

## Japan's threat to cut investment in the UK would hurt - but is unlikely to come true



Prime Minister Shinzo Abe said Brexit could lead to Japanese firms moving their European headquarters out of the UK CREDIT: ETIENNE OLIVEAU/REUTERS

By [Tim Wallace](#)

6 SEPTEMBER 2016 • 9:56AM

Japan's companies could flee the UK post-Brexit, the country's government has warned, if Britain is cut off from Europe and the world.

The bold statement does not reflect [the public aims of Britain's leaders](#) nor those of the EU, but Japan's warning reflects worries over the potential shock to global trade if ties with other nations are severed altogether.

"Japanese businesses with their European headquarters in the UK may decide to transfer their head-office function to continental Europe if EU laws cease to be applicable in the UK after its withdrawal," the government said in a statement at the G20.

The [document handed a list of demands to the UK and EU](#), warning that tariffs on international trade "could suppress the revenues of businesses" while burdensome red tape on trade between the UK and EU would "increase the costs of logistics

operations, which would have a significant impact on business operations”, and that retaining and banking passport is vital.

In plain English, it is a threat of less investment and fewer jobs.

Japan is certainly a major investor in the UK. Almost 1,000 UK firms are owned by Japanese investors, with a combined turnover of £72bn last year and gross value added to the economy of £14.5bn, according to the Office for National Statistics.

Foreign direct investment into the UK from Japan totalled a net £2.2bn in 2014, with the UK receiving half of the country’s investment into the EU, seeing Britain as a gateway to Europe.

The Japanese ambassador estimates 10,000 Japanese firms operate in the UK, employing 140,000 people.

The impact of a wholesale shift away from the UK by any large firm could be significant, particularly when companies focus in one particular region.

Nissan and Hitachi are both big Japanese manufacturers with [major operations in the North East of England](#) – Nissan’s car plant in Sunderland employs 6,100 staff, and claims that more than 24,000 jobs are created in the wider supply chain supporting the factory.



Nissan's electric car, the Leaf, has been built in Sunderland since 2013

Hitachi’s UK head office is in London and it has depots around the country, as well as [manufacturing trains in Newton Aycliffe, County Durham](#). It has a total of 5,000 UK staff with 600 building trains in the North East for use in the UK and Europe.

The North East has benefitted from the investment and is now the only British region which consistently exports more goods than it imports, but remains sensitive to

changes in the economic environment. Despite the Japanese investments the region still has the highest unemployment rate in the country at 7.6pc, making it vulnerable if large firms do pull out or cut back investment.

Nissan established its site in the 1980s and expanded in part because of an attractive tax arrangement designed to promote investment in a relatively deprived area. It has invested the best part of £4bn in the site and is still investing – last year Nissan announced it was spending another £100m on production of its Juke car.

It produces around 500,000 cars per year, the majority of which are exported. As a result it would suffer if a post-Brexit deal failed to secure a free trade arrangement with Europe and led to the imposition of tariffs on cars exported to the EU.

The company has yet to decide on the location of future investments.

“Nissan is working closely with the new UK government to ensure our success and investment in the UK continues. However, this depends on a number of important factors, including the UK’s trade and tariff negotiations with the European Union,” Nissan said.

“We will continue our discussions with the Government, however, future business decisions will be made on a case by case basis, as is our policy. It is in the interest of the businesses and people of the UK that a resolution is reached as soon as possible.”



Hitachi has plants in sites including Ashford and Newton Aycliffe CREDIT: GWR

Economists believe that Nissan in particular led to a wave of manufacturing growth in the area.

“The North East has a very long, proud history of being home to Japanese companies, and it is a significant part of the reason our region is a strong performer in exports,” said Jonathan Walker from the North East Chamber of Commerce.

“[Nissan’s investment] led to other Japanese firms investing in the automotive supply chain. It put the region on the world map and has brought in a huge amount of investment right through to this day.

“Ultimately we want to see businesses here and those who might want to come here continue to enjoy access to global markets and EU markets.”

Meanwhile Japanese bank Nomura has around 2,600 staff in the EU, with 2,000 of those in London.

EU access is important but not vital – it has staff in other parts of the EU who can continue to do business there, and its London office carries out business across the globe. Retaining good access to EU markets would help keep more of those workers in the UK, however, which is particularly important when the bank is already cutting back.

[In April the bank said it would cut around 500 jobs](#), predominantly in London, as the latest bank to chop back in the face of tight regulation and volatile markets.

In other instances, however, Britain’s relationship with the EU will matter very little or even not at all.

Take Fujitsu as an example. It employs around 14,000 people in the UK – one-tenth of total Japanese corporate employment in Britain – yet has next to no direct exposure to Brexit.

Most of its staff run support services for other UK businesses, mainly covering IT systems but also electronics such as printers and telecoms.

Those are all UK-based with no element of international trade, so will only be affected by the overall state of the economy rather than the specifics of any Brexit deal with the remaining EU countries.

As an added boost for the UK as a whole, those jobs are spread out across areas rich and poor as Fujitsu has customers across the country – it has major centres in London, Manchester, Stevenage, Belfast and Bracknell, as well as smaller groups of staff in all other regions.

Despite the potential threat of Japanese firms moving staff out of the UK, there remain reasons to be optimistic.

Firstly, Japanese corporate sources remain insistent that the Japanese government does not speak for them and cannot make business decisions on their behalf.

Secondly, many of the ideas listed by the government are not at all radical – many British firms also want open access to EU markets and a steady supply of workers from the continent and elsewhere around the world.

Thirdly, the Japanese statement also says the country wants a new deal itself with the UK.

Theresa May said she is already speaking with the Japanese government about future trade arrangements.

“I have spoken with Prime Minister Abe on the issue of Japanese businesses, working together to ensure we can maintain and build on our relationship,” she said [at the G20 summit in China](#).

“The biggest vote of confidence in the UK in terms of inward investment [since the Brexit vote] was from a Japanese company, Softbank, with its £24bn proposal to buy Arm.”



