

Regulatory cooperation through trade: Trends, challenges and recommendations for middle-power countries

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Key Points

- Middle-power countries such as Japan, Korea, and the UK face a delicate challenge navigating regulatory cooperation through trade but have the potential to play an important role as intermediaries and innovators in global trade governance. Data governance and agri-food regulation form good examples of both of these dynamics. It is important for middle powers to calibrate their regulatory approaches with the demands of major powers, such as the EU and the US.
- The structure and drivers for regulatory cooperation between countries are divergent and informed by what might be described as a 'techno-political complex': the needs of particular sectors, the relationship between regulators and politicians, power politics and business, and how international organisations interact with these factors. For this reason, when attempting to understand what makes regulatory cooperation between countries successful, it is important to take a sector- and country-specific approach.
- At the same time, it can be generally observed that Free Trade Agreements (FTAs), including chapters that aim to achieve regulatory coherence or cooperation, are playing an ancillary rather than primary role in facilitating regulatory cooperation between nations, while sectoral-specific agreements are on the rise. Non-state actors, including international organisations and private standards, also play a key role in successful international regulatory cooperation.
- The increasing use of industrial policy measures, including those that restrict trade, raises particular challenges for regulatory cooperation. Fostering greater international trade cooperation may necessitate embracing a more complex set of industrial and trade policy objectives. A key step is to identify areas where countries can collaborate on shared objectives.
 - Plurilateral engagements among like-minded states are likely to provide the best prospects for cooperation on such industrial policy interventions.
- It can be challenging to isolate and quantify how regulatory barriers affect trade. Understanding the impact of regulatory barriers on the market and negative spillovers is important to understand why and where regulatory cooperation is most important.

Introduction

Regulatory cooperation in trade often refers to a government promoting interoperability of legal and regulatory frameworks while maintaining regulatory sovereignty.¹ It reduces unnecessary regulatory divergences through mechanisms such as mutual recognition, harmonisation, and information-sharing. With rising trade barriers due to geopolitical conflicts, climate change, and economic security concerns, like-minded countries embed regulatory cooperation chapters in Free Trade Agreements (FTAs) to enhance efficiency and reduce costs. At the same time, increasingly, non-trade objectives - including labour rights and environmental commitments - are central to regulatory cooperation, reflecting a broader shift in global trade governance.²

Uncertainty and use of trade barriers are increasing due to the pandemic, climate change, war and national security concerns. Like-minded countries have shown their willingness to cooperate in certain sectors, or trade in general, by signing FTAs that include dedicated chapters on regulatory cooperation or coherence or sectoral agreements to reduce inefficiency and costs rooted in unnecessary regulatory divergences.

Through such agreements, regulatory giants have often tried to project their interests on the rest of the world. The term 'Brussels Effect', first used by Anu Bradford, explains the phenomenon of EU regulations influencing other countries, and the EU also uses international agreements or unilateral influence, such as data adequacy decisions, to project its influence.³ The US has also leveraged bilateral agreements to both diffuse its interests in and influence regional and multilateral negotiations.⁴

At the same time, what is traditionally portrayed by trade policy officials and literature as 'non-trade objectives'⁵ increasingly dictate the nature and focus of regulatory cooperation. Economic security and climate change are particularly prevalent motivations for like-minded countries to undertake cooperation efforts. For instance, numerous trade agreements include chapters on commitments to labour and environmental protection that encourage cooperation between parties.⁶

International organisations and private entities that establish or certify voluntary standards are increasingly taking on roles which were traditionally held by state actors. This shift adds an extra layer of complexity and demands a more robust methodology for understanding the influence of different actors on regulatory frameworks.⁷

In the context of these larger trends, this Briefing Paper starts by discussing the challenge for middle-power countries in global trade governance and explores institutional factors that facilitate successful dialogue on industrial policy and trade. It then examines other cooperation frameworks outside free trade agreements and the economic effects of non-tariff trade barriers. Finally, it reflects on some of the factors that inform whether regulatory cooperation is successful. These reflections, which encompass a number of different contemporary challenges for regulatory cooperation, are drawn from a series of research projects being undertaken in the context of the Centre for Inclusive Trade Policy.

Middle powers navigating a turbulent world

Middle-sized economies such as Japan, Korea, and the UK are under pressure to achieve amicable trade relations with large economies and maintain their regulatory autonomy.⁸

¹ OECD, Best Practice Principles for Regulatory Policy International Regulatory Co-operation

² CITP research consists of several projects examining regulatory cooperation through and beyond Free Trade Agreements. This Briefing Paper summarises presentations and discussions held at Sussex in September 2024, spanning law, economics and international political economy

³ Anu Bradford, *The Brussels Effect: How the European Union Rules the World*. Faculty Books; 2020: 232

⁴ https://onlinelibrary.wiley.com/doi/epdf/10.1111/j.1747-1796.2009.00364.x?saml_referrer

⁵ <https://blogs.sussex.ac.uk/uktpo/2022/12/07/is-the-golden-age-of-free-trade-agreements-over/>

⁶ For example, EU-South Korea FTA Chapter 13; CETA Chapter 22; USMCA Chapter 23; UK-Australia FTA Chapter 22 and 23

⁷ We document a variety of examples in the section: How regulatory cooperation exists in practice: Examining existing reliance arrangements

⁸ Digital Trade Wars 2: New US Legislation Labels KFTC's Tech Regulation Discriminatory, But Is It?

<https://keia.org/the-peninsula/digital-trade-wars-2-new-us-legislation-labels-kftcs-tech-regulation-discriminatory-but-is-it/> The Korean Fair Trade Commission (KFTC) initially modelled its regulatory approach on the DMA, introducing the Platform Competition Promotion Act (PCPA), which sought to impose **ex-ante** obligations on "gatekeepers" similar to the EU's

a) Agri-food: The case of genetically modified organisms and gene editing in Korea

The agri-food sector illustrates these dynamics. The World Trade Organization (WTO) Sanitary and Phytosanitary (SPS) Agreement sets out international obligations and principles for countries to restrict trade based on the risk of harm to human, animal or plant life or health. It stipulates that countries can implement protective measures, provided these measures are based on scientific evidence and do not discriminate between goods based on their origin.⁹ It also encourages countries to align their SPS standards with existing international guidelines, such as the Codex Alimentarius. This allows countries to prioritise public health and safety while minimising unnecessary trade barriers.

In this context, two regulatory giants—the EU and the US—adopt different approaches to undertaking risk assessments and their resultant approach to regulating agricultural biotechnology. The US focuses on the final characteristics of genetically modified organisms (GMOs) and gene-edited products. In contrast, the EU follows a precautionary approach, emphasising the processes used to create them. The WTO dispute in 2006 highlighted these divergent approaches, with the US claiming that the EU's delays in approving GM crops were unjustified, and constituted a *de facto* moratorium, while the EU defended its measures, arguing that it followed the precautionary approach due to scientific uncertainties about environmental and health risks associated with GMOs and the bloc's consumer concerns.¹⁰

There is a similar divergence in an emerging area of technology: Gene-edited (GE) food crops. There is no global regulatory framework to govern them, and countries define GE technologies differently.¹¹ A key debate is whether GE crops should be regulated the same as GMOs.

The US regulates GE crops based on their risks, which exempts certain GE crops from regulatory reviews and additional safety assessments.

Korea, in contrast, takes a more conservative approach to GE crops by treating GE crops the same as GMOs under the Korea Living Modified Organisms (LMO) Act. The US Trade Representative (USTR) criticises this regulation for creating significant barriers to US agricultural exports due to excessive regulations.¹² In its report, the USTR describes the regulatory process as redundant, cumbersome, and inefficient, involving different government agencies overlapping.

In response to this, Korea drafted a revision of the LMO Act to reduce inefficiencies and relax regulations on products of GE crops. However, while the industry supported the relaxation of the LMO regulation due to this cost, consumer groups strongly opposed the proposal. As a result, the bill could not pass due to the opposition in the previous National Assembly term. Since then, in 2024, there have been two new proposals for the LMO Act that take a more flexible approach by exempting risk analysis to certain GE crops.

Korea's approach to regulating GE crops could have implications under the US-Korea (KORUS) FTA, which stipulates that SPS measures should rely on science and risk-based assessments. While the KORUS SPS chapter encourages bilateral cooperation, it does not have binding dispute settlement mechanisms. Given that the same issue has been discussed since 2020, Korea risks facing diplomatic pressure or a legal challenge from the US at the WTO, similar to the US-EU GMO dispute in 2006.

The tension between safety and innovation reflects a broader challenge in Korea's regulatory landscape - managing diverse stakeholder interests. Domestically, the government should reconcile competing interests while ensuring that its regulations do not unnecessarily impede international trade, particularly with significant partners like the US. This regulatory dilemma reflects the broader challenge faced by a middle power, which often involves navigating complex trade-offs between upholding domestic regulations and fulfilling international obligations. As such, Korea's approach to GEOs will continue to evolve as it seeks to balance these competing interests.

framework. However, after facing strong pushback, particularly from the U.S., the KFTC shifted to a more moderated **ex-post** approach under existing competition law, which reacts to anti-competitive behaviour rather than preventing it in advance.

⁹ Article 5.7 SPS Agreement

¹⁰ [European Communities - Biotech \(2006\)](#)

¹¹ [An Outlook on Global Regulatory Landscape for Genome-Edited Crops - PMC](#)

¹² [USTR FOREIGN TRADE BARRIERS 2023](#)

b) Digital trade: the case of data governance in Japan

Data governance is another example that illustrates how middle-power countries strategically engage with regulatory cooperation. In the current regulatory landscape, the EU promotes a right-based approach,¹³ while the US advocates a free-data flow approach.¹⁴ In parallel, recently, middle powers, such as Australia, Japan, Korea, and Singapore, have taken more prominent roles in digital trade by signing multiple digital trade agreements.¹⁵

The digital trade chapters under Japan's FTAs were initially aligned with the US free data flow first approach. However, this has shifted toward the EU's rights-based approach, formalised by signing a new cross-border data flow protocol with the EU in 2024.¹⁶ This shift is evident when comparing other Japan FTAs like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the US-Japan Digital Trade Agreement (DTA), which prioritise free data flows with a flexible approach regarding data privacy protection,¹⁷ while the EU-Japan Economic Partnership Agreement and the new data flow protocol emphasise privacy and trust based on the EU-Japan adequacy decisions outside the EU-Japan Economic Partnership Agreement (EPA).

Domestically, the Japanese Government has reshaped their private data protection policy over the last two decades. The Act on the Protection of Personal Information (APPI), which is the backbone of data protection in the country, has been revised several times, inspired by the EU General Data Protection Regulation (GDPR).¹⁸ Various factors changed Japanese policy preferences. Firstly, Japanese businesses strongly preferred EU GDPR-type data privacy protection for promoting their international business, especially with the EU. This incentivised Japanese policymakers to apply a high-standard data protection law. Secondly, at the international level, the government had a strategic motivation to become a convergence actor by utilising digital trade agreements/FTAs. Thirdly, as an advocator of the notion of Data Free Flow with Trust (DFFT), the notion of 'trust' has become a key element of its data and digital governance.

This shift happened amid uncertainty in recent trade agreements. For example, CPTPP requires free data flows and prohibits measures which restrict data flows, such as data localisation requirements and source code disclosure requirements. At the same time, there is an exception clause for allowing regulatory measures to achieve legitimate public policy objectives. While these exceptions aim to preserve members' regulatory autonomy in protecting privacy and addressing security concerns, the vague and narrow policy objective exception under CPTPP and the Japan-US DTA may create legal uncertainty.¹⁹ Japan promised the EU to apply its domestic laws instead of the cross-border free data flow provisions in its FTAs including CPTPP and the Japan-US DTA.²⁰

The Japanese regulatory framework stands in the middle: enforcement mechanisms are influenced by the US framework, which prioritises free data flow, while its data privacy policies align with the European GDPR, demanding personal data protection safeguards. This mixed model complicates Japan's efforts to maintain its EU data adequacy status, particularly in managing the onward transfer of EU data to non-EU jurisdictions, while

¹³ Article 2 of the Treaty of European Union enshrines protection of the fundamental rights. The European Charter of Fundamental Rights and the European Declaration on Digital Rights and Principles protect fundamental rights and guide the EU's digital agenda.

¹⁴ It should be noted that the US has changed its position regarding free data flow and restrictions of data localisation requirements and restrictions of source code requirements to reserve government's policy space in October 2023 (see [Can trade policy enable "Data Free Flow with Trust?" | CITP](#)). The US's digital trade chapters, such as ones under USMCA and the Japan-US digital trade agreement were made before the policy shift.

¹⁵ https://asiafoundation.org/wp-content/uploads/2024/03/Digital-Trade-Agreements-in-Asia-and-the-Pacific_Tech-Policy.pdf

¹⁶ [Can the UK lead on Data Flow Governance? Insights from the EU-Japan protocol on free data flows and personal data protection.](#) « UK Trade Policy Observatory

¹⁷ For example, the CPTPP Article 14.8, footnote 6 include the law that provide for the enforcement of voluntary undertaking by enterprises relating to privacy (which indicates APEC Cross-Border Privacy Rules system (CBPR)).

¹⁸ The first APPI was enacted in 2003. Revised APPI entered into force 2022. The Japanese government revises the Act every three years.

¹⁹ Mira Burri. Data Flows and Global Trade Law. In: Mira Burri, ed. Big Data and Global Trade Law. Cambridge University Press; 2021:11-41.

²⁰ European Commission Staff Working Document, 'Accompanying the document Report from the Commission to the European Parliament and the Council on the first review of the functioning of the adequacy decision for Japan' COM (2023) 275 final, 23.

complying with other Japanese FTA commitments in digital trade. It remains uncertain how Japan will navigate these challenges.

Enforcement challenges extend beyond trade agreements, as aligning with global standards—such as the EU’s data adequacy framework—remains complex in a fragmented international regulatory environment. How Japan navigates these tensions will be critical to sustaining compliance with evolving global data governance standards and ensuring its ongoing participation in international data flows.

Industrial policy and international cooperation

Global trade governance increasingly happens through non-tariff measures outside of traditional trade agreements.²¹ Unilateral industrial policy, such as measures resulting from the EU Green Deal and the US Inflation Reduction Act (IRA), aim to shape global supply chains and increase domestic capacity. Such industrial policy approaches illustrate a focus on sector-specific measures designed to benefit domestic industries and sometimes incorporate elements of discrimination against foreign businesses, such as local content requirements.²² Industrial policies may also use trade as an instrument to bolster supply chain resilience or ensure access to critical supplies.

Industrial policy measures often emerge from domestic pressure led by electoral imperatives, trade unions and civil society. While many countries pursue similar objectives, whether international cooperation can effectively realise these goals and the role of trade agreements in addressing non-economic objectives are key questions to examine in order to achieve more effective international cooperation.

International cooperation can be motivated by shared underlying objectives.²³ While these objectives are interdependent, they vary in scope. For instance, national security policies often incentivise cooperation among like-minded countries, while environmental policies address global externalities that require international cooperation.

Fostering greater international trade cooperation may necessitate embracing a more complex set of industrial and trade policy objectives. Illustrating this trend, Biden’s Administration US Trade Representative, Katherine Tai, signalled that the US was no longer interested in pursuing more traditional routes to regulatory cooperation on trade.²⁴

A key step toward international cooperation is to identify areas where countries can collaborate on shared objectives. Plurilateral engagement among like-minded states is likely to provide the best prospects for cooperation on industrial policy interventions aimed at achieving national objectives. Such engagement should ideally take place within the framework of multilateral institutions that have broad membership, offering transparency to non-participants and creating opportunities for feedback and learning. When plurilateral discussions take place within a multilateral organisation like the WTO, it can help to guide discourse in order to include developing countries and push policymakers to specify their objectives. Such dialogues can also focus on improving how national policies target specific objectives, thus enhancing both national and international outcomes.

Regular dialogue and information exchange are important, particularly in fields like big tech, which require technological expertise. An effective dialogue process can lead to more efficient and effective outcomes that help achieve common goals.

Trade agreements may not be the most efficient way to address industrial policy objectives, but they offer opportunities for cooperation. Dealing with industrial policy objectives through trade agreements is much more complex than managing commercial policy spillovers. To facilitate the success of FTAs in supporting effective cooperation, when designing trade agreements, it’s crucial to involve experts in the relevant fields, such as environmental regulators for climate policies and legal experts for competition policy. This will help make clear

²¹ UNCTAD Report 2023

²² [Industrial Policy and International Cooperation](#)

²³ https://cadmus.eui.eu/bitstream/handle/1814/75922/189926-non_economic_objectives_globalisation_and_multilateral_trade_cooperation.pdf?sequence=1&isAllowed=y

²⁴ Washington Trade Daily (2022, 12 October), “Now is not the time for FTAs, Tai says”, Vol 31, No 202

the political economy constraints and information barriers faced by policymakers and clarify policy objectives to support international cooperation.

How regulatory cooperation exists in practice: Examining existing reliance arrangements

Outside of FTAs, different forms of cooperation in regulatory environments involve specific areas of practice. The World Health Organisation defines regulatory 'reliance' as a practice 'whereby the regulatory authority in one jurisdiction takes into account and gives significant weight to assessments performed by another regulatory authority or trusted institution, or to any other authoritative information, in reaching its own decision'.²⁵ Equivalence and recognition arrangements are the most familiar kinds of regulatory reliance, but they do not exhaust the forms that it can take.

Reliance arrangements are often between regulators (i.e. public authorities) in different jurisdictions. But there are other possibilities. For example, it is not uncommon for regulators to rely on the governance arrangements or internal control systems within a corporation or corporate group. Under the EU's General Data Protection Regulation, for example, cross-border transfers of personal data which would otherwise be prohibited are permitted, provided they take place within a corporate group which has in place an approved set of data protection policies which meet certain requirements. In effect, these 'binding corporate rules', along with associated internal control systems within the group, are relied upon to provide sufficiently strong protection of data privacy. Another example, taken from the food safety context, is the recognition of disease-free 'compartments', which involves reliance on special controls put in place by private actors in relation to specific sites of production.

On other occasions, regulators can rely on systems of transnational regulatory governance. For example, a recent agreement between Indonesia and European Free Trade Association states provides for preferential market access for vegetable oils produced in accordance with certain sustainability objectives. In implementing this obligation, Switzerland treats the certification of palm oil products by the Roundtable on Sustainable Palm Oil (RSPO) as evidence of conformity with these sustainability objectives.²⁶ Under both the EU Timber Regulation (now replaced) and the US Lacey Act, which prohibit the importation into the EU and US of illegally produced timber, respectively, certification by schemes such as Forest Stewardship Council and Programme for the Endorsement of Forest Certification have been treated as evidence (though not definitive) that importers have exercised the necessary due diligence.²⁷

Still, other examples involve a reference regulatory system which is public but international or intergovernmental in nature. One example involves the system established by the World Organisation for Animal Health (WOAH) for the international recognition of disease-free status for regions in respect of six animal diseases. Where food products are exported from these regions, the international recognition by WOA of disease-free status is relatively commonly taken into account by the national regulatory authorities of the importing nation in determining whether or not to recognise that status for the purposes of their own domestic law.

A number of challenges and questions arise from this practice. These include:

- Facilitating input from developing countries and consensus: Developing countries often face difficulties in contributing effectively to relevant governance regimes due to limited resources and technical expertise, leading to regulations that may not reflect their interests;
- Technical questions relating to methodologies and processes for evaluating equivalence and adequacy, inconsistent documentary and information requirements, delay, politicisation, and ongoing monitoring of regulatory changes over time; and
- What role can and should international standards and international organisations play in overseeing and/or facilitating regulatory reliance arrangements?

²⁵ https://cdn.who.int/media/docs/default-source/health-products-policy-and-standards/7_who-guidelines-on-good-reliance-practices--applicability-and-prospects-for-implementation_samuel-azatyan.pdf?sfvrsn=2e31f8ca_1

²⁶ https://www.bsigroup.com/siteassets/pdf/en/insights-and-media/insights/white-papers/the-standards-regulation-nexus_mapping-the-ecosystem-of-standardisation_fv.pdf

²⁷ <https://us.fsc.org/en-us/newsroom/newsletter/id/545>; <https://www.justice.gov/opa/pr/us-corporation-sentenced-importing-illegally-sourced-wood-amazon>

Lack of frameworks for regulatory cooperation

There is often an extensive exchange of information between regulators prior to the conclusion of an equivalence or recognition agreement as part of the process of assessing the quality of each other's regulatory system. However, structures for ongoing cooperation during the life of the arrangement are often lacking, with renewed engagement primarily occurring when a problem occurs. For example, in pesticides, international cooperation between trading partners occurs primarily at two critical junctures: 1) when one Party is preparing to issue a certification and 2) crisis management, for example, if disease outbreaks result in emergency pesticide authorisation.

This gap highlights the need for stronger collaboration, particularly in areas where cooperative efforts can create meaningful progress. To foster more effective collaboration, it may be useful to establish frameworks that encourage continuous, transparent dialogue and create shared standards for monitoring and enforcement throughout the supply chain. By doing so, trading partners can ensure that regulatory goals are met consistently, even outside times of immediate need or crisis.

Non-tariff barriers and UK-EU trade post-Brexit: the case of bottled water

As well as understanding the factors that facilitate effective regulatory cooperation, it is also important to understand and assess the economic impacts of regulatory and other non-tariff barriers to trade. Brexit provides a case study of a significant disruption of regulatory cooperation between the UK and EU and its reverberations through supply chains.

Despite the maintenance of zero tariffs between the EU and UK, subject to rules-of-origin provisions in the UK-EU Trade and Cooperation Agreement (TCA), The TCA introduces significant new barriers to trade. Even though these non-tariff barriers that stem from Brexit have become a focal point of research, evaluating their impact on prices and welfare is much harder compared to assessing the consequences of tariff barriers. This is because while tariff rates are usually measured in great detail, non-tariff barriers often relate to the overall functioning of markets that facilitate trade, e.g. transportation, insurance, and distribution, and are therefore harder to measure and pinpoint.

One possible strategy is to study particular industries whose institutional context allows one to cut through some of these intricacies. One such industry is the bottled water industry. It has a relatively simple supply chain whose production locations are fixed to specific sources and which is heavily reliant on transportation. Given this reliance, a focus on the bottled water industry allows one to evaluate the extent to which changes in the transportation sector impacted the costs of supplying goods to the UK, consumer prices and consumer welfare.

Indeed, preliminary analysis points to a non-trivial increase in prices for UK consumers of bottled water imported into the UK, while Belgian and French prices of comparable bottled water stayed relatively constant. At the same time, the analysis also suggests that there was a coincidental increase in freight rates for road transport to UK destinations. A potential regulatory change affecting these trade dynamics is the introduction of cabotage rules governed by the terms of the UK-EU TCA. These rules limit EU lorry drivers to two trips within the UK, which may have reduced transportation efficiency and contributed to the rise in freight costs.²⁸

Given that bottled water production is fixed to specific geographic locations, relocation is economically unfeasible. Consequently, depending on the degree of pass-through of changes in costs into consumer prices, which is governed by supply and demand in the bottled water industry, the burden of increased transportation costs potentially fell predominantly on UK consumers.

Overall, the combination of post-Brexit regulatory restrictions, transportation inefficiencies, and cross-border service limitations has presumably created a more challenging environment for UK-EU trade. While difficult to quantify in general, the bottled water industry does exemplify these broader challenges and can serve as a way to quantify the effects of some of these Brexit-induced challenges.

²⁸ Cabotage refers to the transport of goods between two locations in the same country by a foreign operator. EU operators can only make two cabotage movements within seven days of arriving in the UK, after which they must leave <https://www.gov.uk/guidance/eu-operators-transporting-goods-into-the-uk>

Uncertainty and regulatory cooperation: the case of Brexit and the UK-Japan Economic Partnership Agreement

Brexit's disruption of deep regulatory and tariff alignment between the UK and EU impacted international supply chains. These impacts do not just stem from the TCA but also from a long period of uncertainty regarding the future direction of trade relations between the EU and the UK.

Japanese multinational enterprises (MNEs) have long played a significant role in Europe, particularly in sectors such as the automotive industry, where just-in-time supply chains are integral to operational success. Many Japanese companies base their European facilities in the UK, although the majority of their output has been directed toward the broader European market. Their supply chains are composed of a complex mix of local, European, and Japanese suppliers. However, Brexit has introduced uncertainty and increased costs for companies that traditionally relied on the UK as their European hub.

Initially, businesses faced uncertainty regarding future trade relations between the EU and the UK, particularly concerning potential regulatory divergence and the imposition of tariffs. Once the Brexit process was complete, the subsequent increase in trade costs, both direct and indirect, might have further exacerbated the challenges of basing operations in the UK for access to the European market. In contrast, the introduction of the EPA between Japan and the EU has lowered trade barriers, particularly through the reduction of tariffs and the facilitation of smoother trading processes, making it increasingly viable for Japanese firms to ship goods directly from Japan rather than through UK-based operations.

Issues such as national security, inflation and the global geopolitical landscape are also likely to affect Japanese MNEs' strategies. The localisation of production is becoming increasingly important, with trends like reshoring, nearshoring and friend-shoring. Factors beyond trade policy play an increasingly important role in shaping MNEs' strategies. This shift raises questions about whether trade preferences (such as through EPAs) will continue to be a key driver of Japanese MNE decisions or whether other factors, such as technological advancements and national security concerns, will play a larger role.

The automotive sector provides a lens through which to examine the effects of Brexit. This industry is characterised by highly integrated supply chains, with multiple players involved in both the production and distribution processes. The just-in-time nature of automotive manufacturing, combined with the sector's reliance on cross-border trade for components, means that any increase in trade costs or regulatory divergence can have significant repercussions. Indeed, Nissan cancelled plans to build the new X-Trail car in Sunderland, explaining that Brexit uncertainty is not helping firms to "plan the future"²⁹.

In conclusion, the interaction between trade policy uncertainty, EPAs, and sector-specific developments presents a complex landscape for Japanese MNEs operating in Europe. Further research, particularly through the analysis of microdata and case studies, will be essential for understanding how Japanese firms are adapting to this evolving trade environment.

Conclusion: Deducing conditions for successful regulatory cooperation

The examples above, while spanning a number of different topics and themes under the banner of regulatory cooperation, suggest some general conclusions about the factors and conditions that influence its success. First, improving the measurement of regulatory divergence is essential for understanding the costs and benefits of such divergence, as well as for identifying when regulatory cooperation is most likely to succeed. It is important to acknowledge a lack of robust quantitative evidence on the negative consequences of regulatory divergence.

For instance, while regulatory convergence is recognised within the EU, national-level requirements, such as those concerning product labels, still vary considerably. Significant price discrepancies exist for the same consumer goods across European countries.³⁰ Although regulatory divergence within the EU has not been identified as the primary cause of these discrepancies, it appears to be a plausible factor. More research, including that being done through CITP projects, is needed.

²⁹ <https://www.bbc.co.uk/news/business-47107561>

³⁰ <https://citp.ac.uk/publications/uncovering-the-sources-of-geographic-market-segmentation-evidence-from-the-eu-and-the-us>

Successful regulatory cooperation requires a foundation of dialogue and information exchange to foster trust between trading partners, ensuring that regulations are implemented transparently and in good faith. Trust-building involves a commitment from all parties to share information openly and legislate cooperatively on a multilateral basis. These dialogues should not only involve regulators but also draw on a broad range of expertise, incorporating insights from sectors beyond trade. This inclusive approach is essential for addressing objectives such as national security, environmental sustainability, and climate change, which are increasingly integral to modern trade policies.

In addition to dialogue, effective regulatory cooperation requires a structured framework. While the specific structure of cooperation may vary across sectors—reflecting the unique regulatory needs of industries such as finance, agri-food, or digital trade—many existing frameworks lack the necessary methodologies to manage discretion in regulatory oversight. A robust framework should provide clear guidelines for balancing flexibility with accountability, ensuring that cooperation remains consistent and transparent.

Moreover, trade agreements should play a more active role in supporting regulatory cooperation. Although trade agreements often include provisions for regulatory alignment, many fall short in offering detailed frameworks for how such alignment should be operationalised. Developing methodologies that clarify how discretion in oversight is exercised and how cooperation can be effectively implemented through trade agreements will help to overcome these challenges.

Digital Economy Agreements are increasingly shaping international rules governing digital trade. While policymakers aim to reflect technological advancements through novel regulations, the crucial aspect of trust—encompassing transparency, stakeholder engagement, and prioritisation of public welfare rather than private sector interests—is often overlooked.

The key condition for success in regulatory cooperation on digital trade is the establishment of trust within the digital ecosystem. Achieving this requires foundational efforts at the domestic level, including the development of (i) domestic legislation related to digital innovation, (ii) competition policy, and (iii) data protection laws. Additionally, strengthening institutions to ensure the effective implementation of these policies is essential.

Given that regulatory cooperation in digital trade cannot be limited to digital trade policymakers alone, cross-departmental coordination is critical. The policymaking and implementation processes should adopt a multi-stakeholder approach, involving diverse actors to address the complexity of digital trade governance effectively.

Overall, successful regulatory cooperation requires more than aligning rules—it demands trust, transparency, and inclusiveness. Addressing global challenges through cooperation involves balancing political interests with sector-specific needs and ensuring that frameworks are flexible yet accountable. Trade agreements play a role, but their effectiveness depends on moving beyond broad commitments to provide detailed, actionable methodologies for aligning regulations. Ultimately, regulatory cooperation must also be adaptive, reflecting the interconnected nature of the global economy, to ensure fair and effective governance.