

Towards the EU–UK Reset: What can we learn from the impact of Brexit on Japanese Multinational Enterprises in Europe?

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Key Points

- Brexit has affected sectors differently: Services have been more adversely affected than manufacturing in terms of sales, reflecting deeper regulatory and market-access sensitivities.
- A gap between the business survey and firm-level behavioural data reveals optimism among Japanese services firms but actual negative performance outcomes, especially for sales to the EU.
- Divergent signals are explained by structural features of services trade, including:
 - Loss of passporting and professional mobility
 - Tighter regulatory and data-governance constraints
 - Limited services coverage in the EU–UK Trade and Cooperation Agreement (TCA)
- Japanese firms’ European location strategies shifted, with the UK retaining value as a domestic market hub but losing relative attractiveness as an EU-facing platform.
- Manufacturing impacts were more contained due to goods-centric TCA provisions, though supply chain frictions and customs procedures still imposed costs.

Policy recommendations for the EU-UK reset

- **Strengthen regulatory stability** and reduce divergence to support long-term planning for internationally integrated firms.
- **Improve TCA functionality** through customs modernisation, digitalisation, and friction-reducing operational reforms.
- **Pursue sector-specific enhancements**—especially in services-intensive areas—to address persistent non-tariff barriers.

- **Increase utilisation of TCA preferences** through advisory support for firms navigating rules of origin and compliance.
- **Develop supplementary cooperation instruments** (e.g., mobility, data, mutual recognition) to restore competitiveness in services.
- **Institutionalise foreign investor perspectives** within EU–UK economic dialogue to reinforce confidence and policy credibility.

Introduction

The UK has long served as a pivotal hub for Japanese Multinational Enterprises (MNEs) operating across Europe, offering frictionless access to the EU Single Market.¹ This strategic position —established well before the 2016 Brexit referendum— has been fundamentally reshaped by the UK’s withdrawal from the EU and the subsequent introduction of the EU–UK Trade and Cooperation Agreement. As the UK and the EU now enter a phase of attempted “reset” in their bilateral relationship, it is timely to reassess how these political and institutional shifts have affected Japanese firms’ business strategies and the UK’s attractiveness as a business location for Japanese firms.

This Briefing Paper has three central aims:

- to analyse the impacts of the Brexit referendum and the EU–UK TCA on Japanese companies operating in the UK and Europe, with attention to evolving business sentiment and operational adjustments;
- to assess how the UK’s position as a trade and investment destination within Europe has changed in the post-Brexit era, including firms’ reconfiguration of regional functions and supply chains; and
- to derive policy implications for the UK Government in the context of an emerging EU–UK “reset”.

Our analysis draws on two complementary datasets. First, we employ aggregated firm-level indicators from the Basic Survey of Overseas Business Activities (BSOBA) covering 2010–2022, enabling the robust measurement of Brexit’s effects on sales performance, employment trends, and the number and distribution of foreign affiliates. Second, the JETRO Business Survey of Japanese Companies in Europe (2013–2025) provides a unique longitudinal view of Japanese firms’ perceptions, operational challenges, and strategic intentions in Europe before the referendum, during the negotiation phase, and throughout the post-TCA period. This rich business perception-based evidence helps identify structural shifts in business confidence and location logic. Combining these datasets allows us to synthesise perception-based and behavioural evidence across three periods: pre-referendum (2010–15), post-referendum (2016–20), and post-TCA (2021–23).

From integration to friction: The impact of Brexit on trade and Foreign Direct Investment

Brexit can be understood as a broad disruption to economic integration, affecting not only trade but also the organisation of multinational activity and cross-border production networks.² Firms began adjusting their behaviour prior to the UK’s formal exit, in response to increased policy uncertainty following the 2016 referendum.³ Empirical evidence shows that uncertainty has significant negative effects on investment,

¹ Belderbos, R., & Sleuwaegen, L. (1996). Japanese Firms and the Decision to Invest Abroad: Business Groups and Regional Core Networks. *The Review of Economics and Statistics*, 78(2), 214–220; and

Head, K., & Ries, J. (2008). FDI as an outcome of the market for corporate control: Theory and evidence. *Journal of International Economics*, 74(1), 2–20.

² Huang, H. et al. (2023) ‘[Economic Disintegration and Multinational Production: Evidence from Brexit](#)’, RIETI Discussion Paper Series No. 23 E 037

³ Hassan, T.A. et al. (2024). The Global Impact of Brexit Uncertainty, *Journal of Finance*, 79(1).

employment, and productivity, particularly when future market access conditions are unclear.⁴ Although the EU–UK TCA preserved tariff-free trade in many goods, it introduced substantial non-tariff barriers in both goods and services that have increased effective trade costs and negatively affected the UK’s international trade.⁵

Brexit has also had significant implications for foreign direct investment (FDI) into the UK. Empirical studies consistently find that the UK has experienced a decline in FDI inflows following the referendum, reflecting reduced access to the EU market.⁶ Furthermore, Brexit has contributed to the reconfiguration of global value chains.⁷

Japanese multinational enterprises provide a particularly relevant case study due to their long-standing engagement with European markets and their reliance on integrated production systems.⁸ Recent work highlights their sensitivity to trade and investment frictions, given their dependence on cross-border coordination.⁹ Japanese MNEs’ case provides a useful lens through which to examine the broader impact of economic disintegration on multinational activity.¹⁰

Overall, the literature provides strong evidence that Brexit has increased trade and investment frictions, reduced the UK’s attractiveness as a gateway economy, and triggered adjustments in multinational activity. However, significant gaps remain. In particular, existing research has paid limited attention to sectoral asymmetries between services and manufacturing. Moreover, there is scope for better integration of perception-based evidence and the aggregated economic data, particularly in understanding how firms respond to uncertainty and institutional change. By combining firm-level data (BSOBA) with business perception survey, this Briefing Paper contributes to addressing these gaps and offers new insights into how multinational enterprises adapt to economic disintegration.

Firm-level impact of Brexit: Evidence from BSOBA

This section presents the analysis based on the BSOBA dataset on the activity of Japanese multinationals in the UK and Europe.

Table 1 reports the top 10 partner countries of Japanese MNEs by foreign affiliate sales¹¹ before the Brexit referendum (average 2010-15). The UK was the sixth-largest partner by foreign affiliates’ sales, and the main source of sales for Japanese firms operating in Europe, reflecting its status as an international hub for EU-based operations.

⁴ [The Impact of Brexit on UK Firms](#). (2019). NBER Working Paper Series, 26218.

⁵ Bloom, N. et al. (2025). [The Economic Impact of Brexit](#)." NBER Working Paper No. 34459. National Bureau of Economic Research.

⁶ Tamberi, N. (2024). Export-Platform Foreign Direct Investment and Trade Policy Uncertainty: Evidence from Brexit, *Economica*, 91(361), 33–69.

⁷ Hagemeyer, J. and Mućk, J. (2025). [EU Enlargements, Brexit and Value-Added Trade: A Structural Gravity Approach](#), *PLOS ONE*, 20(4), e0299738.

⁸ Porto, M. & Wierzbowska, A. (2023). Has Brexit affected employment in Japanese affiliates in the UK? *Economic Affairs*, 43(3), 314–339; and Cieřlik, A. & Ryan, M. (2021). Brexit and the location of Japanese direct investment in European regions. *European Urban and Regional Studies*, 28(1), 66–73.

⁹ Cieřlik, A. & Ryan, M. (2021); and Choi, S. et al. (2021). Policy uncertainty and foreign direct investment. *Review of International Economics*, 29(2), 195–227.

¹⁰ Cieřlik, A. & Ryan, M. (2022). Brexit and Japanese foreign direct investment in the UK: A sectoral analysis. *Oxford Economic Papers*, 74(4), 959–975; and

¹¹ Foreign affiliate sales refer to the revenue generated by a company’s foreign-based subsidiaries, rather than through direct exporting, by serving local customers in that foreign country.

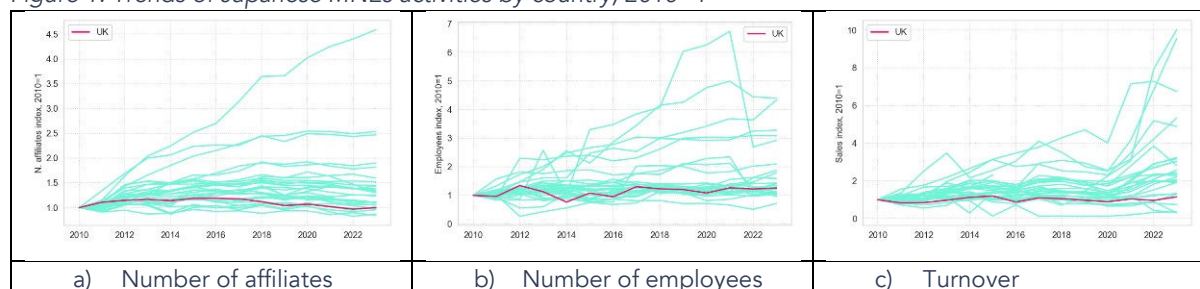
Table 1: Top 10 partner countries of Japanese MNE activities by foreign affiliates' sales, average 2010-15

Rank	Country	Sales (Million yen)	Employees	N. affiliates
1	USA	64,826,513	609,747	2,862
2	Mainland China	33,893,991	1,589,175	5,951
3	Thailand	16,773,314	654,115	1,804
4	Singapore	12,926,733	86,649	971
5	Hong Kong	8,028,229	90,751	1,125
6	UK	7,835,494	146,824	610
7	Indonesia	7,316,866	379,480	807
8	Brazil	6,357,868	90,976	268
9	Germany	5,901,006	64,078	537
10	Australia	5,796,444	41,621	416

Note: N. affiliates: Number of affiliates

Turning to long-term changes, Figure 1 shows trends in Japanese MNEs' activities for all countries in our dataset, setting 2010=1 as the reference period. While many countries showed positive trends over time, the UK remained rather flat and declined in terms of the number of foreign affiliates, employees and turnover.

Figure 1: Trends of Japanese MNEs activities by country, 2010=1

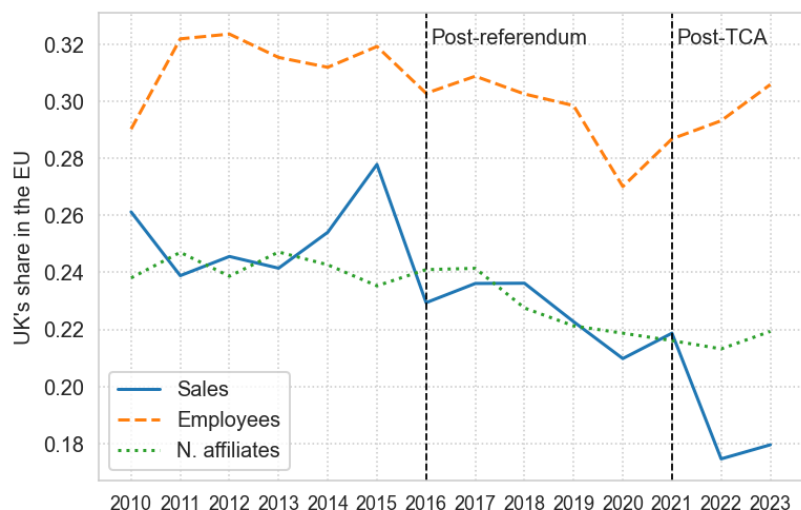


Given the importance of the UK as an export-platform country for Japanese companies, we look at the performance of the UK in comparison to other EU countries. Over the pre-referendum period 2010-15, the UK was the top partner country in the EU in terms of EU sales (accounting for 25% of total EU sales), number of employees (31%) and number of foreign affiliates (24% of the EU total).

However, these shares started to fall after the 2016 referendum. Over the period 2021-23, the UK lost its first-place in terms of EU sales and number of affiliates, with shares dropping to 18.9% and 21.6%, respectively. In terms of employment, the UK retained the first position in the EU, but with a share falling from 31% before the referendum to 29.5% in 2021-23.

Figure 2 shows the evolution of the UK's share of Japanese MNE activities in the EU by year for sales, employment and number of affiliates. For all series, we can see a downward trend starting right after the 2016 Brexit referendum. The share of employment, which dropped sharply in 2020, most likely because of the Covid-19 pandemic, recovered somewhat in 2021-22, but did not return to pre-referendum levels. On the other hand, the fall is much more evident for the shares of sales and the number of affiliates.

Figure 2: The UK's share of Japanese MNE activities in the EU, 2010-23



To measure the impact of Brexit on Japanese MNE activity in the UK, we use a statistical method that compares what actually happened in the UK against what would likely have happened had Brexit not occurred. We do this by tracking three indicators — sales, employment, and the number of Japanese affiliates — across the UK and a group of comparable advanced economies that were not subject to Brexit,¹² year by year, from 2010 to 2023.

The comparison group allows us to account for economic trends, such as the aftermath of the global financial crisis or the disruption caused by the COVID-19 pandemic, that affected all countries at the same time, not just the UK. By stripping out these common trends, we can isolate the effect that is specific to the UK and therefore more plausibly attributable to Brexit.

We use 2015 as our reference point, since it was the last full year before the Brexit referendum. Any systematic divergence between the UK and the comparison group that emerges after 2015 is interpreted as a Brexit-associated effect. Where the divergence begins before the referendum itself, this may reflect firms already adjusting their behaviour in anticipation of Brexit — a finding that is itself substantively important.¹³

The results are reported in Figure 3. These measure the % difference between the UK and other countries relative to 2015, the last pre-referendum year. In all cases, the results do not show marked differences in trends between the UK and other developed economies prior to the referendum, while negative effects start to arise right after the 2016 referendum. In particular, sales of UK-based Japanese MNEs reduced sharply after the referendum, and had a subsequent drop right after the entry into force of the UK-EU Trade and Cooperation Agreement.

¹² The countries includes 14 countries: Australia, Belgium, Canada, France, Germany, Italy, Mexico, Netherlands, New Zealand, South Korea, Spain, Switzerland, the UK and the US.

¹³ We used the event-study difference-in-differences regressions that is widely used in economic research to evaluate the impact of a specific policy event.

Figure 3: The impact of leaving the UK on the activity of Japanese MNEs

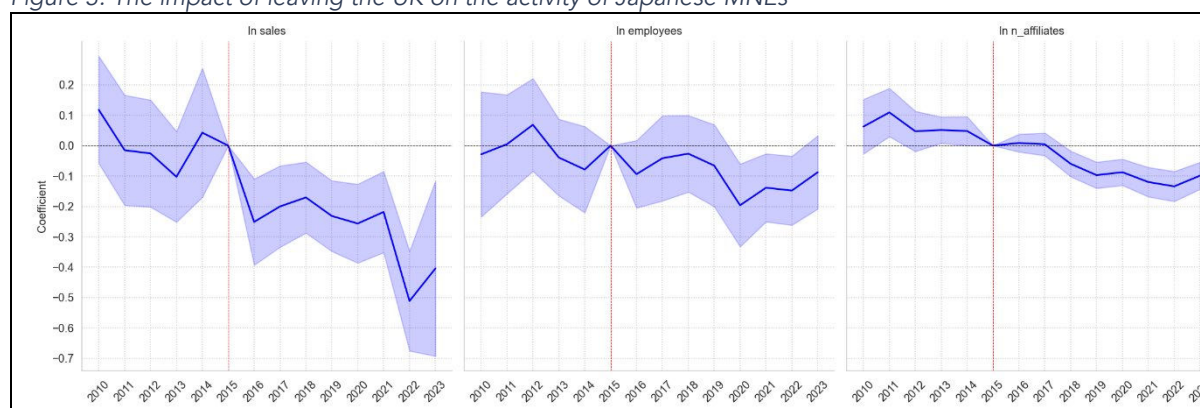


Table 2 summarises the effects by period (post-referendum and post-TCA), distinguishing between manufacturing and non-manufacturing sectors. The non-manufacturing sector includes agriculture, mining and services industries; however, the large majority of firms in non-manufacturing are services industries.¹⁴

In terms of sales, both manufacturing and non-manufacturing sectors saw a similar decline of about 19-20% compared to other developed countries.¹⁵ By contrast, the effect of the TCA appears to be larger for the non-manufacturing compared to the manufacturing sector. While manufacturing sales dropped by about -28%, the sales of the non-manufacturing sector dropped by -37% after the TCA.

The non-manufacturing sector appears to be more affected also in terms of the number of employees. The manufacturing sector did not see any drop right after the referendum, and while post-TCA coefficients point to a fall, these effects are imprecisely measured and not statistically different from zero. The non-manufacturing sector saw a reduction in employment by about 15% throughout the post-referendum period, with a slight rebound after the TCA.

The case appears different for the number of foreign affiliates, where the -16% aggregate result of the post-TCA period is mostly driven by manufacturing, which dropped by -20%, while the reduction in affiliates of the non-manufacturing sector is about -14%.

Table 2: The effects of leaving the EU by type of sector

	Total	Manufacturing	Non-manufacturing
Sales			
Post- referendum	-0.225 (0.046)	-0.213 (0.069)	-0.221 (0.050)
Post-TCA	-0.381 (0.095)	-0.334 (0.065)	-0.473 (0.130)
Observations	196	181	184
Number of employees			
Post- referendum	-0.073 (0.047)	0.010 (0.064)	-0.166 (0.101)
Post-TCA	-0.113 (0.042)	-0.075 (0.059)	-0.144 (0.101)
Observations	196	193	194

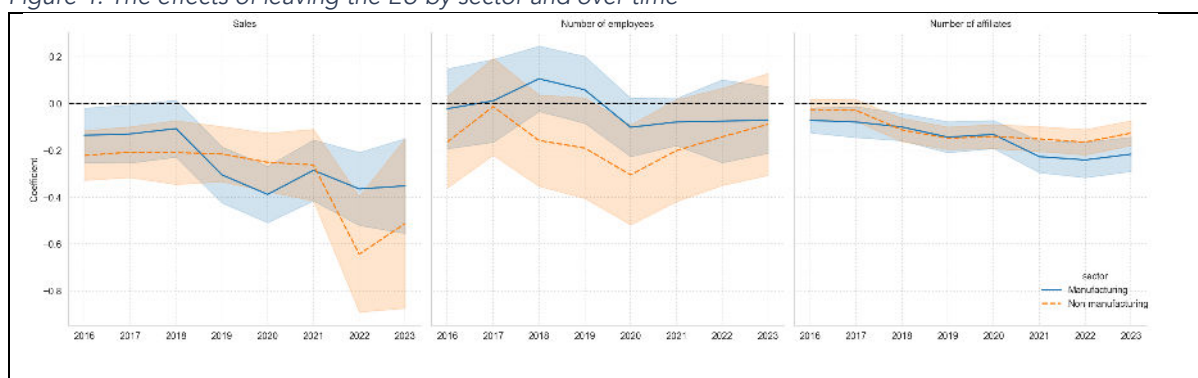
¹⁴ Services industries account for 98% of all the foreign affiliates in the non-manufacturing category in 2015 across all countries.

¹⁵ The percentage changes are computed as $100 * (\exp(b) - 1)$, where b is the regression coefficient.

Number of affiliates			
Post-referendum	-0.099 (0.028)	-0.105 (0.027)	-0.092 (0.032)
Post-TCA	-0.171 (0.023)	-0.228 (0.029)	-0.147 (0.025)
Observations	196	196	196

Figure 4 further reports the estimation of the effects of leaving the EU for the manufacturing and non-manufacturing sectors for each year over the period 2016-23, complementing the results reported in Table 2.

Figure 4: The effects of leaving the EU by sector and over time



While our results are based on publicly available aggregate data from the BSOBA survey, there is also research based on confidential firm-level data covering the period between the 2016 referendum and 2019, which revealed an important distinction between manufacturing and non-manufacturing (mostly services) firms.¹⁶ Although both sectors saw a similar overall drop in sales following the referendum, the reasons behind those falls differ markedly. For manufacturers, sales declined mainly in exports to Japan and to other European countries. For non-manufacturing firms — such as those in services — the fall was driven primarily by a drop in sales at the intensive margin (i.e. existing firms selling less domestically), rather than to overseas customers. Perhaps most strikingly, the study found that non-manufacturing firms' sales to Europe were largely unaffected by the referendum result.

A question is whether the same pattern across destination markets persisted after the introduction of the TCA. Indeed, while the TCA maintained tariff-free access for goods to the EU (although increasing non-tariff barriers), it has been argued that the agreement was much shallower for services than for goods.

Taken together, these findings suggest that Brexit has not affected all sectors equally, and that the disruption has played out through different channels depending on the type of business. This has important implications for policy, as sector-specific responses may be needed to address the varying impacts on manufacturing and services firms.

¹⁶ See Huang, H., Senga, T., Thomas, C., & Zhang, H. (2023). Economic disintegration and multinational production: Evidence from Brexit (No. 23037).

Evolving perceptions and responses to Brexit: Evidence from JETRO Surveys

This section examines how Japanese multinational enterprises operating in Europe have been affected by Brexit by drawing on the annual *JETRO Survey on Business Conditions of Japanese-Affiliated Companies in Europe*, which provides the most systematic longitudinal dataset on Japanese corporate perceptions.¹⁷ We assessed 13 consecutive years (2013-2025) to identify how Japanese MNEs' perceptions have changed regarding the role of the UK in Europe. We analyse changes in business perceptions across sectors from pre-Brexit to post-Brexit, divided into three periods: pre-Brexit, post-Brexit referendum (2016-2020), and the post-EU-UK TCA (2020-2025).

Pre-Brexit referendum

Favourable business conditions and expansion optimism

Between 2013 and 2015, the UK consistently ranked at or near the top of JETRO's country listings in the Europe survey, indicating that Japanese firms regarded the UK as pivotal to their wider European business strategies. The 2013 survey recorded a marked improvement in operating profit expectations. In that year, 67.5% of respondents anticipated an operating surplus, and a growing share judged that the European economy had either already emerged, or would shortly emerge from recession. The principal driver was sales growth in local markets—Western Europe— including the UK. In the 2015 survey, operating profit expectations continued to strengthen (39.4% reported an improvement on the previous year), again driven primarily by growth in local market sales.

The UK as a gateway to the EU Single Market

The survey clearly shows that pre-Brexit referendum, Japanese companies looked at the UK as a gateway to the growing Single Market. The UK's EU membership meant that establishing a base in the UK provided assured access to the EU's internal market. Japanese firms, therefore, often positioned the UK as a platform for exporting and re-exporting to the wider European market. Zero tariffs within the EU and the frictionless movement of goods underpinned this location logic.

The UK as a hub for regional headquarters

Another important feature is that the UK was regarded as a location for regional headquarters. A recurring feature of the 2013–2015 surveys is that the expansion of sales and marketing functions was the most frequently selected strategy across Europe. The UK was a core constituent of this category and was commonly preferred for regional headquarters, sales offices, and shared service centres. This reflected the linguistic advantages of English and the concentration of financial and professional services in London.

Post-Brexit referendum (2016–2020)

Brexit uncertainty

The JETRO surveys from 2016 to 2020 illustrate a clear evolution in Japanese firms' perceptions of Brexit, shifting from initial uncertainty to recognition of concrete operational impacts. In the immediate period following the 2016 referendum, operating profit expectations across Europe remained relatively resilient. However, UK-based affiliates already reported concern about the negative operational impacts of the Brexit referendum. Early signs of strategic reassessment were visible, notably a decline in the share of firms designating the UK as a European or regional headquarters, while Germany and other EU markets gained prominence as preferred destinations for future sales. Companies also began planning for exchange-rate volatility and prospective regulatory divergence.

Contingency planning and partial relocation to the EU

By late 2017, concern about a UK economic slowdown had become the principal Brexit-related issue for Japanese firms across Europe. The confidence gap between UK- and EU-based operations widened, with UK

¹⁷ The surveys are titled “[海外進出日系企業実態調査欧州編](#) (Kaigaisinshutsu nikkeikigyō jittai chousahen)” in Japanese (Business Survey on Japanese companies doing business in Europe). The annual survey clarifies the operational realities and management challenges facing Japanese-affiliated companies in Europe.

affiliates expressing more cautious sales and profit expectations. Contingency planning became increasingly common, including the partial relocation of sales, managerial, and headquarters functions to EU Member States such as Germany and the Netherlands. In the 2018 survey, firms reported that Brexit was beginning to affect operations in tangible ways. Anticipation of non-tariff barriers—particularly regulatory change, customs procedures, and risks to logistics, supply chains, and labour mobility—prompted internal restructuring. UK-based firms experienced a significant year-on-year rise in reported negative impacts, and they started to reconsider the UK’s role as a regional hub.

Re-evaluation of the UK’s strategic role in Europe

By 2019, Brexit had become the most significant management challenge for Japanese companies in Europe. Central concerns included the re-emergence of customs borders, logistics disruption, tariff exposure, and uncertainty surrounding future regulatory frameworks, including treatment of CE marking. The 2020 survey, conducted after the transition period, confirmed asymmetric impacts: 40.5% of UK-based Japanese firms reported that Brexit negatively impacted their business activities, compared with fewer than 20% in the EU. Logistics disruption, customs-related costs, constraints on labour mobility, and recruitment difficulties emerged as prominent operational challenges. High levels of uncertainty persisted, with many firms unable to assess the long-term consequences of Brexit. Overall, the surveys demonstrate a sustained re-evaluation of the UK’s strategic role as Brexit uncertainty gave way to operational reality.

Post-EU–UK Trade and Cooperation Agreement (2021–2025)

The EU-UK TCA altered the operating environment for Japanese affiliates trading across the UK and the EU, yet left structural issues unresolved. Developments between 2020 and 2025 illustrate a progression from initial adaptation to the consolidation of new trade frictions.

Limited and uneven use of TCA

The period immediately following the EU-UK TCA’s entry into force (2020–2022) was characterised by limited and uneven use of the EU-UK TCA. For example, around 25 per cent of firms said they used the EU-UK TCA provisions for UK-to-EU exports, while only 10.4 per cent said they did so for EU-to-UK imports. Border frictions were reported far more acutely in the UK: 46.7 per cent of UK-based manufacturers cited significant customs and logistics disruption when exporting to the EU, compared with 11.3 per cent of respondents on the EU-based manufacturers.

Survey evidence from 2022 shows that Japanese multinationals began institutionalising new border procedures and adjusting to inflationary pressures. TCA utilisation for UK-to-EU exports rose to 37.9 per cent, yet many firms opted not to claim preferences, explaining that products were already tariff-free or because administrative burdens outweighed financial gains. The EU-UK TCA thus enabled trade continuity through nominal tariff elimination, but its practical value was limited by the persistent weight of non-tariff barriers.

By 2022, initial UK-EU Brexit frictions seemed to have transformed into routine operational considerations. The survey showed that firms built longer processing times, certification requirements and periodic customs delays into standard operating models. Nonetheless, administrative and staffing burdens remained elevated. This structuralisation reflected ongoing rules-of-origin checks, customs declarations and heightened freight costs, compounded by broader inflationary pressures in Europe.

Persistent non-tariff barriers as permanent costs

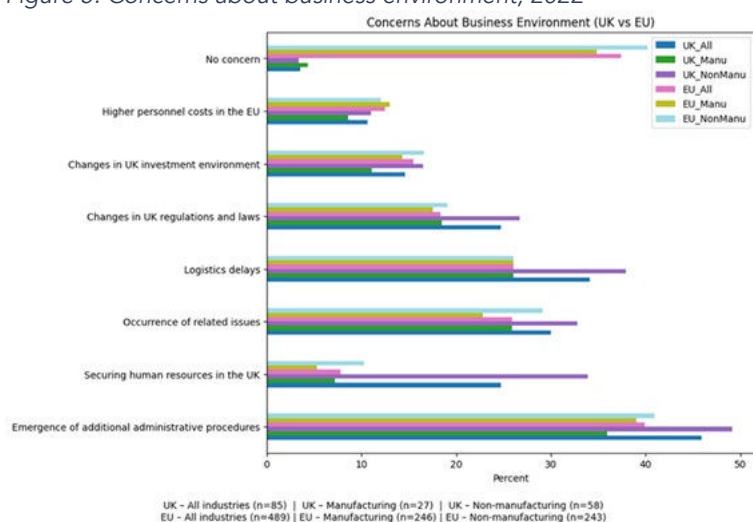
As UK-EU non-tariff barriers persisted, firms accelerated supply chain restructuring. The 2023 survey results indicate increased adoption of diversified procurement (54.9 per cent) and nearshoring or supply-chain shortening (38.1 per cent), alongside strategies to avoid “double-handling” across the UK–EU border. Trade challenges also shifted from simple delays to qualitative frictions, including inconsistent customs interpretation across EU Member States and the substantial documentation burden associated with claiming zero-tariff status. By 2024, internal compliance capability had become a critical determinant of competitiveness.

By 2025, Japanese firms seem to have reached a “new normal” characterised by higher structural costs. In particular, UK-based operations faced squeezed margins due to rising labour, energy and compliance expenses.

Despite the TCA’s tariff provisions, regulatory divergence and origin management requirements were treated as permanent fixed costs.

Concerns originally linked to the UK’s withdrawal from the EU have not dissipated; in several domains, they have intensified, shifting from transitional disruption towards embedded structural constraint. Figure 5 illustrates a pronounced divergence in reported business-environment concerns between Japanese companies operating in the UK and those based in the EU. UK respondents consistently identified the “emergence of additional administrative procedures” as a major concern, reflecting the enduring effects of the UK’s withdrawal from the EU Single Market and Customs Union. New customs formalities, rules of origin requirements and certification procedures have become a stable feature of the UK operating environment. Their persistence for more than five years after formal withdrawal underscores the normalisation of administrative complexity for UK-based affiliates.

Figure 5: Concerns about business environment, 2022



Source: “JETRO 海外進出日系企業実態調査欧州編 2023”¹⁸

Regulatory divergence as the central structural concern

Regulatory divergence has emerged as a major structural challenge for Japanese firms across sectors. Figure 6 shows that UK-based Japanese firms express significantly greater concern about shifting UK regulations than their counterparts in the EU, with product conformity rules posing the most acute difficulties. Nearly 60 per cent of Japanese firms in the UK identify CE marking (*Conformité Européenne*, meaning European Conformity) and the parallel UKCA (UK Conformity Assessed) regime as major obstacles, reflecting the burdens of dual certification, repeated testing, higher compliance expenditure and persistent uncertainty over future alignment.

Chemical regulation mirrors this pattern. UK-based Japanese firms report far greater concern regarding REACH and the separate UK REACH system, which requires duplicated registrations, parallel data management and additional documentation. Increasingly, firms view regulatory divergence in chemicals as a lasting financial constraint rather than a temporary adjustment.

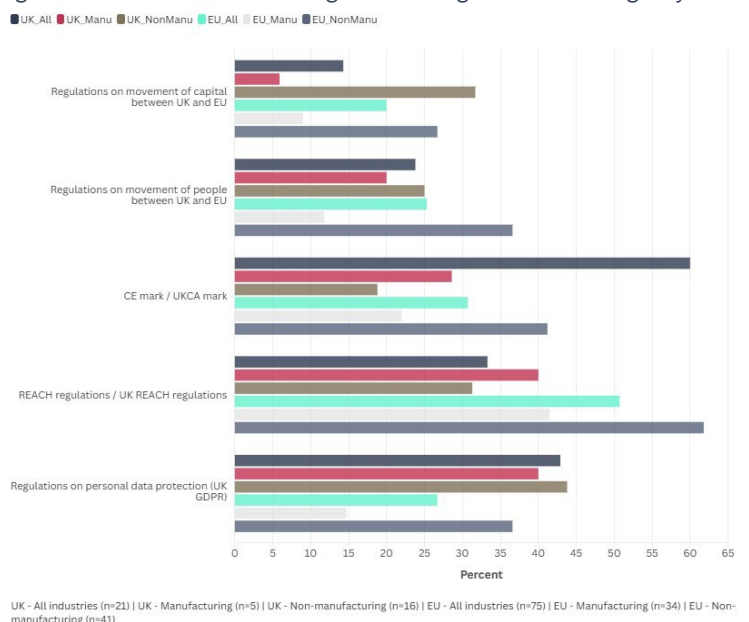
Regulation on the movement of people does matter, especially for services. Post-Brexit immigration rules have become a prominent concern for UK-based non-manufacturing firms, limiting intra-company transfers and complicating personnel rotation essential for knowledge sharing within multinational networks.

¹⁸ In Japanese (JETRO Business Survey on Japanese companies doing business in Europe 2023), Figure: “Nikkei kigyō ga kakaeru business kankyōjyō no kennei” (in Japanese) in p42.

Note: The author reproduced the English version from the Figure. UK_Manu means Japanese manufacturing companies based in the UK. UK_NonManu means Japanese nonmanufacturing companies based in the UK. EU_Manu means Japanese manufacturing companies based in the EU. EU_NonManu means Japanese nonmanufacturing companies based in the EU.

Data governance is another source of risk. Despite the UK’s retention of GDPR-equivalent rules, firms remain uneasy about future adequacy decisions and potential divergence in digital regulation, which could disrupt digital logistics, cross-border platforms and customer management systems. Capital-movement concerns are moderate but consistently higher in the UK, reflecting apprehension about future divergence in financial regulation.

Figure 6: Concerns about changes in UK regulations and legal systems, 2022



Source: “JETRO 海外進出日系企業実態調査欧州編 2023”¹⁹

Strategic adjustment and reduced UK attractiveness

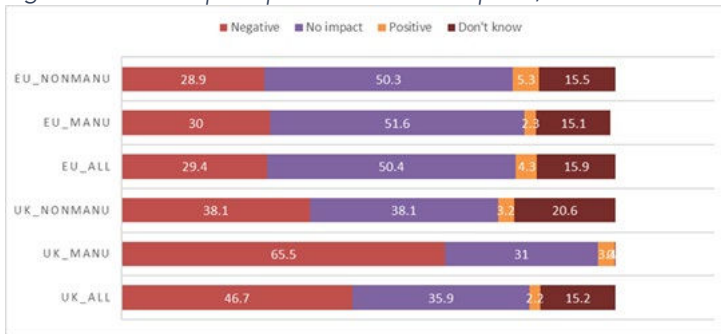
Evidence from post-TCA surveys indicates a clear reorganisation of operational functions. By 2025, Japanese manufacturing firms had increasingly transitioned to a dual-hub model, representing a structural departure from the traditional UK-centric framework. Within this configuration, UK hubs specialise in high-value upstream activities, including R&D, global finance, and innovation. Service-sector firms were heavily affected by Brexit through the loss of automatic EU passporting rights and new visa and labour mobility restrictions. For example, the 2020 survey shows that people-mobility issues became the top concern among non-manufacturing firms. As a result, many Japanese firms were forced to establish complementary EU-based hubs in Dublin, Frankfurt, or Paris.

It is also important to note that the UK’s relative attractiveness as a European base has declined in the post-Brexit environment. Figure 7 shows that Japanese firms based in the UK felt Brexit’s negative impacts far more strongly than those in the EU. While only about 29–30 percent of EU-based firms reported adverse effects, nearly 47 percent of all UK-based firms did so, rising sharply to 65.5 percent among manufacturers.

¹⁹ In Japanese (JETRO Business Survey on Japanese companies doing business in Europe 2023), Figure: “Eikoku no kisei housei no henkou ni kansuru kensen” (in Japanese) p43.

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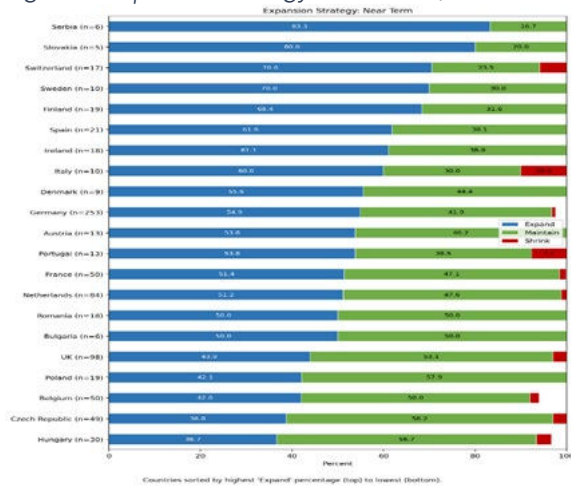
Figure 7: Business perceptions of Brexit's impacts, 2022



Source: "JETRO 海外進出日系企業実態調査欧州編 2023"²⁰

Figure 8 shows that while many European locations report high proportions of firms planning expansion, only 43.9 percent of Japanese firms in the UK anticipate near-term expansion. The majority intend to maintain their existing scale, and a small but notable share plan to contract. This pattern suggests that cumulative Brexit frictions—administrative burdens, regulatory divergence and labour mobility constraints—have eroded the UK's competitiveness within Japanese firms' European strategies.

Figure 8: Expansion strategy – near term, 2024



Source: "JETRO 2025"²¹

Key Findings

Before 2016, Japanese firms viewed the UK as the strategic entry point to Europe. The UK consistently ranked among the most attractive European locations, primarily because frictionless access to the EU Single Market allowed the UK to act as a hub for regional headquarters, sales and marketing centres, and service coordination. London's financial and professional services ecosystem further reinforced its position as a platform for EU-wide operations.

²⁰ In Japanese (JETRO Business Survey on Japanese companies doing business in Europe 2023), Figure: "Eikokuno Brexit ni kanrenshita jigyoheho eikyuu" (in Japanese) p41, the 2023 JETRO Business Survey.

Note: The author reproduced the English version from the Figure. UK_Manu means Japanese manufacturing companies based in the UK. UK_NonManu means Japanese nonmanufacturing companies based in the UK. EU_Manu means Japanese manufacturing companies based in the EU. EU_Manu means Japanese nonmanufacturing companies based in the EU.

²¹ In Japanese (JETRO Business Survey on Japanese companies doing business in Europe 2025), Figure: "Kongo 1-2nenn no jigyoutennkai no houkousei" (in Japanese) p13

Note: The author reproduced the English version from the Figure.

The surveys are titled "海外進出日系企業実態調査欧州編" in Japanese (Business Survey on Japanese companies doing business in Europe).

After the Brexit referendum, perceptions shifted markedly. Initial uncertainty quickly gave way to operational concerns as negotiations dragged on. UK-based affiliates reported greater concern than their EU-based counterparts, and fewer firms designated the UK as a regional headquarters. By 2018-2020, concrete frictions – customs procedures, expected regulatory divergence, logistics delays, and labour mobility constraints – had become central business challenges. Manufacturers were especially exposed due to rules of origin requirements, dual certification, and supply chain disruption.

The TCA stabilised trade relations but introduced persistent non-tariff barriers. TCA utilisation remained limited, and firms increasingly treated customs formalities, logistics delays, and duplicated regulatory processes (e.g., CE/UKCA certification and EU REACH/UK REACH compliance) as the new status quo. Survey evidence shows a sustained divergence between UK- and EU-based firms: UK affiliates report significantly higher administrative and regulatory burdens, and expansion intentions in the UK remain markedly lower than in other European locations.

The econometric analysis corroborates these survey findings. The UK diverged negatively from comparable advanced economies immediately after the referendum. From 2016 onwards, sales, the number of affiliates, and, more modestly, employment all declined relative to the control group, with these effects intensifying after the TCA's entry into force. Across all sectors, sales of UK-based Japanese affiliates fell by around 22% in the post-referendum period and 38% after the EU-UK TCA. The number of affiliates also declined, particularly in manufacturing, mirroring the survey evidence of headquarters and operational functions relocating to the EU.

Both manufacturing and services were adversely affected, but through different channels. Manufacturing saw sharper declines in affiliate numbers and faced greater exposure to customs frictions, rules of origin compliance, and dual certification. Services experienced disproportionately large post-TCA sales declines due to structural barriers under the TCA, including the loss of EU passporting rights, labour mobility constraints, and uncertainty around data governance regimes.

Policy recommendations for the EU-UK reset

Building on the successful ratification of the New Strategic Partnership in May 2025, and amidst the prevailing 'reset' debates, the UK Government should consider a policy of 'dynamic alignment'. Such a framework would mitigate the structural costs of Brexit by reducing costs associated with regulatory divergence. Ultimately, this strategic pivot would reinforce the UK's broader value proposition as a primary investment destination for global firms seeking integration into European markets. We nonetheless recognise that dynamic alignment might come at non-trivial political costs.

The following policy directions are recommended from our findings:

- **Strengthen regulatory stability and minimise divergence:** Japanese firms have identified regulatory divergence from the EU as a primary source of duplicated compliance costs, affecting market access, conformity assessment, and chemical safety regulation. The UK Government should therefore prioritise structured regulatory cooperation with the EU in sectors where alignment delivers significant cost savings, including industrial goods, chemicals, and dual-use technologies. Establishing mechanisms for mutual recognition of conformity assessment and maintaining clear, forward-looking regulatory roadmaps would significantly reduce uncertainty for firms operating integrated pan-European supply chains.
- **Improve the functioning of the TCA and manage trade frictions:** To address administrative burdens associated with rules of origin, customs formalities, and documentation requirements, the UK Government should deepen cooperation with the EU on customs modernisation, digitalisation, and trusted trader schemes.
- **Explore sector-specific enhancements to the TCA:** Particular consideration should be given to the manufacturing sector (e.g. automotive, chemicals, and medical devices) where technical barriers have

material operational impacts.

- **Improve utilisation of TCA preferences:** Through enhanced guidance and advisory support to maximise TCA's benefits.
- **Pursue supplementary cooperation instruments with the EU:** in the areas of business mobility, data and digital regulation, professional qualifications, and financial services equivalence. Measures to facilitate intra-company transfers and short-term project mobility would be particularly beneficial for multinational firms reliant on rotational personnel and specialist knowledge transfer.
- **Embed foreign investor perspectives within the broader EU–UK reset process:** by institutionalising a structured annual economic dialogue with EU counterparts, supported by participation from non-EU investors. This would enable the identification of practical regulatory solutions and build confidence for foreign investors.