Introduction

This meeting summary outlines the main discussion points at the annual UK-Japan Business Leaders’ Dialogue, a hybrid roundtable jointly hosted by Chatham House and JETRO in March 2022. The dialogue brought together senior business leaders from the UK and Japan to explore how to deepen economic ties between the two countries.

The dialogue explored how the business environment has changed since last year’s dialogue, in the context of a highly turbulent time for the global economy. The dialogue explored the immediate shocks from Russia’s invasion of Ukraine, the continuing fallouts from the COVID-19 pandemic, longer-term legacies from the global financial crisis, and other major international trends, such as technological advances, the climate crisis, and geopolitical tensions between the USA and China.

It is from this that the dialogue explored potential recommendations which might be made to the UK and Japanese governments, as well as to the broader business community.

The UK-Japan Relationship

Russia’s invasion of Ukraine and the COVID-19 global pandemic of the last two years have both demonstrated the international system’s vulnerability to systemic shocks. On the economic side, the invasion has impacted supply chains, which were already adversely affected by COVID-19. The invasion has also threatened global energy supplies, catalysing conversations around the green transition. Meanwhile, there are continued concerns around China’s tendency towards aggressive behaviour in the international space.

These trends have increased the importance of the UK and Japan, as likeminded countries with shared social and political values, working together effectively to address such global challenges. This relationship will likely only increase in importance over the coming years. The importance of such collaboration has been demonstrated with Russia’s invasion of Ukraine, where the UK and Japan have worked with one another and other likeminded countries through multilateral forums such as the G7, to adopt a range of financial and economic sanctions against Russia and Belarus.

It is in this context, that the UK and Japanese governments and business communities should focus on collaboration in a number of key areas that benefit both countries:

Developing trade and investment: The UK and Japan have concluded comprehensive agreements on commerce, with exports to one another recently reaching equivalent levels. However, there remains a significant investment imbalance, with over £100bn worth of Japanese investment in the UK but only £5bn of UK investment in Japan. Japan welcomes the UK’s accession to the CPTPP, as part of promoting an international rules-based economy.

The green transition: both countries are making significant efforts to green their economies, with METI recently launching its “Green Growth Strategy Through Achieving Carbon Neutrality in 2050”. Russia’s invasion of Ukraine has highlighted the need for an accelerated and managed transition towards renewable energy. The green transition is a major area for potential further collaboration.

Digitalisation: both countries are making major efforts to further digitalise their economies, underpinned by a shared belief in a global, open internet. The Japanese government recently launched its Digital Agency in September 2021, to help strengthen the digitalisation of Japan.

Defence: the invasion of Ukraine has highlighted the need for both Japan and the UK to invest in their security and defence and deepen cooperation with likeminded partners, creating opportunities for further collaboration between the two countries.
Building Opportunities for UK-Japan Trade Relations

The 2016 United Kingdom European Union membership referendum had a profound impact on Japanese business sentiment towards the UK. Traditionally, Japanese businesses used the UK as a gateway to the EU while Japan was not viewed by UK investors as a major destination for FDI.

The signing of the United Kingdom–Japan Comprehensive Economic Partnership Agreement (CEPA) and the Trade and Cooperation Agreement between the UK and the EU increased business confidence by providing clarity on future trading relationships for Japanese companies trading with the UK and Japanese businesses conducting trade between the UK and EU. It was noted that the main value of CEPA was therefore one of ensuring continuity, with cross border trade and investment largely unchanged.

That being said, CEPA did provide important innovations in areas including financial services and digital and data flows, with these clauses going beyond the original EU-Japan Economic Partnership Agreement. CEPA also provides value in laying the groundwork for further developing UK-Japan trade and investment relations, such as through the UK’s accession to the CPTPP.

The ongoing priority on CEPA was viewed as one of implementation. It was noted that a challenge for large UK firms going into Japan was to raise awareness of the agreement. Delivery and implementation challenges remain, with 16 different working groups as part of CEPA to help address such issues. Other challenges for furthering UK and Japan trade and investment were practical, with COVID restrictions limiting the ability of staff of UK and Japanese businesses to travel between countries.

In the discussion on the UK’s potential accession to the CPTPP it was noted that the benefits should not just be viewed in terms of the individual gains for companies, but also wider geo-economic benefits. Membership of the CPTPP would give the UK increased influence on a range of issues at a time when the international rules-based trade system is being increasingly challenged.

Over time the CPTPP could take three potential future forms:

1. A Middle Power club, without Chinese or American membership
2. A US-led, club with strong US influence in favour of liberalisation
3. A China-led club, becoming closer to the RCEP in form.

It was noted that the US was extensively involved in developing the TPP (the CPTPP’s predecessor) with an eye to China, to serve as both a bulwark against it but also as an incentive for change. It was noted by a couple of participants that they would welcome China’s accession to the CPTPP, but only while maintaining the high standards of the agreement. However, it was agreed that China had a long way to travel on this and China’s stance on Russia’s invasion of Ukraine could impact on its future role in such agreements.

In the context of such a polarised geopolitical environment, and future scenarios for the development of the CPTPP, the UK and Japan should be careful not try to force emerging economies to choose between the West and China, as this was unlikely to work.

Navigating a changing geopolitical landscape

The Japanese government has taken a strong response in response to Russia’s invasion of Ukraine, working with the EU, US and G7 to impose sanctions. These measures have partially arisen from an awareness of appearing “soft” in response to Russia’s 2014 annexation of Crimea and the 2018 Novichock poisoning. Japan has taken a range of measures against Russia and Belarus, including the sanctioning of banks, restricting the export of semi-conductors and dual-use technology, and freezing assets of key individuals. These measures have been broadly supported by the public, with 67% of Japanese supporting sanctions.

Japan faces a number of significant economic implications in its efforts to reduce ties with Moscow. Like Germany, Japan faces the challenge of energy dependence, as seen with the Sakhalin-2 LNG project. If
Japan cuts energy ties with Russia, it is estimated that it could lead to a 35% increase in prices of imported energy. Furthermore, a number of Japanese businesses have significant operations or ties with Russia, leaving them highly exposed to such measures.

Russia’s invasion of Ukraine has also forced a re-evaluation of the Japan’s defence position. After the legacy of the Trump administration, there are renewed conversations within Japan to enhance its defence autonomy. Defence spending is still just over 1% of Japan’s GDP, despite pressure from allies to increase it to 2%. Research spending as part of defence is at just 3%, compared to 11% in the UK. A re-evaluation of spending would impact both Japanese and UK businesses working in Japan’s defence sector.

Traditionally, defence was seen as having lower margins in Japan, leading to a declining share of indigenous defence procurement. Recent purchases of the F35 by Japan have been beneficial to both British and American defence companies.

Meanwhile, Russia’s invasion of Ukraine has reinforced the centrality of Europe in the UK’s strategic thinking. The Indo-Pacific Tilt was outlined as part of the March 2021 Integrated Review (IR), which set out the economic, trade, military and development considerations in UK foreign policy. The invasion does not mark a departure in the UK’s strategic thinking towards the Asia-Pacific; it was always a “tilt” rather than a more substantial “pivot”. While the UK remains a European power, it continues to recognise the longer term geopolitical and geo-economic pull of the Asia region and hence is looking to deepen its engagement and visibility.

The UK is being careful in avoiding adding itself to an already highly competitive security environment. The UK has not had a substantial presence East of Suez for many years and the deployment of the Queen Elizabeth carrier group last year was largely symbolic. But the MOD is looking to increase its defence agreements with key regional partners such as Japan. Any security engagement would need to be carefully calibrated with regional partners. The AUKUS agreement was viewed by some participants as being at odds with this approach.

The UK has intentionally focused on developing trade and diplomatic relations in the region, through partnering with Japan, as well as the Republic of Korea and Southeast Asian states. Accession to the CPTPP would be key in helping the UK influence trade rules in the region, while securing ASEAN Dialogue Partner status will also hopefully enable the UK to become more engaged in regional security affairs.

Both the UK and Japan will need to manage heightened US-China tensions, with both superpowers taking measures to decouple their economies from one another. A key area of interest to participants was what the Biden administration was looking to achieve in the Indo-Pacific region. After the legacy of the Trump administration, a priority for the Biden administration will be reassuring partners of the importance of the alliance and addressing concerns about reliability over longer term. However, while the USA is approaching China as a direct competitor, smaller players in the region will need to manage both relationships and will resist being forced to choose. For the UK, the Integrated Review focuses on maintaining a rules-based order in a multipolar world, and working with partners that accept these rules, such as Vietnam.

A key area of potential cooperation between the UK and Japan are in trade and development approaches in the Indo-Pacific region. There are trade and development overlaps between the UK’s Indo-Pacific Tilt and Japan’s longer-standing Free and Open Indo-Pacific (FOIP) vision, first outlined by Prime Minister Abe in 2007. Both strategic visions outline the goal of competing with and offering alternatives to China’s Belt and Road Initiative (BRI), helping address the massive infrastructure gap in Southeast Asia. The CDC is being relaunched this year as British Investment International, looking to deepen ties with Southeast Asia, particularly around the Mekong. These initiatives look to legitimise core principles around structure, investment and rule setting, in a way that is economically viable and environmentally sustainable. This is a good opportunity for the UK and Japan to engage with one another, with Japan having substantial previous experience in engaging with Southeast Asia. Such initiatives should coordinate with other international efforts, such as the Blue Dots Network, and efforts in the OECD and G7.

It was noted that there was a risk an overly strong focus on quality in infrastructure initiatives could come at the expense of affordability, making it unattractive to poorer countries. Meanwhile, there will need to
be a greater focus on illicit financial flows and combating corruption given the build-up in infrastructure projects linked to the drive to net zero, with large sums for the latter needing to flow in a short space of time. Some potential partners of these initiatives face serious shortfalls in governance and, together with assuring quality processes, this is something that businesses will need to consider in a serious way.

Participants voiced concerns about navigating an increasingly polarised international environment. Companies were increasingly having to make decisions based on their own political evaluations, rather than the regulatory or legal positions of governments. This was being heightened by pressures to include ESG considerations as part of their strategic thinking. The importance of social considerations was demonstrated by the Black Lives Matter Demonstrations in 2020 and geopolitics will likely become another increasingly key ESG consideration. This could be seen with the invasion of Ukraine, where measures taken by companies have gone further than sanctions, making the international response far more powerful, in part because of ESG pressures.

A heightened geopolitical environment has also led both the UK and Japanese governments to move away from a neo-liberal, deregulatory agenda and implement a range of economic security measures. In 2020, the Japanese government revised its Foreign Exchange and Foreign Trade Acts, as well as putting forward a new Economic Security Bill in the Diet, while the UK in 2021 implemented its National Security and Investment Act. There are opportunities for further collaboration between the two governments in these areas, as seen with Japan working with Australia for example to boost the resilience of its critical infrastructure.

These measures have had implications for UK and Japanese businesses. While participants understood the necessity of such measures, it has nonetheless led to increased hurdles in FDI and M&A transactions. Participants were interested to see how the economic security dialogue would evolve in the light of the invasion of Ukraine. It will be important for both the UK and Japanese governments to ensure that economic security measures do not have the unintended impact of discouraging businesses from trading internationally. Support for businesses will need to be provided and businesses made aware of the support offered. The UK embassy in Japan has recently recruiting a new staff member to help Japanese companies navigate the NSI Act. Both the UK and Japanese government would also need to make businesses aware of the opportunities arising from increased economic security, such as technology to track supply chains.

Another concern voiced by participants was around the protection of critical supply chains such as of semi-conductors. Currently, 92% of chips are either produced by Taiwan or by Taiwanese firms. The EU and the USA are both moving to increase local production of chips. With the UK being unlikely to build a chip plant by itself and the UK and Japan finding themselves outside these larger economic blocs, this could provide an opportunity for further UK-Japan cooperation.

Another key area in which increased geopolitical tensions are being played out is the cybersecurity space. As China and other countries have heightened their aggressive behaviour in cyberspace, this has increased the importance of cybersecurity considerations for UK and Japanese businesses. Another key concern outlined was around international digital regulation. Divergent approaches between western countries and others such as China on issues such as data localisation have made it increasingly challenging for Japanese and UK businesses to operate internationally.

**Meeting the demands of digital transformation**

A rapidly growing and increasingly important area for UK and Japan collaboration is around digital policy. At an international level, the UK and Japan have similar weights regarding digital transformation as top-five global free market economies. With much of their digital infrastructure sitting within the private sector, public-private collaboration is a key part in conversations around digital transformation.

In the context of increased international competition in the digital space, the UK and Japan should collaborate as like-minded middle powers to identify particular niches of digital transformation where they can demonstrate effective leadership. This is in line with UK government strategy where, as demonstrated in the Integrated Review and its Artificial Intelligence Strategy, it is seeking to identify
potential “winners” in digital transformation, for example in the life sciences and areas of Artificial Intelligence. Key areas of potential collaboration identified by participants included:

- Data governance
- Cybersecurity
- The Future of Work
- Sustainability
- Life sciences
- Artificial Intelligence

While making ideal partners at an international level, the UK and Japan face unique challenges at a local level in continuing to progress their digital transformation. Japan has an ageing and relatively formal society, with such factors helping maintain analogue processes. While Japan has made efforts to digitise its economy, these efforts have been focused so far largely around improving existing processes through innovations such as cloud computing and Artificial Intelligence, rather than generating new opportunities and products in the digital economy. This puts it at a disadvantage in comparison to Silicon Valley-based companies that are leading in digital transformation.

It was argued that the UK faced almost the opposite challenge. One view was that the country has “put the cart before the horse” in terms of adopting widespread digital transformation but then facing challenges around implementation, such as in cybersecurity.

The UK also has to align its tech ambitions with its wider political agenda. Its departure from the EU may create challenges for its tech ambitions, for example undermining its ability to attract talent from overseas. Meanwhile, the Levelling Up Agenda may provide opportunities for Japanese businesses in areas such as green technologies and batteries. However, traditionally Japanese investment has focused around the “Golden Triangle” of London, Oxford and Cambridge, and this will probably remain the focus in the short term at least.

Working across these different local contexts provides both opportunities and challenges for UK and Japanese businesses. It was noted by one participant that, while in Japan there were some industries that were strong in digital transformation, such as the automobile industry, there were others where they could learn from the UK experience, such as in healthcare. Meanwhile, there were opportunities for UK start-ups that were developing innovative solutions in digital transformation, to assist Japanese businesses that were looking to progress their digital transformation.

Working across different cultural contexts could provide barriers for collaboration around digital transformation, but also create opportunities for learning and innovation. One UK participant described the experience of launching operations in Japan and working with a more analogue country, which, for example, led to differences in how to understand and interpret data. However, these differences also created opportunities for innovation, with the UK company learning from Japanese customer orientated approaches to business.

A key topic of conversation was around how the UK and Japanese governments could regulate technology in a way that didn’t stifle innovation, and the importance of public-private collaboration as part of this. UK businesses often struggled to understand Japanese regulations, leading to deals falling through and dissuading entry into Japanese markets. Clear and consistent regulatory policies across the two countries were needed to aid collaboration and digitalisation.

Different methods to explore how to make technology regulation more agile and fit for purpose were explored. As part of this, concepts of anticipatory governance were discussed, that is anticipating and preparing for technological advances when developing regulations. This is a key emerging area of interest for the UK Government, and has been factored into their initiatives around regulatory diplomacy.

A key part of the anticipatory governance approach that was discussed were sandbox approaches, where businesses can test innovative new products and services in a regulatory safe space. This is increasingly
important in a competitive international space, with one participant arguing that the reason for the rapid growth of Chinese companies was their ability to test new products at a large scale, and then implement the necessary regulations later. While the UK and Japan could not replicate this same approach, they could create regulatory sandboxes at a local, city or sector level to nurture innovation and increase their international competitiveness.

A key area for further collaboration between the UK and Japan was around data regulation. The UK and Japan are philosophically on a similar page in terms of data regulation and have identified it as a niche in which to demonstrate international leadership, promoting it in various multilateral settings such as the OECD and G7.

But despite wanting to forge a “third way” on data regulation, both the UK and Japan face the challenge of positioning themselves between US and European approaches to data governance. For the UK, the vast majority of digital trade comes from the EU, so it will ultimately have to align closer with the EU model than the CPTPP data model. Similarly, Japanese businesses consistently find themselves having to align with GDPR regulations. UK and Japanese businesses will have to factor this in when developing new digital products or services, and deciding which data governance model they should align with.

Both countries face challenges around managing China’s rise as a technological power. China’s “Digital Silk Road” seeks to utilise technology to increase its influence internationally. This is being achieved by encouraging dominance in the digital market in areas such as mobile payments and telecommunications, and influencing international standard setting organisations such as the International Organization for Standardisation.

As a result of heightened geopolitical tensions, both UK and Japanese businesses faced increased challenges around cybersecurity. Digital transformation has left business increasingly vulnerable to cyberattacks with serious impacts on business operations. In February, Toyota Corporation was forced to suspend the operations of its domestic factories due to a cyber-attack on one of its suppliers. An effective cybersecurity response therefore requires executives to have an understanding of the digital processes within the full supply chain for their businesses.

The UK and Japanese governments are both taking measures to protect critical infrastructure from cyber-attack, and this provides an opportunity for further collaboration. The Japanese government is looking to improve cybersecurity measures in 14 areas of critical infrastructure, such as telecommunications and finance. However, as most of this critical infrastructure is privately owned, public-private collaboration will be key in supporting businesses facing increased demands and costs.

As part of increasing leadership in conversations around digital transformation, the UK and Japan have explored collaboration with third countries in areas such as clean infrastructure and smart cities. It was noted by one participant that there have been efforts to find such third partners over the past 20 years, but finding them has proved difficult. For example, one key third country identified was Korea. From a business perspective, the country is a leader in digital transformation, with one of the highest proportions of E-commerce retailers of any country in the world. But frustration was voiced by some participants that the current political situation between Japan and Korea prevented this potential from being fully realised.

Managing the green transition

The UK and Japan both face a number of pressing issues as part of their respective green transitions. Evidence is increasingly demonstrating the speed with which the climate is changing and how little time there is for the international community to undertake the necessary steps to enable the transition to Net-Zero. Both countries also need to follow up on the pledges made at COP26 last year. Meanwhile, the Ukraine crisis has threatened global supplies of gas, creating new threats in energy security but also providing an opportunity to accelerate the transition towards renewable energy.

Both countries need to move away from fossil fuels towards renewables as a source of energy. The UK is ahead of Japan in terms of greening electricity, with 40% of energy coming from renewables, compared to 20% for Japan. Both countries have ambitions to increase this proportion, with Japan looking to move to 38% by 2030 by increasing its deployment of solar and wind power.
Japan faces particular constraints in greening its energy sector, notably in moving away from coal. While for the UK it has been relatively easy to phase out coal because its coal fired power plants were built in the 1960s or 70’s, in Japan the units are relatively new, having been built in response to the Fukushima nuclear disaster. Coal therefore remains a more affordable option for Japan than renewable energy, and some Japanese participants noted that the transition could leave these new plants as stranded assets. There were therefore different approaches among UK and Japanese participants, with some Japanese participants focusing on how criticisms could be managed and emissions reduced through hydrogen ammonia or Carbon Capture, Utilisation and Storage (CCUS), while UK participants highlighted their desire to work with the Japanese government to move entirely away from coal and end the financing of coal-based power stations in third countries as soon as possible.

Participants discussed the growing pressures facing UK and Japanese businesses in transitioning away from fossil fuels. These pressures are coming from both the market and financial institutions. One participant noted that, even when government pressure was moderate, ESG considerations and growing consumer pressures were threatening to strand fossil fuel assets in the near future.

Meanwhile, financial institutions have increasingly applied pressure on businesses to move away from fossil fuel business models. The capital requirements for decarbonisation, of not just the energy sector but other sectors, are vast, making access to finance a key consideration for businesses. The authorities, and particularly central banks, have increasingly put pressure on financial institutions to minimise climate risk in their lending. Businesses were therefore increasingly transitioning their investments because they couldn’t access financing for hydrocarbon-based assets.

Participants argued that UK and Japanese governments needed to provide greater clarity on their energy transition strategies to help businesses plan and ensure the success of the necessary technologies as commercial ventures. Compounding the problem of vague or incomplete strategies were public debates which often provided only a binary choice between renewables and non-renewables, failing to sufficiently take account for ‘transition assets’. One participant provided the example of Small Modular Reactors, which depend on a clear policy choice on nuclear if they are to be an element in the energy mix. Another participant noted a policy gap with respect to investment in non-renewable transition assets. Investment needed to be regulated so that transition assets could be used in the short term, but then run down over a much shorter period than their natural life. It was agreed therefore that governments needed to play a leading role in setting a strategic direction for the energy transition, as well as helping set standards and creating a green taxonomy that businesses could work with.

Opportunities for collaboration between the UK and Japan in the green transition come from their complementary economic structures and approaches to innovation. One participant noted, that while Japan had a strong manufacturing base and a culture based around continuous incremental improvement, the UK entrepreneurial culture and ability to embrace a process of trial and error provided it with greater ability to develop game changing innovative new products. There was hope that combining these cultures would allow for the development and scaling of innovative new technologies as part of the green transition.

Initiatives between the two countries should be designed to utilise each countries’ respective leaderships, and to support the development and application of new technologies in a focused number of areas of green technology. Possible areas of opportunity identified were:

- Offshore wind
- Hydrogen
- Heat pumps
- CCUS
- Batteries

It was noted that the UK’s Department for Business, Energy and Industrial Strategy (BEIS) and METI had already signed a memorandum of cooperation in 2019 which covered some of these areas, but these efforts could be updated and be made more ambitious.
One area identified for collaboration was in renewables. The UK is a leader in offshore wind and Japan is looking to increase its solar power and offshore wind power generation. One participant noted that Japan also needed to better organise electricity transfers across different parts of country, with much of the solar power currently being generated in the south being wasted. Meanwhile, Japan needed to find a way to make renewables more competitive, given coal currently remained a cheaper source of energy.

Another area identified was that of hydrogen. One Japanese participant noted that their company is already utilising hydrogen in hard-to-abate industries in the UK, such as steel. There are opportunities for further scaling of these operations, including in third countries in Africa and the Middle East, where abundant solar and wind resources provide opportunities for competitive hydrogen production. Hydrogen was also noted to have potential in the design of transition asset strategies, with Japan recently importing liquefied blue Hydrogen from Australia as part of the Hydrogen Energy Supply Chain (HESC) pilot project. Issues in scaling up hydrogen use included the need to connect supply and demand and the fact that a whole value chain had to be established at the same time.

While the UK has shown leadership in greening its electricity and decarbonising sectors such as transport, it faces significant challenges in decarbonising home heating, with heat pumps remaining an emerging technology. In contrast, Japan has been a pioneer in heat pumps, with more than 8 million already being used in the country. It was agreed among participants that this could be a strong opportunity for Japanese companies to invest more in the UK and support the country’s energy transition.

Another key area of opportunity for UK and Japan collaboration was in the areas of CCUS. The UK government has indicated that CCUS will play a key role as part of greening the electricity sector. This can be seen in the enhancing of gas fired power plants with carbon capture and storage, as well as with industrial clusters where CO2 emissions are already being collected and stored in the North Sea. This is an important area of opportunity for further collaboration, with Japan’s likely continued dependence on coal, making the use of CCUS or hydrogen ammonia key for reducing Japan’s emissions.

A further opportunity for collaboration identified was batteries, with Japanese companies investing heavily in innovations which can be deployed in areas such as electric vehicles. One participant noted that this was increasingly important due to increased geopolitical risks, helping reduce dependence on other countries such as China and Russia.

Central banks were acknowledged to have a central role in the transition and in helping to guide financial flows. While there is a consensus around the need for greater transparency, there are some differences in how the two countries are approaching the issue in part reflecting institutional structures. While the Bank of England (BoE) also holds important financial regulatory responsibilities, allowing it to approach the issue in a comprehensive way, in Japan, the Financial Services Agency (FSA) remains independent from the Bank of Japan (BoJ).

The UK is ahead in the space, making it mandatory this year for all major listed companies and major financial institutions to disclose their climate change impact. In Japan, the Tokyo Stock Exchange and the FSA have taken some first steps in requiring non-binding climate disclosures on Tokyo’s prime market. Such initiatives can lead to an effective combination of not only direct pressure from central banks, but also indirect pressure through the financial system, with commercial banks and insurance companies taking the lead in pressuring companies.

The BoE has also taken a lead in introducing environmental standards when buying corporate bonds. While the BoE only has a small portion of corporate bonds, they can demonstrate through example that the central bank is introducing ESG and environmental standards. The BoJ has not yet implemented this but has started to lend money to commercial banks with a maturity of one year at 0% interest if commercial banks provide lending to the green and transition sectors.

There were differences in UK and Japanese approaches in applying risk weights which reflect climate risks. It was noted that the UK would likely take this step over the next few years, with the BoE, European Central Bank, and People’s Bank of China all exploring such measures. As part of this, the UK government is preparing a green taxonomy to provide a common framework for investments that can be defined as environmentally sustainable. In contrast, the BoJ and the FSA have not discussed this, nor taken the steps to develop the necessary definitions around green activities.
Discussions also focused on how the UK and Japan could collaborate to support emerging and low-income countries in their transition to net zero, building on the COP26 summit. A key part of this would be through their own development financial institutions and multilateral institutions. It was noted that UK expertise in financial risk management, project risk management, and in particular areas of expertise such as offshore wind, providing opportunities to work with Japanese companies and trading houses in Southeast Asia and Africa.

The UK and Japan are also separately exploring initiatives through voluntary carbon credit markets. The UK is moving ahead to enhance its credibility in this space, with the London Stock Exchange developing a new carbon credit market solution. METI has also begun exploring initiatives in this space, looking to launch a carbon credit market in Japan as a demonstration of how it can work. These initiatives create opportunities for emerging economies in Africa in the Middle East, which have the potential to be major green hydrogen and renewable energy providers. It will be important to develop a strategy that links such initiatives to debates around border carbon adjustment mechanisms (BCAMs).