*. The same logic was adopted in a report of the European Parliament prepared by John Stuart-Clark. Archive of the Council of the European Union (ACEU), CM2, temporarily LR21360, European Parliament, 'Working Documents 1980–1981, Trade Relations between the EEC and Japan', 3 June 1981.

Amery and Stuart-Clark echoed such reasoning in Brussels and paved the way for Thatcher's then trusted man, the European Commissioner Francis Cockfield, to prepare the SEA draft.⁴² Such efforts encouraged Nissan and made it more confident about investing in Britain.⁴³

Table 1 Foreign direct investment (FDI) between Britain and Japan (bil. yen).

Year	Japanese FDI	UK FDI
2006	-842	209
2007	-374	63
2008	-676	-125
2009	-205	528
2010	-386	417
2011	-1122	146
2012	-948	97
2013	-1308	59
2014	-812	129
2015	-2135	121

Source: <<http://www.mofa.go.jp/mofaj/area/uk/data.html>> accessed 20 February 2017.

In accommodating Japanese investments, the Thatcher administration was condemned by France, Italy and Germany as a 'Trojan horse of Japan'.⁴⁴ British EC membership guaranteed the tariff-free export of Japanese cars made in the UK. There remained a risk of facing non-tariff barriers aimed at restricting such exports, regardless of breaching EC law.⁴⁵ The DTI had promised Nissan (as a part of the gentleman's agreement) that such measures would be countered at the European Court of Justice.⁴⁶

Table 2 Japan's trade with Britain (bil. yen/per cent).

Year	Export	Share	Import	Share	Balance
2005	1664	(2.7)	740	(2.7)	923
2006	1770	(6.4)	781	(5.5)	989
2007	1917	(8.3)	887	(13.6)	1031
2008	1707	(-11.0)	774	(-12.7)	933
2009	1102	(-35.4)	531	(-31.3)	571
2010	1241	(12.6)	557	(5.4)	681
2011	1304	(5.1)	579	(3.4)	723
2012	1064	(-18.4)	582	(0.0)	482
2013	1084	(1.8)	641	(10.0)	443
2014	1184	(9.2)	675	(5.3)	509
2015	1300	(9.8)	788	(16.7)	512

Note: Japan's exports to Britain (2015): motorcars 335.7 mil. yen (26%), engines 88 mil. yen (7%), and components 66.9 mil. yen (5%). Britain's exports to Japan (2015): medicine 113.7 mil. yen (14%), motorcars 87.2 mil. yen (11%), and engines 69.7 mil. yen (9%). Source: <<http://www.mofa.go.jp/mofaj/area/uk/data.html>> accessed 20 February 2017.

⁴²Suzuki (n 30) 78.

⁴³Suzuki (n 2) 70-3.

⁴⁴ibid 70-3.

⁴⁵TNA, T466/200, Lovell to Chivers, 18 November 1981; TNA, T466/200, Bruce-Gardyne to Chief Secretary, 13 November 1981.

⁴⁶TNA, PREM19/1073, Cortazzi to FCO, 22 January 1983; MRCW, MSS, 292D/617/4, Heads of Agreement between the Department of Trade and Industry and the Nissan Motor Company Limited, 1 February 1984; MRCW, MSS, 292D/617/4, Nissan Motor Co. Ltd, 'Nissan News: Press Statement on Nissan's Plan to Build a Car Plant in the United Kingdom', 1 February 1984.

Toyota and Honda swiftly followed in Nissan's footsteps and in 1992 they launched their plants in Burnaston and Swindon respectively. They were accompanied by Japanese component and electronic suppliers. As an EU Member State Britain became Japan's indispensable partner for Japan. Aware of the risks of solely depending on one Member State, Japan made concerted efforts to diversify its multinationals' supply chain across the European continent in the 1990s. After its success in Britain, Toyota announced that it was launching a plant in France in December 1997 before later turning towards Central and Eastern European countries for joint ventures.⁴⁷ It subsequently launched an assembly plant in the Czech Republic in February 2005.⁴⁸ This was a joint venture with the French PSA group (Peugeot-Citroën), currently assembling Toyota Aygo. Engines and transmissions were supplied from Toyota's plant in Poland from March 2005. Yet the assembly of Toyota Auris/Corolla – Toyota's most popular product in the EU – remained in Burnaston.

One can question, however, the extent to which Japanese investments helped growth or created local employment in Britain. FDIs are known not to sink into local soil but remain in their country of origin.⁴⁹ Thatcher made Nissan promise to source 80 per cent of its parts *exclusively* in Britain; this has fallen to 40 per cent or less, which meets the minimum level for Nissan's vehicles to be categorised as 'made in the UK/EU'. Nissan Sunderland employed 6700 workers in 2019. However, in contrast to the Japanese government's clear warning about the future negative effects of Brexit,⁵⁰ the firm kept silent during the referendum. Japanese multinationals employed nearly 140,000 workers in Britain in 2016 but rarely opposed Brexit in public.⁵¹ This lack of involvement may explain why 65 per cent of Sunderland's electorate voted to leave in the 2016 referendum. Importantly, Nissan's reduced contribution to the local economy had also been felt. After Renault's purchase of Nissan in 1999, British components of Nissan Micra and Primera were replaced by those of Renault and were supplied tariff free from the continent, thanks to the customs union. Carlos Ghosn's Nissan Revival Plan hit Sunderland harder than Japan. Nissan had asked component suppliers in Japan to cut down costs by 20 per cent within two years. In the UK this was raised to 30 per cent because the pound to euro exchange rate made it more profitable to import components from the eurozone.⁵² Thereafter, 50 per cent of Primera's components were supplied from the continent, while 65 per cent of Micra's parts were sourced from outside of the UK.⁵³ The gentleman's agreement of 1984 had been abandoned. After the chassis of Micra was shared with Renault Clio, 95 per cent of components were common to both products.⁵⁴ Regardless of the depreciation of the pound sterling after the referendum of 2016, which increased the price of components coming from the continent, British component supplies for Sunderland-made Qashqai, Juke and Leaf failed to increase.⁵⁵

The exact terms of Brexit are a concern for Japanese multinationals. Significantly, at least for the British, the Japan–EU EPA provided for the abolition of the 11 per cent tariffs on Japanese cars entering the single market. As was foreseen before its signature, the EPA is being used as a bargaining chip by the EU and its Member States against Britain in their Brexit negotiations.⁵⁶ The EPA would allow Japanese-made cars to enter the single market without tariffs in 2026.⁵⁷ Should the Brexit transition period end in December 2020 without a trade agreement between Britain and the EU, British-made Japanese cars

⁴⁷Suzuki and Makihara (n 5) 29–31.

⁴⁸ibid; Yoji Koyama and Eiko Toyama, *Economy and Business in East Europe (Touou no keizai to business)* (Sousei-sha 2007).

⁴⁹Jorge Bermejo Carbonell and Richard A Werner, 'Does Foreign Direct Investment Generate Economic Growth? A New Empirical Approach Applied to Spain' (2018) 94(4) EG 425–56.

⁵⁰Japanese Ambassador Koji Tsuruoka stated that Japanese multinationals would have to take all necessary solutions into consideration when post-Brexit Britain proves unprofitable, warning of the risks of plant transfers to the continent, 5 September 2016, BBC <<https://www.bbc.co.uk/news/business-37270372>> accessed 8 June 2019.

⁵¹ibid.

⁵²*Industrial Journal (Sangyou journal)*, Nissan; Group Activity of 2002 (*Nissan-jidousha group no jittai 2002*) (IRC 2002) 209, 214.

⁵³ibid.

⁵⁴ibid.

⁵⁵*Industrial Journal (Sangyou journal)*, Nissan; Group Activity of 2018 (*Nissan-jidousha group no jittai 2018*) (IRC 2018) 553–9.

⁵⁶Hitoshi Suzuki, 'The New Politics of Trade: EU-Japan' (2017) 39(7) JEI 885.

⁵⁷Mizuho Bank, The Significance of the Japan-EU EPA; Rebooting Japanese Trade Strategy (*Nichi-EU EPA oosuji-goui no igi*) <<https://www.mizuho-ri.co.jp/publication/research/pdf/insight/pl170712.pdf>> accessed 17 December 2017.

would become subject to tariffs. In this circumstance, the profitability of Japanese plants in Britain would be in question.

Tellingly, in 2019 Honda announced that it intended to close down its Swindon plant by 2021 and replace its British-made Civics with exports from Japan.⁵⁸ A total of 3500 jobs will be lost in Swindon. Honda stated that this decision was *not* a result of the Brexit referendum but of a global restructuring of its supply chain and branding. Honda suppliers in Britain – UYS (in exhaust systems) and Nichirin UK (in hoses) – followed suit and announced their plant closure in 2019.⁵⁹ Showa and TS Tech, a shock absorber supplier and seat assembler, have started talks with trade unions ahead of plant closures.⁶⁰ However, Honda Motor Europe in Bracknell – the firm’s European headquarters – will remain in business.⁶¹ Furthermore, Honda and Moixa – a battery and electric vehicle (EV)-charging software developer – unveiled a smart EV-charging project with Islington Council in central London.⁶² Both firms will support the Council as they electrify more than 500 vehicles, including waste collection trucks and smaller transport cars. This will cut 1400 tonnes of carbon dioxide emissions every year and help Islington achieve its target of net-zero carbon emissions by 2030.⁶³ Honda’s operations in Britain are moving away from car assembly, which had barely reached half of Swindon’s annual output capacity in recent years, and are shifting more towards R&D. Such projects, which were planned and prepared well before Brexit and are outside the EU’s competence of trade, were accelerated thereafter. Less positively, local employment will suffer as Japanese companies wind down their car assembly and component supplies. Fewer options are left for Nissan, which received subsidy for Sunderland’s launch and expansion thereafter, and therefore is ‘not entitled’ to simply scale down.

In September 2016 Carlos Ghosn, then CEO of Nissan, informed Prime Minister Theresa May that the company would require compensation for the foreseen tariff costs before they made a decision on whether the new X-trail SUVs would be assembled in Sunderland.⁶⁴ In October, Nissan and the May administration agreed that the British government would provide 80 million pounds (11 billion yen) of financial support.⁶⁵ The government feared Nissan’s withdrawal from Britain and therefore promised that its support would continue after Brexit.⁶⁶ Sunderland would increase its output to 600,000 units per annum.⁶⁷ Yet in February 2019 Nissan announced the cancellation of its plans to assemble X-trails in the UK, which will be exported from Japan instead.⁶⁸ Gianluca de Ficchy – Chairman of Nissan Europe – warned that production volumes at Sunderland would fall sharply to 360,000 in 2019, putting some 30,000 jobs at risk.⁶⁹ At the same time, the city of Sunderland has been courting foreign suppliers with a proposal to launch an industrial park (IAMP) next to the Nissan plant.⁷⁰ It is estimated that an investment of 300 million pounds (45 billion yen) would create 5200 jobs in the area.⁷¹ A total of 910 million pounds will be injected into the venture, 42 million of which will be covered by the government for infrastructure.⁷² As was the case with Nissan’s Sunderland plant, tax payers’ money will be used to attract and sustain FDI. Whether this new initiative will pay off or not after Brexit remains to be seen. Article 8.11 of the Japan–EU EPA forbids local content requirements, which exposes British suppliers to competition with rivals on the continent and in Japan.

⁵⁸ *Bloomberg*, 19 February 2019.

⁵⁹ *Jiji-tsushin*, 2 February 2020.

⁶⁰ *ibid.*

⁶¹ *SankeiBiz*, 20 February 2019.

⁶² <<https://www.power-technology.com/news/company-news/moixa-and-honda-launch-electric-vehicle-charging-partnership-in-london/>> accessed 18 January 2020.

⁶³ *ibid.*

⁶⁴ *Jiji-tsushin*, 29 September 2016.

⁶⁵ *Jiji-tsushin*, 5 February 2019.

⁶⁶ *Industrial Journal* (n 55) 554.

⁶⁷ *ibid.*

⁶⁸ *Jiji-tsushin*, 20 February 2019.

⁶⁹ <<https://www.thetimes.co.uk/article/nissan-cannot-survive-in-sunderland-after-no-deal-warns-europe-chief-p7sckwwdn>> accessed 17 December 2019.

⁷⁰ *Industrial Journal* (n 55) 553–9.

⁷¹ *ibid.*

⁷² *ibid.*

Toyota is known to have plans to close its plant at Burnaston if Britain fails to reach a trade agreement with the EU after Brexit.⁷³ The unveiling of the next-generation Corolla is scheduled for 2023, which could prove to be the deadline for Toyota to make a decision. Japan's Foreign Minister Taro Kono warned on 27 June 2019 that Japanese companies in Britain would be threatened by a 'no-deal Brexit'.⁷⁴ In September 2019 Elizabeth Truss – the British Secretary of State for International Trade – and her Japanese counterpart Minister Toshimitsu Motegi agreed to maintain the Agreement on Mutual Recognition between Japan and the EC.⁷⁵ The goal was to avoid confusion until a new bilateral free trade agreement (FTA) is agreed between both countries.⁷⁶ Truss also expressed an interest in Britain participating in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or, alternatively, TPP11). While Motegi welcomed the proposal in general terms, he carefully stated that a Japan–UK trade deal must come first.⁷⁷ Echoing this sentiment, Yoshihide Suga – Chief Cabinet Secretary – emphasised that Japan and Britain were strategic global partners with shared values such as democracy, freedom, rule of law and human rights, and voiced a desire to reinforce Japan–UK relations.⁷⁸

The questions surrounding a Japan–UK trade agreement – at least from a Japanese perspective – do not hinge upon hindering free trade standards, nor the appropriateness of the so-called 'copy-and-paste' or 'roll-over' strategy in which the EPA is simply recast (which is what Prime Minister Boris Johnson's administration is asking for).⁷⁹ Although Prime Minister Shinzo Abe announced Japan's desire to negotiate an agreement with the UK,⁸⁰ he did so without reference to the contents nor time schedule of such an agreement. The Japan External Trade Organization (JETRO) has indicated that such a negotiation will be tackled under MOFA's coordination only after a UK–EU agreement is reached.⁸¹ This demonstrates the clear priority Japan has placed on the EPA already in force. Conversely, the British intend to agree on a deal with Japan first and use this as a bargaining chip in their negotiations with the EU.⁸² However, rather than immediately signing a roll-over deal with Britain, it is logical that Japan would first want to consolidate the Japan-EU EPA,⁸³ when the opportunity arises.⁸⁴

The COVID-19 crisis has dramatically changed the scene, forcing both Japan and Britain to jointly show their commitment to global free trade and, in more concrete terms, making strenuous efforts to boost their economies.⁸⁵ Starting in early June 2020, the negotiations were based on the Japan–EU EPA, and by

⁷³ *Jiji-tsushin*, 7 March 2019. On 'no-deal Brexit' see <<https://publications.parliament.uk/pa/bills/cbill/2017-2019/0005/18005.pdf>>, <<http://www.legislation.gov.uk/ukpga/2018/16/section/13/enacted>> accessed 30 January 2020.

⁷⁴ <<https://www.bbc.com/news/av/uk-politics-48784175/brexit-japanese-foreign-minister-warns-against-no-deal>> accessed 2 July 2019.

⁷⁵ <https://www.mofa.go.jp/mofaj/ecm/ie/page25_001963.html>, <https://www.mofa.go.jp/mofaj/area/eu/s_kyotei/> accessed 3 February 2020.

⁷⁶ <<https://www.jetro.go.jp/biznews/2019/09/d18af16c4c8bda4e.html>> accessed 3 February 2020.

⁷⁷ <<https://www3.nhk.or.jp/news/html/20191213/k10012214431000.html>> accessed 8 January 2020.

⁷⁸ *ibid.*

⁷⁹ *Jiji-tsushin*, 28 January 2020. Prime Minister Theresa May had also attempted to persuade the Japanese on a roll-over but this was declined <<https://www.politico.eu/article/uk-wants-to-copy-and-paste-eu-trade-deals-after-brexit/>>, <<https://www.politico.eu/article/uk-wants-to-emulate-eu-in-trade-deal-with-japan/>> accessed 30 January 2020.

⁸⁰ <<https://www.japantimes.co.jp/news/2020/01/28/business/auto-tariffs-japan-uk-trade-talks-brexit/>> accessed 30 January 2020.

⁸¹ Interviews with JETRO on 17 and 23 January 2020, Ministry of Agriculture, Forestry and Fisheries on 20 January 2020, and Ministry of Health, Labour and Welfare on 22 January 2020.

⁸² *Jiji-tsushin*, 28 January 2020; <<https://www.japantimes.co.jp/news/2020/01/28/business/auto-tariffs-japan-uk-trade-talks-brexit/>> accessed 30 January 2020.

⁸³ <<https://www.ft.com/content/b6a047c6-dafc-11e9-8f9b-77216ebee1f17>> accessed 30 January 2020.

⁸⁴ *ibid.* Tariffs on cars and components are at the top of the negotiation list. The eight-year period of EU's tariff abolishing is sought to be immediately eliminated in a Japan–UK agreement. The UK is reportedly reluctant on such immediate zero-tariffs <<https://asia.nikkei.com/Politics/International-relations/Japan-wants-auto-tariffs-scrapped-immediately-in-UK-trade-treaty>> accessed 17 December 2019. Another disappointing issue for Japan in the EPA was investor-state conflict mediation – ISDS – which was included in the TPP/TPP11 but excluded from the Japan–EU EPA due to opposition by the EU <<https://www.japantimes.co.jp/news/2020/01/28/business/auto-tariffs-japan-uk-trade-talks-brexit/>> accessed 30 January 2020. ISDS rules were reduced in the TPP11 compared to the TPP due to the absence of the US <https://www.rieti.go.jp/jp/columns/a01_0496.html> accessed 30 January 2020.

⁸⁵ <<https://jp.reuters.com/article/britain-japan-trade-idJPKBN22O3EU>> accessed 13 May 2020.

the time both Ministers met in London on 6 and 7 August,⁸⁶ most issues were concluded ‘in near record time’.⁸⁷ Reportedly the final issues were Britain’s immediate abolition of car tariffs and Japanese import quotas of agriculture products.⁸⁸ Minister Motegi’s flight to London became his first foreign visit since the lockdown in early spring.⁸⁹ For Britain the FTA would become its first major trade agreement reached after Brexit.⁹⁰ How much this will add to Britain’s leverage in its talks with the EU and the US remains to be seen. Significantly for Britain, tariffs on Japanese cars and their components will only fade out after a phase identical with the Japan–EU EPA,⁹¹ giving time for British suppliers before such components are imported from Japan.

The automotive industry has long been the symbol of close UK–Japan relations. Its origins lie in the trade conflicts caused by Japan’s flood of exports into Europe. The partnership grew as Japanese multinationals invested heavily in Britain in an attempt to reduce Japanese exports. Instead, cars built in British plants were exported to the single market. In this way, British EC/EU membership was hugely important for the Japanese. This, though, is not the whole story. The aeronautical sector, which is closely related to the arms industry, has also seen joint R&D and potential exports. It is an important but relatively unknown case and deserves attention. It will, therefore, be examined in the next section.

3. UK–Japan collaboration in the aeronautical industry: Rolls-Royce and V2500

In comparison to the much-debated Japanese-European conflict over car exports during the 1970s and the 1980s,⁹² the aeronautical sector has attracted much less attention. Historical evidence shows how the collaboration in the sector was not a new development generated by Brexit but was founded during the 1970s and consolidated thereafter, and where Japan has consistently expected acceleration. The Japanese industry’s interests in this sector have been more in R&D and related investments, in which the EU lacks competence, than exports to the EU.

After nationalisation in 1971 Rolls-Royce struggled in its efforts at rationalisation, and the prestigious car manufacturing business was sold to Vickers in 1973. In his detailed story on Rolls, Peter Pugh referred to the UK–Japan aero engine collaboration only as a marginal case.⁹³ Geoffrey Owen praised the post-war British aeronautical industry as an outstanding success⁹⁴ but neglected to describe the three Japanese partners – Ishikawajima-Harima (after the merging of Nissan’s aeronautical division in 2000, IHI), Kawasaki and Mitsubishi – as significant partners. John Weste has argued that Rolls lacked the will to break into the Pacific (or, in other words, the American) market.⁹⁵ This section explores the relatively unknown history of a UK–Japan collaboration during the 1970s and 1980s. This helped Rolls – which was facing financial difficulty – to restore its aero engine business. The development of the RJ500 engine was a collaboration which began in the mid-1970s with the three Japanese partners mentioned above. Its successor, the successful V2500 engine, equipped Airbus’s A320s and has supplied more than 6000 units to the time of writing, thus helping to bring Rolls back into private ownership.

⁸⁶MOFA <https://www.mofa.go.jp/mofaj/ecm/ie/page4_005173.html> accessed 26 August 2020; <<https://jp.reuters.com/article/japan-britain-idJPKCN2532PV>> accessed 8 August 2020.

⁸⁷<<https://asia.nikkei.com/Politics/International-relations/Japan-presses-UK-on-speedy-trade-talks-for-end-of-year-deal>> accessed 23 July 2020.

⁸⁸<<https://asia.nikkei.com/Opinion/UK-and-Japan-race-to-reach-free-trade-agreement>> accessed 25 August 2020.

⁸⁹<https://www.mofa.go.jp/erp/we/gb/page6e_000207.html>, <<https://www.japantimes.co.jp/news/2020/08/08/business/japan-uk-trade-deal/>> accessed 24 August 2020.

⁹⁰<<https://www.nikkei.com/article/DGXMZO63069510W0A820C2MM8000/>> accessed 26 August 2020.

⁹¹<<https://asia.nikkei.com/Economy/Trade/Japan-fails-to-win-early-end-to-auto-tariffs-in-UK-trade-deal>> accessed 9 August 2020.

⁹²Christopher Kendall, ‘The Elements of Consensus: Liberalising EC-Japan Passenger Car Trade in the 1990s’ in Jörn Keck, Dimitri Vanoverbeke and Franz Waldenberger (eds), *EU-Japan Relations, 1970–2012: From Confrontation to Global Partnership* (Routledge 2013) 228–39.

⁹³Peter Pugh, *The Magic of a Name; the Rolls-Royce Story Part 2: The Power Behind the Jets* (Icon Books 2001) 306–8.

⁹⁴Geoffrey Owen, *From Empire to Europe: The Decline and Revival of British Industry Since the Second World War* (Harper Collins 1999) 251.

⁹⁵John Weste, ‘Jet Engines, Energy, and South Eastern Asia; Anglo-Japanese Relations in the 1950s’ in Janet Hunter and Shinya Sugiyama (eds), *The History of Anglo-Japanese Relations, 1600–2000. Vol. 4, The Economic Dimension* (Palgrave Macmillan 2002) 297–9.

After 1945, under post-war occupation by the US (and marginally by Britain),⁹⁶ Japan was forbidden to produce or maintain aircraft, either civil or military. The outbreak of the Korean War in 1950 and the rising tensions of the Cold War eased allied restrictions and Japan began producing aeroplanes again in 1952. By this stage Japanese aeronautical engineers had relocated to the automotive industry. Pre-war technological expertise had been lost. What was left of the Japanese aeronautical industry had simply become suppliers for American aircraft factories or were domestic Japanese assemblers of US-licensed products. Developing a domestically built aircraft was a distant (and potentially unachievable) goal.

MITI called together Ishikawajima-Harima, Kawasaki and Mitsubishi in 1957 to develop a mid-range civil and military aircraft. In August 1962 the YS11 was unveiled. Due to a lack of financial resources and the difficulty of acquiring a US type certificate, MITI abandoned R&D on engines and relied on foreign sources. The Rolls-Royce Dart-10 was selected, thus reaffirming the firm's pre-existing connection with Japan. Kawasaki had previously signed an agreement with Rolls on engine maintenance in 1959.⁹⁷ Test flights of the YS11 proceeded in Nagoya.⁹⁸ However, the YS failed to secure international sales and (with the exception of Japanese territory) vanished from the sky. Contrary to the view that Rolls had lacked the will to break into the Pacific market,⁹⁹ the firm modestly but steadily increased its commitment in Japan.

Back in Europe, the British aeronautical industry was facing stiff competition from the US. The British, German and French sectors proposed to form Airbus in 1966 in order to secure a 'European' market comparable in size to that of the US. Yet the refusal to use Rolls-Royce engines in the A300 led Britain to withdraw from the project in 1969. This left Rolls heavily dependent on its immensely costly RB211 engine project and the US market (specifically the Lockheed TriStar). Increasing R&D expenditure cost the firm, and Rolls was nationalised in 1971.¹⁰⁰ Subsequently the DTI sought out new partners and the Japanese emerged as a possibility.

In the aftermath of the YS11's disappointing failure, Ishikawajima-Harima, Kawasaki and Mitsubishi jointly developed a Japanese aero engine – the FJR. Aware of Japan's relative inexperience in the sector, MITI wanted the three companies to collaborate with a reliable and experienced partner.¹⁰¹ The Ministry contributed 19.7 billion yen to the FJR project between 1971 and 1981.¹⁰² In April 1972, during discussions between the Ministries about UK–Japan exchanges in science, MITI asked the British to collaborate on aero engine development.¹⁰³ In March 1974 the Heath administration was replaced by Prime Minister Wilson's government and no agreement was reached at this point. But the engine proposed by MITI was very close to that of the eventual UK–Japan RJ500 engine. This was developed less than a decade later as a partnership between Rolls and the Japanese.

Rolls experienced a series of setbacks in the latter half of the 1970s. In 1977 the joint collaboration on the JT10D engine with Pratt & Whitney (P&W) failed.¹⁰⁴ Rolls was the smallest of the three global engine suppliers and, therefore (at least as the DTI understood it), the most vulnerable.¹⁰⁵ Rolls decided to reduce its workforce,¹⁰⁶ which necessitated purchasing components from foreign sources, including Japan.¹⁰⁷ A new partner who could share the risk, in other words a financial partner, was necessary. The Japanese FJR710 engine had been taken to the National Gas Turbine Establishment (NGTE) for a test in 1977 and performed well.¹⁰⁸ A joint collaboration with the Japanese would bring Rolls back

⁹⁶Cortazzi (n 36) 34–47.

⁹⁷<https://www.khi.co.jp/news/detail/20130711_1.html> accessed 13 April 2017.

⁹⁸TNA, DR 30/19, YS11 RDa.10 Test Report, 14 October 1964; TNA, FCO 76/2076, Jack to Heaney, 23 February 1981.

⁹⁹Weste (n 95) 297–9.

¹⁰⁰Keith Hayward, *International Collaboration in Civil Aerospace* (St Martin's Press 1986) 139.

¹⁰¹ibid, 45.

¹⁰²Japanese Aero Engines Corporation (JAEC, *Nihon kōkūki engine kyōkai*), *International Joint Collaboration on Jet Engines; Thirty Years History (Kōkūki engine kokusai kyōudō kaihatsu)* (JAEC 2011) 4.

¹⁰³TNA, FCO 14/1007, Records of Points of Japan/UK Talks on Scientific and Technological Collaboration, 6–11 April 1972.

¹⁰⁴TNA, FV 30/96, Baker to Hudson and Lamont, 10 March 1983.

¹⁰⁵TNA, FCO 76/2077, Private Secretary to Ellison, 15 May 1981.

¹⁰⁶Pugh (n 93) 299–300.

¹⁰⁷Malcom Bobbitt, *Rolls-Royce at Derby* (Breedon Books Publishing 1999) 162.

¹⁰⁸JAEC (n 102) 4.

to its 'home' Pacific market.¹⁰⁹ Furthermore, the acquisition of Japanese management techniques and production quality proved to be another motive.¹¹⁰ As in the automotive industry,¹¹¹ fears ran high that Britain might lose the Japanese to another (European) partner.¹¹² Such collaborations might transform Japan into a competitive supplier before long, and therefore a partnership became a matter of urgency.¹¹³ In January 1978 Rolls proposed to jointly develop a new engine alongside the Japanese.¹¹⁴

Margaret Thatcher was elected Prime Minister in May 1979 and the following month she travelled to Japan to participate at the G7 Tokyo Summit. She called for UK–Japan industrial cooperation in the aeronautical sector. In December, Rolls and the three Japanese companies signed an agreement to cooperate in the development of the RJ500 (XJB) engine.¹¹⁵ Japan was the only partner available.¹¹⁶ The agreement forbade the Japanese to collaborate with any third party for two decades.¹¹⁷ Japan shouldered 50 per cent of the cost/risk.¹¹⁸ It was 'happy to oblige' since this was its first opportunity to participate in an R&D project from scratch.¹¹⁹ In 1980 MITI offered 1.785 billion yen funding for the project.¹²⁰ The first RJ500 was assembled in February 1982.

Besides industrial cooperation, Thatcher was keen to sell British civil *and* military aircraft to the Japanese. In December 1979 she visited Washington to meet Harold Brown – then Secretary of Defense – and persuaded him that the US should put pressure on Japan to purchase defence equipment from NATO countries.¹²¹ In her view, Japan, unlike Taiwan,¹²² had not shouldered enough of the cost or responsibility for sea lane protection and resource preservation in the Middle East. Japan was, therefore, obliged to contribute more to Britain.¹²³ In September 1982, shortly after the Falklands crisis, Thatcher visited Tokyo. As well as applying pressure on Nissan to make up its mind on the Sunderland project, she unsuccessfully attempted to sell Harrier jump jets to the SDF.¹²⁴ Another attempt to sell BAe146 jets also failed.¹²⁵ Japan had rarely purchased British or European aircraft.¹²⁶ As a consequence, the Thatcher administration had to focus on the RJ500 project.

The RJ500 was a technological success but immediately faced difficulties. Without an American partner – either P&W or General Electric (GE) – the engine (and assembled aircraft) would not find a big enough market in Britain and Japan alone. Thatcher and the DTI agreed on this point,¹²⁷ but Rolls refused to acknowledge the problem.¹²⁸ Failed sales would not only lead to the project being abandoned, but might also negatively impact UK–Japan relations.¹²⁹ Furthermore, if Rolls depended solely on the RB211

¹⁰⁹TNA, FV 30/96, Warrington to Farrow, 12 December 1980; FCO 76/2076, Rolls-Royce RJ.500 Turbofan Engine Report to DoI, December 1980.

¹¹⁰TNA, FV 30/96, Warrington to Farrow, 12 December 1980.

¹¹¹TNA, FCO 76/2076, McLaren to Burton, 13 April 1981.

¹¹²Suzuki (n 2) 56–63.

¹¹³TNA, FCO 76/2076, McLaren to Burton, 13 April 1981.

¹¹⁴JAEC (n 102) 4.

¹¹⁵*ibid.*, 5.

¹¹⁶Pugh (n 93) 306.

¹¹⁷TNA, FCO 76/2076, McLaren to Burton, 13 April 1981.

¹¹⁸JAEC (n 102) 6.

¹¹⁹TNA, FCO 76/2076, Boyce to Braithwaite, 29 April 1981; Hayward (n 100) 142–3.

¹²⁰JAEC (n 102) 5.

¹²¹TNA, PREM 19/127, record of meeting, 17 December 1979.

¹²²Churchill Archives Centre, Churchill College, University of Cambridge (CCAC), AMEJ 2/1/87, Julian Amery to Jack Stewart-Clark, 26 June 1981.

¹²³CCAC, AMEJ 2/1/87, Prime Minister to Julian Amery, 2 July 1981.

¹²⁴CCAC, THCR 1/10/39, Acland to Sir Robert, 7 July 1982; Suzuki (n 2) 101–4.

¹²⁵CCAC, THCR 1/10/39, Acland to Sir Robert, 7 July 1982; CCAC, THCR 1/10/37, Holmes to John, 24 June 1982; Suzuki (n 2) 109; Cortazzi (n 36) 164.

¹²⁶With the exception of the former Japan Air System (JAS), Japan Airlines (JAL) will operate for the first time an Airbus equipment from September 2019 – A350 with a Rolls engine. Since 2014, All Nippon Airways (ANA) has expanded its operation of A320s and since May 2019 has flown the Airbus A380 – the Flying Honu.

¹²⁷TNA, FCO 76/2077, Stoddart to Private Secretary, 18 May 1981.

¹²⁸TNA, FCO 76/2076, Boyce to Braithwaite, 29 April 1981.

¹²⁹TNA, FCO 76/2077, Keith Joseph to Prime Minister, 8 May 1981.

engine it would increase its dependence on the US.¹³⁰ This would risk the 1980 agreement between the government and Rolls on the terms of future re-privatisation.¹³¹ The RJ project was seen as Rolls-Royce's opportunity to reduce its dependency on America¹³² but Rolls hesitated to invite P&W or GE into the partnership.¹³³ The DTI, conversely, understood that for the commercial success of the RJ, secured by its use in the Airbus A320, they still required an American partner.¹³⁴

In order to persuade Rolls, the DTI informally asked its Japanese counterpart (MITI) to persuade the three Japanese stakeholders to convince Rolls to invite in an American partner.¹³⁵ This tactic worked and Rolls began considering whether to choose P&W or GE. P&W intended to pull Mitsubishi out of the RJ collaboration, which put pressure on Rolls to make up its mind.¹³⁶ Rolls doubted P&W's attempt to gain access to the former's crucial knowledge via the Japanese partners.¹³⁷ However, P&W worried that Rolls would begin exporting to Libya or China, violating the Coordinating Committee for Multilateral Export Control's embargo on Comecon countries (COCOM).¹³⁸ The US government also feared the transfer of technological knowledge to the Japanese.¹³⁹ However, the greatest obstacle was the need for US anti-trust law clearance.¹⁴⁰

Rolls and P&W disagreed on the allocation of burden/shares. Each stakeholder would supply components according to its financial burden, and Rolls-Royce and P&W would assemble the engines in the UK and the US respectively. P&W demanded more than 50 per cent, though Rolls refused.¹⁴¹ The three Japanese partners and MITI stipulated a 27 per cent share¹⁴² but this was opposed by P&W and the other European partners aiming to minimise the Japanese presence.¹⁴³ It was agreed that the Japanese would shoulder 19.9 per cent, and 3.1 per cent of production would be provided to Mitsubishi from P&W as compensation.¹⁴⁴ It was feared that MITI would cease subsidising R&D if Japanese voices were neglected.¹⁴⁵ On 11 March 1983 the agreement to jointly develop the V2500 engine – formerly the RJ500 – was signed in Derby by Rolls-Royce, P&W, the German MTU, the Italian Fiat and the three Japanese companies. The burden was shared as to 30 per cent each between Rolls and P&W, the three Japanese 23 per cent, MTU 11 per cent, and Fiat 6 per cent.¹⁴⁶ The five stakeholders founded International Aero Engines (IAE) in Zurich in December 1983. In January 1985 Pan Am ordered 16 A320s equipped with V2500 engines.¹⁴⁷ Other airlines quickly followed suit. In Tokyo, British Ambassador Hugh Cortazzi voiced his belief that the collaboration had reinforced UK–Japanese ties.¹⁴⁸ The A320 was a global success and, besides its assembly centres in Toulouse and Hamburg, it is also built in China.

The V2500 collaboration meant more to the Japanese than to their British partners because it allowed the former to finally develop home-made jet engines. Unlike in the case of cars, it was less an issue of EU competence and exports to the single market and more about R&D and investments. As Japan

¹³⁰TNA, FV 30/96, Warrington to Farrow, 12 December 1980.

¹³¹TNA, PREM 19/1410, Norman Tebbit to Prime Minister, 31 January 1984; TNA, FV 30/97/1, Memorandum by HMG, Relationship between Rolls-Royce and HMG, 31 August 1983.

¹³²TNA, FV 30/96, Warrington to Farrow, 12 December 1980.

¹³³TNA, FV 30/96, McFazean to Patrick Jenkin, 4 January 1983.

¹³⁴TNA, FV 30/97/1, Rolls-Royce, Internal Memorandum RJ500 and DoI, 2 December 1981.

¹³⁵TNA, FCO 76/2077, Baker-Bates to Maynard, 26 May 1981; TNA, FV 30/97/1, Maynard to Baker, 16 August 1983.

¹³⁶TNA, FCO 76/2077, telegram from Tokyo to FCO, 12 May 1981.

¹³⁷TNA, FV 30/98/1, Browne to Hodge, 21 October 1983.

¹³⁸TNA, FV 30/98/2, telegram from FCO to Washington, 9 November 1983.

¹³⁹TNA, FV 30/96, Visit of Mr Lamont to GE and P&W, 30 March 1983; TNA, FV 30/96, McFazean to Patrick Jenkin, 3 March 1983.

¹⁴⁰ibid.

¹⁴¹TNA, FV30/96, McFazean to Patrick Jenkin, 4 January 1983.

¹⁴²TNA, FV 30/97/1, telegram from Tokyo to FCO, 18 July 1983.

¹⁴³TNA, FV 30/96, Collaboration Agreement among RR, UTC, JAEC, MTU and Fiat, 11 March 1983; Hayward (n 100) 144; Pugh (n 93) 308.

¹⁴⁴TNA, FV 30/98/1, Browne to Hodge, 21 October 1983.

¹⁴⁵TNA, FV 30/97/1, telegram from Tokyo to FCO, 18 July 1983.

¹⁴⁶JAEC (n 102) 12–17.

¹⁴⁷Pugh (n 93) 308; David Weldon Thornton, *Airbus Industrie: The Politics of an International Industrial Collaboration* (St Martin's Press 1995) 119.

¹⁴⁸Cortazzi (n 36) 164.

developed itself as a supplier over the decades, however, the three Japanese firms became more concerned in component exports. As in the case of cars, Britain will be excluded from the Japan–EU EPA if the Brexit transition period expires without a new UK–EU trade agreement being ratified. Both the Japanese government and industry worry that Britain will be forced to negotiate with the EU and Member States to reduce its import tariffs on aeroplane components.¹⁴⁹ This may increase the costs incurred by the Japanese companies when supplying Airbus or, indeed, any of their European partners. However, the UK–Japan collaboration in the aeronautical sector is different from that of the car industry in as much as it is closely associated with defence. Regardless of the cost and risk associated with Brexit, Japan hopes to increase collaboration in this ‘new’ and challenging area.¹⁵⁰ This case is investigated in the following section.

4. Military cooperation and arms industry collaboration

In analyses of UK–Japan relations in the wake of Brexit, attention has generally focused on the automotive industry and its employment. Defence, however, has been neglected in many commentaries despite its relevance to commerce and Britain’s place in the world. Japan’s reliance on Britain’s aeronautical expertise as well as the former’s lack of competitiveness in this sector ties Japan to Britain. This is underwritten by Japanese sympathy for, and a sense of closeness to, Britain.¹⁵¹ Besides collaboration on civilian aircraft engines, which was reviewed in the previous section, possibilities for further collaboration on military aircraft are emerging.¹⁵² In 2014 Japan shifted away from its ban on weapons exports and joint development. Kawasaki’s failure to sell P1 patrol planes to the RAF prompted Japanese companies to explore the possibility of joining the development of Tempest, which will be the successor of Eurofighter Typhoon. At the same time, Britain has shown more interest in pursuing active military cooperation in the Pacific. As discussed below, Typhoon fighter jets and *HMS Albion* have recently visited Japan. The aim was to display British military presence in the Pacific with an eye on active Chinese and North Korean military expansion. Economic links with China make it difficult for the EU Member States to reach a consensus on whether to counter its military expansions far away in the Pacific, while Britain after Brexit may be more independent. Although such bilateral cooperation might not seem directly related to Brexit, unlike the dependence of Japanese automotive companies on the single market, it nevertheless has the potential for indirect and longer-term effects.

On 17 July 2018 the British government announced its plan to develop the successor to the Typhoon fighter jet – known as Tempest. At the 2018 Farnborough International Airshow, Gavin Williamson MP, then Secretary of State for Defence, announced that the British government would invest 2 billion pounds in the R&D of Tempest by 2025, with the jet entering into operation by 2035. With BAE Systems and Rolls-Royce at the heart of the R&D process, Britain also began to seek out potential partners who could shoulder the investment costs. These included the Japanese.¹⁵³

Japan’s joint R&D on arms only began in April 2014. Shinzo Abe’s administration decided to abandon Japan’s post-war prohibition policy on collaboration and exports in the arms sector. In 1967 Prime Minister Eisaku Sato had announced that Japan would forbid arms exports in a policy known as the Three Principles on Arms (non-)Exports. This included international collaboration in weapons

¹⁴⁹ <<https://www.mofa.go.jp/mofaj/files/000243120.pdf>>, <<https://www.mizuho-ri.co.jp/publication/research/pdf/urgency/report160609.pdf>>, <https://www.jadc.jp/files/topics/143_ext_01_0.pdf> accessed 21 June 2019.

¹⁵⁰ The British and Japanese governments held the first Industrial Policy Dialogue in Tokyo on 13 December 2017. The meeting was co-chaired by Masaki Ogushi (Parliamentary Vice-Minister of METI) and Alex Chisholm (Permanent Secretary of the Department for Business, Energy and Industrial Strategy of the United Kingdom (BEIS)). The meeting named 5 key areas for further UK–Japan industrial collaboration: space, aviation, energy and climate change, advanced manufacturing and the bio-economy. <<https://www.meti.go.jp/press/2018/07/20180720004/20180720004.html>>, <<https://www.gov.uk/government/news/uk-and-japan-hold-first-talks-on-industrial-policy>> accessed 24 March 2020.

¹⁵¹ Michito Tsuruoka, ‘Anglo-Japanese and French-Japanese Cooperation in Security and Defense: A Comparison as Japan’s Partner (*Nichi-ei, Nichi-futsu no anzen-hoshou bouei-kyouryoku*)’ (2016) 19(1) NIDS Journal of Defense and Security (*Boei Kenkyusho Kiyō*) 164.

¹⁵² At the 17th International Institute for Strategic Studies (IISS) Asia Security Summit and the Bilateral and Trilateral Defense Ministerial Meetings held in Singapore on 2–3 June 2018, Japanese and British Defence Ministers agreed on collaborating in defence equipment and cooperating in UN sanctions on North Korea <https://www.mod.go.jp/j/approach/exchange/area/docs/2018/06/03_j-uk_iiss.html> accessed 24 March 2020.

¹⁵³ *Jiji-tsushin*, 17 July 2018.

development. Exports and transfers were overseen by MITI/METI through the Foreign Exchange and Foreign Trade Law (*Gaitame-hou*). In 2014, though, Abe renamed these the Three Principles on Transfer of Defense Equipment and Technology.¹⁵⁴ Previously, Japanese weapons had been produced exclusively for the SDF, while Japanese fighter jets are based on American F15 and F16 jets. These are assembled under licence by Mitsubishi as F15J/JD and F2A/B. The US has maintained a strict policy of not allowing technological transfer to Japan. Yet, as demonstrated in the previous section, Britain, although somewhat unconsciously, proved to be a more ‘flexible’ partner in the civil aeronautical sector. This collaboration allowed Japan to build its technological expertise on jet engines.

The more Japan increases its stake in arms development and exports, which is in sharp contrast to its car exports falling under EU competence, the more Japan is eager to join any British and/or European joint ventures. In searching for an R&D partner in the Tempest project, Britain proposed that the Japanese collaborate on the jet’s electronics and software. The Japanese MOD’s interest in a Japan–UK deal has grown and the co-development of Tempest may provide a successor to F2 fighter jets.¹⁵⁵ If agreed, this will become Japan’s first R&D with a third party other than the US. Such partnerships are being pursued with rising Chinese military power in mind and Britain sits at the top of the list among the European countries.¹⁵⁶ Such an initiative would help Japan to diversify its collaboration partners while also maintaining compatibility with American weapons and systems. Despite such expectations, the MOD announced in March 2020 that it would prioritise the American partners in the F2 project.¹⁵⁷

The failure to sell the Kawasaki P1 patrol planes to the RAF proved to be another motive behind Japan’s willingness to embark on a collaboration with the UK. The P1 was the first home-made patrol plane, equipped with four IHI F7 jet engines. Experience gained during the collaboration on the V2500 engine was invaluable. P1 is replacing the American P3Cs used by the naval SDF. It is capable of both high-speed flight at high altitudes and low-speed flight at low altitudes and has an expensive price tag. The first P1s were delivered to the SDF in March 2013. While searching for the successor to BAE Nimrod, the RAF considered P1, but eventually chose Boeing P8.¹⁵⁸ After failing to reach a deal with Britain, Japan targeted France and Germany for collaborating on patrol planes which would replace P3C and Dassault-Breguet Atlantique 2. Unsuccessful attempts to sell Japanese submarines to Australia added to the Abe administration’s ‘desperateness to sell something’ to any developed country. As such, Japan is actively seeking cooperation with Britain, France, Germany and Italy in defence production.¹⁵⁹

Japan, then, has made little progress in expanding its weapons export and international R&D collaboration. Nevertheless, Britain has sent clear messages that bilateral relations should be reinforced. In particular, military cooperation with the SDF has increased, with the focus clearly being on countering Chinese and North Korean military activities in the Asia-Pacific region. The RAF sent four Typhoon fighter jets to the Misawa base on 22 October 2016 and these took part in joint drills with the SDF until 6 November.¹⁶⁰ The last visit of RAF Typhoons had been in the 1990s. Significantly, this drill was the first instance of the SDF conducting joint drills with a non-American partner in Japanese territory.¹⁶¹ It ‘coincided’ with the first live-fire drill of the Chinese aircraft carrier *Liaoning* – the former Russian/Ukrainian *Varyag* – in the Bohai Sea.¹⁶² China’s territorial claims in the Pacific and Spratly have been underlined by its military build-up. Unsurprisingly, this has caught the attention of Japan, the US

¹⁵⁴ <https://www.mofa.go.jp/press/release/press22e_000010.html> accessed 2 April 2019.

¹⁵⁵ <<https://jp.reuters.com/article/airforce-f2-uk-idJPKBN1YG2T9>> accessed 30 January 2020.

¹⁵⁶ *ibid.*

¹⁵⁷ <<https://asia.nikkei.com/Business/Aerospace-Defense/Japan-s-next-gen-fighter-to-be-built-with-US-not-UK>> accessed 8 March 2020.

¹⁵⁸ Although missing out on the P1 deal, Kawasaki saved face on 15 June 2015 when another deal was agreed with Rolls and Mitsubishi to develop the Trent 7000 engine for Airbus A330neo.

¹⁵⁹ Christopher W Hughes, ‘Japan and EU Defense Production Cooperation: A Strategically Important But Nascent Relationship’ in Axel Berkofsky, Christopher W Hughes, Paul Midford and Marie Söderberg (eds), *The EU-Japan Partnership in the Shadow of China: The Crisis of Liberalism* (Routledge 2019) 88.

¹⁶⁰ *Sankei-shinbun*, 3 December 2016.

¹⁶¹ *ibid.*; Tsuruoka (n 151) 156.

¹⁶² The People’s Liberation Army Navy announcement on 15 December 2016. *AFP*, 16 December 2016.

and NATO. Tellingly, it was announced that the Typhoons were going to fly over the South China Sea before landing in Singapore on their return.¹⁶³

The RAF was not alone in showing the UK's commitment in the Pacific. In August 2018, the Royal Navy sent *HMS Albion* – an amphibious warfare ship – to Japan. *HMS Albion* joined SDF's minesweeper tender *Uraga* at Harumi harbour (Tokyo), where they were both opened to the public. On the day, the British Embassy in Tokyo tweeted that *HMS Albion* did not store Mobile Suit Gundam 0083 – a fighter robot from a Japanese comic, which is stored on a carrier 'Albion' – but encouraged the Japanese public to pay a visit on board nonetheless.¹⁶⁴ *HMS Albion's* visit was not only a signal that territorial encroachments might be met with military means. It had also been taking part in the enforcement of UN sanctions on North Korea. Furthermore, *HMS Albion* took part in the American-led Freedom of Navigation Operation (FONOP) designed to ensure free navigation of the seas. Therefore, *HMS Albion* sailed through the Paracel Islands and arrived in Ho Chi Minh harbour on 3 September 2018.¹⁶⁵ Captain Tim Neild, *HMS Albion's* Commanding Officer, stressed the significance of protecting sea lanes alongside Britain's closest partner Japan.¹⁶⁶ Importantly, Britain's latest Queen Elizabeth class aircraft carriers – *HMS Queen Elizabeth* and *HMS Prince of Wales* – are expected to become operational in 2020 and sent to the Pacific.¹⁶⁷ While condemning Chinese territorial claims and North Korean nuclear armament, the EU is unable to directly counter these rising Asian military powers. Britain is voicing such criticism.

Britain's willingness to commit itself in Pacific affairs is not, though, free from 'competition' with European countries. France has become a much more energetic actor in the Pacific and is positioning itself as the UK's 'successor' and Japan's closest European partner.¹⁶⁸ With a self-image as a Pacific power, French military presence in the region exceeds that of Britain.¹⁶⁹ Yet the possibility that French weapons might be exported to China is a concern for Japan.¹⁷⁰ Close Franco-Chinese economic relations only add to Japanese unease. In Japanese eyes, France and some Member States had attempted to abandon the weapons embargo on China,¹⁷¹ while Britain (at least when it was still an EU Member State)¹⁷² was expected to counter such attempts. Further display of British military power in the Pacific will not be a by-product of Brexit. Such global operations could have continued if Britain were still an EU Member State. It is also a loss for the EU if Britain withdraws from European security policies.

5. Conclusion

UK–Japan ties in the post-war era have focused on trade and investment and since 1973 Japan has relied on British membership of the EC/EU. From the project's birth, Sunderland was intended to be Nissan's gateway into the single market. The aeronautical sector was another example of close UK–Japan ties. This time the cutting edge lay on the British side. Rolls-Royce 'helped' the three Japanese firms – Ishikawajima-Harima, Kawasaki and Mitsubishi – in the joint development of jet engines. The Japanese were able to share the cost and burden with Rolls at a level that had never been permitted in their partnerships with Americans. The RJ500/V2500 engine project, which eventually also included the US, Germany and Italy, helped Rolls to increase its turnover and to justify its re-privatisation. After Brexit, Britain faces a reduction in Japanese investments in the automotive industry, which will instead head towards the continent.

¹⁶³ *Sankei-shinbun*, 3 December 2016.

¹⁶⁴ *Sankei-shinbun*, 3 August 2018.

¹⁶⁵ *Reuters*, 6 September 2018.

¹⁶⁶ *Sankei-shinbun*, 3 August 2018.

¹⁶⁷ *Reuters*, 2 December 2016; *Sankei-shinbun*, 3 December 2016.

¹⁶⁸ *Sankei-shinbun*, 3 August 2018.

¹⁶⁹ Tsuruoka (n 151) 161–3.

¹⁷⁰ *ibid.*

¹⁷¹ <<https://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B5-2003-0552&language=EN>> accessed 24 March 2020.

¹⁷² The MOD understands that the ban on arms export to China depended on each Member State government, and therefore maintains a close watch so as not to allow its lifting <<https://www.mod.go.jp/j/publication/wp/wp2018/html/n12303000.html>>, <<https://www.mod.go.jp/msdf/navcol/SSG/review/2-1/2-1-4.pdf>> accessed 24 March 2020.

However, UK–Japan collaboration in the aeronautical industry could increase as Japan continues to build up its experience in this sector. Furthermore, following their 2014 policy change, the Japanese are keen to promote joint R&D and exports in military equipment. Besides industrial cooperation in aeronautics, rising military tensions in the Pacific have resulted in the RAF and the Royal Navy intensifying exchanges with the SDF. Typhoon fighter jets and *HMS Albion* have visited Japan, clearly with an eye on Chinese territorial claims and North Korean nuclear armament. France, however, is known to be Britain’s European ‘competitor’ (at least with regard to military presence) in the region. Whether UK–Japan ties could expand will depend on the exact terms of Brexit. The Japan-EU EPA provides both Japan and the EU Member States with a firm and long-lasting basis for trade and investments in the automotive and aeronautical sectors. UK–Japan investments and joint R&D will be affected not only by the UK–Japan trade agreement but also by the exact terms of the UK–EU agreement.

Declarations and conflict of interests

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