Response to the DIT Consultation on Trade with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and Trade with Australia and New Zealand

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We welcome the open consultation on the 'Trade with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership' and the opportunity to respond to it. However, responding to such consultations is difficult without there being a clear consultation and dialogue on what the Government overall trade policy objectives are, and therefore how any given agreement fits into those overall objectives. Those objectives might be short-term (to deal with the negative consequences of Brexit) or longer term where the government is considering the longer-run evolution and transformation of the economy. We would welcome the Government engaging in a broader strategic consultation.

Given this context, we have conducted an initial indicative analysis, highlighting what we see as some of the key areas, looking at the advantages of a CPTPP overall agreement and separate agreements with Australia and New Zealand (NZ). However, there is lots of ground not covered or not covered fully. The government should be asking specific questions on, in a more focused and structured consultation, on the specifics such as services, FDI, mobility, etc.

Strategic Issues

For a country that aims to sign a large number of Free Trade Agreements (FTAs) after leaving the EU, the CPTPP offers the possibility of signing a single FTA with eleven countries (twelve if Korea joins and 13 if the US ever rejoins) across the Pacific region at a stroke. It seems obvious. And yet there are some potential downsides First that in negotiating with the Eleven they are unlikely to want to offer the UK an agreement that diverges from the provisions of the existing agreement. The problem is not unlike negotiating with the EU. It's pretty much take it or leave it. Now it may be that the off-the-shelf agreement suits the UK very well, but that has to be demonstrated.

Specifically, there are regulatory issues that raise potential problems for the UK:

- First, CPTPP relies on US standards and certification procedures on autos (the UK's primary goods export) which might possibly disrupt existing UK-EU27 supply chains should the UK join the CPTPP.

- Second, some of the CPTPP's vertical and horizontal commitments on regulatory coherence would likely prove challenging to reconcile with the 'common rulebook' or other, deep, regulatory alignment with the EU. The SPS area is particularly notable in this regard.

- The third is on services where the norm is a negative list procedure where all sectors are liberalised, except where there is an explicit restriction, with a norm of national treatment - which on the face of it - is more liberal than the WTO services agreement. Two potential issues arise from this. The first is that there are horizontal exceptions on some sectors and some specific restrictions within sectors. The details of these exceptions are spelled out in 200 pages of annexes to the agreement. Since services are a key source of UK competitiveness, these exceptions need to be carefully examined to make sure that our competitiveness can be fully exploited.

It is also worth noting that the UK already has FTAs with Japan, Canada, Mexico, Peru, Chile and Korea a result of its membership of the EU. In addition, the EU is in the process of ratifying FTAs with Singapore and Vietnam and negotiating with Australia and New Zealand. This raises the possibility of rolling over these existing EU agreements rather than negotiating *de novo* with the Eleven (or twelve) and giving them the opportunity of pooling their economic strength and demanding more market access from the UK. Unless the existing agreements are significantly worse than the CPTPP agreement, or do not align with British priorities, which has not been demonstrated, then rollover looks more attractive.

Finally, there is the strategic factor. The UK will lose negotiating weight if it chooses to negotiate with the CPTTP rather than the individual member states. The priority would be to roll over Japan, Canada, and other existing EU FTAs.

In what follows we expand on some of these issues around regulation and outline a low-cost way of assessing the costs, benefits and export opportunities of signing a FTA, using the Sussex Framework[1] for assessing FTA.

A general point is that the core of any FTA is an exchange of market access between the negotiating parties and even if that is agreed it still needs to meet the test of the trade-off between domestic winners and losers. In the analyses presented here the focus has been on reducing barriers and that means wins for consumers of final and intermediate goods and competitive exporters. The losers are uncompetitive producers of import substitutes, and possibly taxpayers from the loss of tariff revenue. In what follows this domestic bargaining is not considered.

Car Industry issues and regulation

Cars are the UK's single largest export. Key members and prospective members of the CPTPP (Japan, S Korea and Singapore) are members of the World Forum for Harmonization of Vehicle Regulations, a body based at the UN Economic Commission for Europe in Geneva. [2] The EU participates fully and other members align themselves more selectively with UN ECE rules. The 3 states above have recently signed FTAs with the EU which commit to continuingly closer alignment with the UNECE system. Though signatories to the UNECE's original 1958 agreement, the US and Canada have not adopted the later UNECE agreements. The UNECE in principle sets standards, and member states such as the EU adopt legislation, giving effect to them and spelling out how conformity is to be assessed.

The UNECE and US/Canadian rules are substantively different, eg in terms of such matters as permitted emissions levels and fuel economy requirements. They also have very different conformity assessment rules.[3] The EU/UNECE system rests on government supervised Type Approval Certification. The US relies on self-certification:

> *"DOT does not approve any motor vehicles or motor vehicle equipment items as complying with all applicable FMVSS. That is instead the responsibility of the vehicle or equipment item's original manufacturer."*[4]
>
> *"However, the agency neither approves motor vehicles or parts as complying with its standards nor collects information from manufacturers as to compliance"*[5]

[1] Sussex Framework available at:
https://www.sussex.ac.uk/webteam/gateway/file.php?name=cariswp01.pdf&site=261

[2] https://www.unece.org/trans/main/wp29/meeting_docs_wp29.html

[3] U.S. and EU Motor Vehicle Standards: Issues for Transatlantic Trade Negotiations Bill Canis Specialist in Industrial Organization and Business Richard K. Lattanzio Analyst in Environmental Policy February 18, 2014 Congressional Research Service

[4] https://one.nhtsa.gov/cars/rules/import/FAQ%20Site/pages/page2.html#Anchor-19914

Checks may be done later which can lead to recalls.

CPTPP does not require Canada to harmonise car standards with the US. There is a Canada-Japan FTA which does not harmonise or mutually recognise technical standards but rather calls for national treatment. (Canada exports few cars to Japan). In general, CPTPP follows the US approach of restating the WTO principles on National Treatment on TBTs with text that implies a strong interpretation of them. The UK thus will be obliged to stick to UNECE rules to preserve access to both the EU market and countries in the CPTPP that have agreed to align with the EU.

On the tariff side, the UK would wish to see reductions in tariffs for the major markets in the CPTPP, though this would do little helpful if standards issues were problematic.

With regard to the USA, car tariffs are currently low (2.5%). But of course, if the US raises tariffs across the board OR if it signs a car deal with the EU, the UK could find itself at a disadvantage without its own FTA with the US. However, the Trump administration's policy on cars does not suggest it is eager to see value chains being extended to components from the UK, (as a possible replacement for supply chains into the EU). The UK could not currently comply with the tightened USMCA rules of origin and, of course, if it did, any cars so-produced would not be eligible for UK origin under a future EU-UK FTA.

Services liberalisation

With respect to services trade, it should be explored whether the liberalisation commitments in existing EU agreements with CPTPP partners such as Canada, Japan and Korea (if it joins), are comparable with the access provided in CPTPP. If the commitments in the EU's agreements go further than those in CPTPP, the UK may be better off rolling-over the existing EU agreements. CPTPP uses a negative list for services trade liberalisation, an approach which the EU has also adopted in its latest trade agreements with Canada and Japan. Comparing the reservations that Canada and Japan have listed in their respective agreements with the EU with those listed in CPTPP, would show if any differences in the level of liberalisation committed in the two agreements exist. A brief comparison of the schedules in CETA and EU-Japan with Canada and Japan's commitments in CPTPP indicates that there are some differences worth exploring further. For example, in CETA Canada takes market access commitments on dredging, repositioning of empty containers and on feedering activities on the route Halifax-Montreal, which was limited to national operators under previous agreements. Canada does not appear to make the same commitments in CPTPP (compare Canada's reservations II-C-14 in CETA with Annex II reservations Canada – 10 in CPTPP).

Similarly, it would be worth exploring if Australia and New Zealand make any exclusions in CPTPP in services sectors important for the UK, and whether the same exclusions exist in Australia and New Zealand's bilateral agreements. If not, this indicates that there may be scope for the UK to negotiate improved access to Australia and New Zealand's services markets in a bilateral negotiation. Further, the services chapter of CPTPP appears to contain

[5] See 2 above

an MFN clause, article 10.4 of cross-border trade in services chapter,[6] which could potentially be problematic if theUK wants to negotiate better access with Australia or New Zealand.

Sussex Framework

The Sussex Framework has established a set of diagnostic indicators and rules of thumb to be evaluated systematically in order to predict the likely economic impact of a trade agreement. The importance of each element listed in the box below should be evaluated with respect to a proposed trade agreement.

Box 1: Rules of Thumb derived from the Sussex Framework

The potential gains from Regional Trade Agreements (RTAs) are likely to be higher::

1	The higher the initial barriers are between the RTA partners.
2	The higher the percentage of trade is with potential partners.
3	The greater the number of RTA partners.
4	Wide differences in underlying comparative advantage.
5	The more similar is the product mix exported the more potential gains from specialisation .
6	Trade diversion is more likely when potential partners and excluded countries are close competitors.
7	The greater the possibilities for supply chain integration the greater the likely gains.
8	If total trade is initially a small share of GNP.

Applying the Sussex Framework to the UK joining the CPTPP

The first two rules of thumb state that the effects of a trade agreement will be greater the higher the initial barriers are between the parties, and the higher the percentage of trade already is between the partners. The higher the bilateral trade flows already are, the more likely it is that a trade agreement will be welfare enhancing. If the countries already trade substantially with each other, a decrease in the tariff level should lead to a rise in the trade flows and to welfare gains through lower import prices and more efficient production patterns.

Table 1 shows the UK's goods trade with CPTPP over 2015-2017. CPTPP accounts for around 7% of UK annual exports and imports respectively. The parties which have already signed trade agreements with the EU (Canada, Chile, Japan, Mexico and Peru) account for 51% of UK's total exports to CPTPP and 64% of UK's total imports from CPTPP. Adding Singapore and Vietnam to this group (where trade negotiations with the EU have been concluded but not yet signed) increases the share to 72% of exports and 81% of imports.

[6] The CPTPP agreement accessed from: https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Text/10.-Cross-Border-Trade-in-Services-Chapter.pdf

Therefore, focussing on rolling-over the EU agreements with these countries would likely be the quickest way of maintaining open trade and securing the biggest potential gains for British consumers and exporters.

Table 1: UK trade with CPTPP

Partner	Share of total UK exports	Exports rank	Share of total UK imports	Imports Rank
All CPTPP members combined	***7.1%***		***7.0%***	
..Of which current EU FTA signatories* account for:	***3.6%***		***4.5%***	
Japan	1.5%	15	1.9%	14
Singapore	1.4%	18	0.3%	40
Canada	1.4%	19	2.1%	12
Australia	1.3%	22	0.8%	26
Mexico	0.4%	33	0.4%	38
Malaysia	0.4%	35	0.4%	37
New Zealand	0.2%	45	0.2%	49
Chile	0.2%	52	0.1%	58
Vietnam	0.1%	53	0.8%	25
Brunei Darussalam	0.1%	80	0.0%	120
Peru	0.1%	83	0.1%	68

*Canada, Chile, Japan, Mexico and Peru.

Source: Trade data in HS 2012 from UN Comtrade, accessed through WITS. All values are averages for 2015-2017.

Table 2 shows that, on average, the UK's applied tariff against CPTPP countries is higher than their tariff against the UK. This suggests that, for tariffs at least, they have more market access to gain from an FTA for goods. Malaysia and Vietnam offer the biggest average preference margins for British exporters, but they currently account for half a percent of UK exports.

Table 2: Average tariffs (2017)

Reporter	Applied rates (incl. preferential rates)	MFN rates	Imports from UK ($bn)
UK on CPTPP average*	***4.1%***	***5.5%***	
CPTPP on UK overall average	***2.0%***	***3.2%***	***30.7***
Canada	0.6%	3.2%	6.8
Japan	3.8%	3.8%	6.7
Singapore	0.1%	0.1%	5.5
Australia	3.0%	3.0%	5.4
Mexico	0.5%	5.5%	2.3

Malaysia**	5.5%	5.5%	1.7
New Zealand	2.7%	2.7%	1.1
Vietnam	9.2%	9.2%	0.7
Chile	0.0%	6.0%	0.5
Peru	1.0%	2.1%	0.3
Brunei Darussalam	0.3%	0.3%	0.1

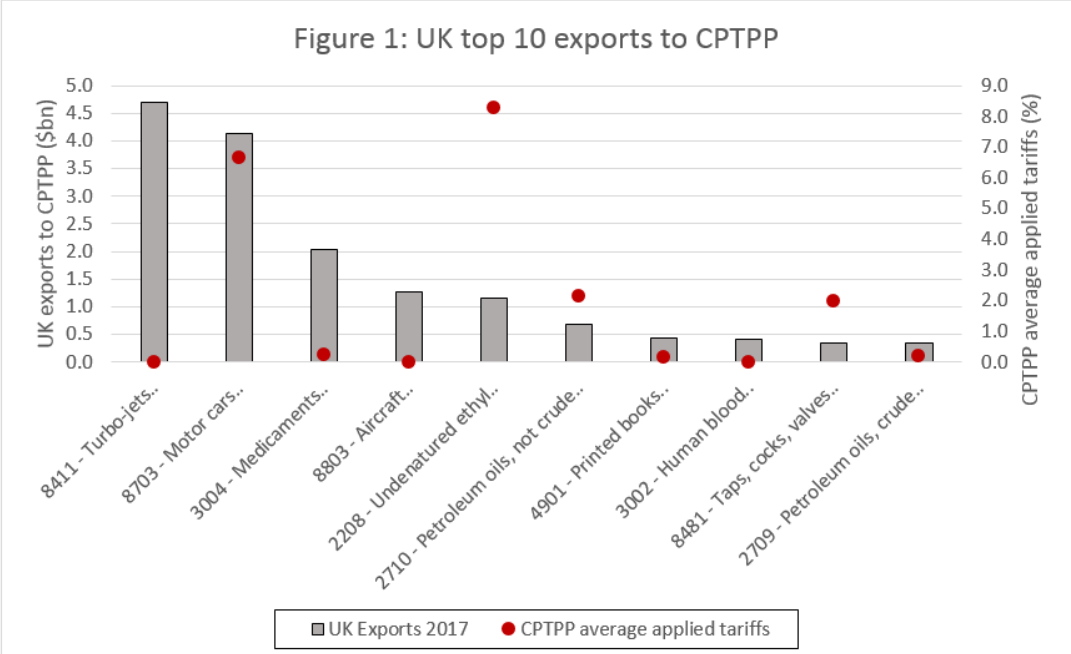
* UK's 2017 applied tariffs do not yet display the preferential rates applied to Canada from Sep 2017, which would reduce the overall average for the UK.

** Data for Malaysia is for 2016

Source: Tariff data from TRAINS, accessed through WITS. Both effectively applied (AHS) and MFN rates include ad-valorem equivalents. Imports are reported as averages for years 2015-2017.

Although, on average, tariffs are low there is some variation across sectors. By HS 2-digit the sectors most highly protected by the CPTPP are HS 04 (dairy produce), followed by HS 22 (beverages, spirits and vinegar).

Figure 1 displays the top 10 exported products by the UK to the CPTPP as a whole (at HS 4-digit level) in 2017, with the corresponding average tariffs the UK face on these products. Tariffs are low or zero for 6 out of the 10 products, while motor cars and undenatured ethyl alcohol face higher tariffs.



N.B. The tariffs displayed are effectively applied (AHS) tariffs in 2017, expressed as an average of the individual CPTPP members' applied tariffs. Tariff data for Malaysia is from 2016.

Market Opportunities

One method of evaluating how the UK could benefit from a trade agreement with CPTPP is to identify the products where the UK currently appears to be underperforming in the CPTPP market. It should be noted that the analysis given here is preliminary and with a focus on goods trade. We strongly recommend that a more detailed analysis should be undertaken that builds on the principles outlined below.

Before so doing it is worth considering what are the sectors which are most important in terms of UK trade with the CPTPP countries. Table 3 below gives the top 5 HS 2-digit sectors which the UK export to CPTPP. We also give the imports and the import rank because the benefits from any future agreement would stem from increase export ***and*** import opportunities. It is interesting to note that out of the top 5 export sectors, four of these are also in the top 5 import sectors, albeit with a different ranking. The top 5 sectors account for more than 61% of UK exports to these countries.

Table 3: Summary data for the top 5 sectors the UK exports to CPTPP

HS code	Product	Imports $B	Imports Rank	Import Share	Exports $B	Exports Rank	Export Share
84	Machinery	5.12	3	10.79%	8.1	1	25.37%
87	Vehicles	3.39	4	7.14%	5.03	2	15.75%
30	Pharmaceuticals	0.43	20	0.92%	2.67	3	8.35%
85	Electrical machinery	5.4	2	11.39%	2.1	4	6.56%
90	Optical, photographic, cinematographic	1.32	5	2.77%	1.7	5	5.34%
	Total	**15.65**	**34**	**33.01%**	**19.6**	**15**	**61.36%**

In table 4, we consider UK performance for the top UK exports to the CPTPP countries at a more detailed level. We take all the HS 6-digit products where UK exports to the world are greater than $0.5B (average over 2015-17), and analyse the change in UK performance in the CPTPP market for these products over the period 2012-2017. The aim is to identify products which the UK exports a lot to the world, but where its performance in the CPTPP market may be lower than the changes in demand in the CPTPP market.

Table 4 compares years 2012 and 2017 and evaluates, for each product, whether its share in UK exports to CPTPP has increased or decreased (denoted by ‘positive’ or ‘negative’) over the period; and then compares this to changes in CPTPP’s demand over the period (where ‘positive’ indicates that the share of that product in CPTPP’s demand (imports) has increased and vice versa for ‘negative’).

The first number in each cell represents the number of products that fall into that category. The second entry in each cell represents the share of these products in the UK's total exports to CPTPP. In the bottom right cell the bracketed numbers give the number of

products and shares of these products where the relative change in UK's exports is greater than the overall change in CPTPP demand.

Table 4: Goods Export opportunities for the UK

Comparing 2012 with 2017		Change in UK's Exports Share to CPTPP	
		Negative	Positive
Change in CPTPP demand	Negative	**Retreat** 30 13.84%	**Declining Star** 24 13.06%
	Positive	**Missed Opp.** 28 7.09%	**Rising Star** 41 (33) 26.82% (25.30%)

N.B. This table is based on 123 HS 6-digit products where the UK's average annual exports to the world for years 2015-2017 was at least $0.5 bn.

The 'Rising Star' products are those where relative CPTPP demand is growing, and where their share in UK exports is rising. There are 41 products in this category, accounting for around 27% of UK's exports to CPTPP. Further, for 33 of these products the UK is performing particularly well: the increase in the share of these products in the UK's export is greater than the increase in the share of these products in CPTPP demand. These products include anything from parts of turbojets, to vehicles and gin products. In turn this suggests that for 8 products while UK exports are proportionately rising, this may be driven entirely by changes in CPTPP demand, as opposed to changes in UK competitiveness. Five of these 8 products are in the machinery (HS84), electrical machinery (HS85), and vehicles (HS87) sectors.

We can also see that there are 28 products in the category 'missed opportunities' where relative CPTPP demand is growing but where their share in UK exports is declining. These are growing CPTPP markets where the UK appears to be doing less well. Out of these 28 products the sectors that account for most of the missed opportunities are machinery (HS84), electrical machinery (HS85), and vehicles (HS87). Interesting also is the 'declining star' category which represents products which are becoming more important in UK exports to the region, but where relative regional demand is declining. These products account for over 13% of UK exports to the CPTPP, and over half of this is accounted for by vehicles (HS87).

In the preceding we examined UK performance in the CPTPP market relative to changes in CPTPP demand. Another way of considering in which products or sectors the UK may seek to derive benefits from more integration with the CPTPP, is by looking for products where the UK is globally successful, but less so in the CPTPP region.[7]

[7]Our procedure was to select products
1. where the UK exports at least $0.5bn to world annually

We do this in Table 5, but on a narrower range of products. Here we have taken all products where UK exports are greater than $0.5B, and where CPTPP imports in aggregate are greater than $0.5B. For these products we have then calculated the UK's Revealed Comparative Advantage (RCA) in each product, and also the UK's Revealed Market Access indicator. The former (the RCA) is measured by the ratio of the share of the UK's export of a product to the share of that product in the world's total exports. An RCA above 1 shows that the share of that good in the UK's exports is bigger than the share of that good in world exports and, in such cases, the UK is said to have a revealed comparative advantage in that product. The latter (the RMA) compares the UK's level of market access in the CPTPP market with the level of access into the world as a whole. An RMA below 1 suggests that the UK may be facing more market access obstacles in the CPTPP market than in the world market, indicating either higher barriers to the CPTPP market (though these could include consumer taste differences) or poor competitiveness, or obviously the effect of distance. We would expect the "gravity" effects from distance to pull down our share in this region and evidence suggests that this effect remains strong. Table 5 only includes those products where the UK RCA is greater than 1, and where the RMA is less than one, and where CPTPP tariffs on average are greater than 3%.

We already know that the UK is relatively competitive in these products (from the RCA) which suggests that the low market access is more likely due to trade barriers of some sort. In this case, we focus on products where the CPTPP's tariffs are relatively high in order to identify sectors where there could be potential for increased market opportunities for the UK, if tariffs were reduced.

What particularly stands out from Table 5 is that UK vehicle exports appear to be underperforming in the CPTPP market compared to the UK's performance in the world market. Similar to figure 1, we observe that the CPTPP's tariffs tend to be high for vehicles and therefore, there appears to be potential scope for the UK to increase its vehicle exports o the CPTPP if tariffs were reduced. This is also consistent with the earlier missed opportunity analysis. While this might suggest that cars might have unexploited potential, the Japanese market is one of the main CPTPP car markets , and is a market which it might be hard for the UK to penetrate.

2. where the CPTPP as a whole imports at least $0.5bn from the world annually
3. where UK RCA>1
4. where UK RMA to CPTPP<1 (lower market shares in CPTPP than world in general)
5. where CPTPP tariffs are at least 3% or higher
6. Out of the remaining products I include the 10 with highest total UK exp (most important products for the UK)

Table 5: Potential market opportunities for the UK in CPTPP-11

Product	UK exports to Rest of World ($bn)	UK exports to CPTPP ($bn)	UK Revealed Comparative Advantage	UK Revealed Market Access in CPTPP	CPTPP applied tariffs
870323 - Vehicles, between 1,500 cc & 3,000 cc	13.1	1.4	1.8	0.6	9.2
870324 - Vehicles, > 3,000 cc	7.2	0.9	2.7	0.7	7.7
870332 - Vehicles, between 1,500 cc & 2,500 cc	6.5	0.5	1.7	0.4	9.8
271012 - Light oils and preparations	6.2	0.4	1.1	0.4	4.9
711319 - Jewellery of other precious metal	4.9	0.1	2.3	0.2	3.8
870333 - Vehicles, > exceeding 2,500 cc	3.5	0.5	3.6	0.8	10.5
870322 - Vehicles, between 1,000 cc & 1,500 cc	3.5	0.3	1.5	0.5	9.2
840734 - Reciprocating piston engines >1,000 cc	1.7	0.1	1.9	0.5	3.1
870190 - Other tractors	1.2	0.2	2.7	0.8	3.8
210690 - Food preparations	1.2	0.1	1.3	0.3	9.8

N.B. All values except tariffs are based on averages for years 2015-2017. CPTPP's tariffs are for 2017.
We identify products where the UK's exports to the world and CPTPP's imports from the world are relatively high (defined as average annual exports/imports of at least $0.5bn). We then look only at those products where the UK is relatively competitive (RCA above 1), and where the UK's RMA in the CPTPP market is below 1, and where CPTPP's average tariffs exceed 3%.

From all the preceding, the indicative evidence is that certain goods sectors are likely to be important when evaluating the possible benefits of joining the CPTPP, and prominent among these are machinery, electrical machinery and cars. Table 6 below gives the share of UK exports to each of the CPTPP countries out of total CPTPP exports for each of these sectors. Hence, for example, out of total vehicle exports to the CPTPP, over 28% of these go to Australia. What we see from this table is that the countries which the UK trades with the most in these, perhaps key sectors, are Australia, Canada, Japan, and Singapore. Given that the EU already has agreements with all but Australia (noting that Singapore is still to be ratified), this once again suggests that it may be better for the UK to focus on rolling over notably the agreements with Japan and Canada, as opposed to the CPTPP.

Table 6: Share of total UK CPTPP exports to each partner, by sector

Country	Machinery - 84	Elec. Machinery - 85	Vehicles - 87
Australia	10.2%	17.2%	28.3%
Brunei	0.4%	0.2%	0.1%
Canada	14.2%	13.5%	20.1%
Chile	3.7%	1.6%	2.4%
Japan	19.4%	17.2%	26.2%
Malaysia	5.5%	11.6%	3.7%
Mexico	5.3%	3.2%	4.7%
New Zealand	2.5%	2.2%	8.6%
Peru	0.6%	0.5%	0.6%
Singapore	36.5%	29.0%	5.0%
Vietnam	1.7%	3.7%	0.4%
Total	**100%**	**100%**	**100%**

Other Indicators

Table 7 goes on to list some further indicators that can be useful when evaluating the potential costs and benefits of a trade agreement.

Consider first the final column which gives the Trade Intensity Index Indicator (TII) identifies the extent to which a given country's value of trade is more concentrated with respect to a particular partner country or region, in comparison to the trade of the world with that partner or group of partners. If the index is greater than 1, then trade is more heavily skewed towards the parter, and hence the two parties may be "natural trading partners" which might suggest less scope for trade diversion. In each case, we see that the indicator is less than one indicating that the UK's trade is less directed towards the CPTPP partners than the world on average. This is not surprising and is in good part almost certainly driven by distance. Countries tend to trade less with countries which are further away because of the physical and non-physical costs associated with distance. While tariffs and non-tariff barriers can be reduced it is much more difficult to reduce the costs associated with distance and harder therefore for trade liberalisation to have as big an effect.

The second and third columns give two estimates of export similarity, both using the Finger-Kreinin index. The first estimate measures the degree of similarity between the UK and the relevant CPTPP partner's trade structures. The higher the index, the higher the degree of overlap between the countries, which in turn, suggests a higher possibility for trade creation on both the production and consumption side. It also might indicate potential for greater supply chain integration within the same industries. Unlike some of the previous analysis the degree of similarity is independent of the overall volume of trade as this indicator is focussed on the structure of trade. We see that the UK's exports are most similar with those of Canada, Japan and Mexico where the degree of similarity is close to 40%. This suggests there is more potential for gains from greater liberalisation (either from trade creation, or from within-industry supply chain integration) with these countries, then for example with New Zealand or Chile.

The second index estimates the degree of overlap between the UK's exports to each CPTPP country with the world's exports to this country. This helps evaluate the UK's degree of competitiveness / complementarity with respect to the world's overall trade with the CPTPP. Another way of thinking about this is that it measures the similarity between what the UK exports to the CPTPP, with what they import from the world. A high degree of overlap could suggest potential for the UK to increase its market share as a result of improved access, or following any increases in UK competitiveness. Here, the numbers indicate, more possibility for gains with Australia, and New Zealand, followed by Canada.

Table 7: Other indicators (CPTPP-11)

Country	UK's share in partner's imports	UK and partner country export similarity index to world	UK and world export similarity index to partner country	Intra-Industry Trade	Trade Intensity Index
Australia	2.6%	22.9%	43.8%	16.4%	0.62
Brunei	3.4%	8.0%	20.6%	20.2%	0.07
Canada	1.6%	39.3%	37.3%	17.8%	0.85
Chile	0.8%	9.2%	26.3%	1.3%	0.24
Japan	1.1%	38.1%	27.9%	37.5%	0.46
Malaysia	0.9%	28.6%	31.9%	28.7%	0.28
Mexico	0.6%	37.2%	29.4%	22.0%	0.16
New Zealand	2.8%	14.8%	42.7%	10.7%	0.78
Peru	0.7%	9.6%	21.8%	0.7%	0.44
Singapore	1.8%	34.4%	27.6%	48.2%	0.20
Viet Nam	0.4%	18.8%	20.2%	2.4%	0.70

N.B. All values are based on averages for 2015-2017. The Intra-Industry Trade index is a weighted average based on HS 4-digit level of aggregation.

Another possible consequence of lowering trade barriers via a trade agreement are the possibilities for greater supply chain integration. This is something which it is difficult to establish without much more detailed firm-level data and specialist industry knowledge. However, the evidence does suggests that at least in certain industries that supply chain integration takes place within industries and might therefore be captured by measuring the extent of intra-industry trade. This is achieved by the Intra-Industry Trade Indicator (IIT) measures the overlap of imports and exports at a given aggregation level. That is, the extent to which two countries are simultaneously trading the same product category. A high degree of overlap would suggest trade dominated by trade in varieties or trade in intermediates further suggesting value chain activity. Table 7 above gives the IIT on average across all industries. We see that it is higher with Singapore (which may be driven by entrepot trade), Japan and Malaysia.

Table 8 below, then gives the IIT calculated at the 4-digit level, but reported at the average 2-digit level for the top sectors identified earlier which the UK exports to CPTPP. For each sector the partner country with the highest IIT is given in bold. What emerges clearly from this table is the high levels of IIT in these sectors with Japan and Canada, and to a lesser extent Malaysia, Mexico and New Zealand. As a point of comparison, It is worth noting that the UK's IIT index with the EU for these sectors is 0.67, 0.59, 0.68, 0.46 and 0.79. So in each case considerably higher.

Table 8: IIT between the UK and each CPTPP partner country

	Pharmaceutical - HS30	Machinery - HS84	Electrical Machinery - HS85	Vehicles - HS87	Optical, Photographic… - HS90
Australia	**0.25**	**0.27**	0.3	0.19	0.24
Brunei	0.14	0.05	0.06	0.05	0.02
Canada	**0.34**	**0.41**	**0.54**	**0.39**	**0.59**
Chile	0	0.04	0.04	0.03	0.06
Japan	**0.6**	**0.41**	**0.44**	**0.4**	**0.52**
Malaysia	0.08	0.31	**0.45**	0.12	**0.39**
Mexico	0.07	**0.27**	0.39	**0.21**	0.37
New Zealand	**0.25**	0.19	0.33	0.15	0.29
Peru	0	0.02	0.06	0	0.03
Singapore	0.08	0.26	0.26	0.06	0.29
Vietnam	0.01	0.18	0.29	0.13	0.23

Note: Table reports the IIT at the 2-digit level, based on calculations done at the 4-digit level.

Services Barriers

Turning to services we use the OECD's Services Trade Restrictiveness Index to compare the barriers to services trade between the UK and the CPTPP members. On the one hand, where the UK has strong trade performance and lower STRI than partners, this could *prima facie* be an indication that UK has a comparative advantage in this sector and could increase exports if the other party lowers barriers. On the other hand, if the UK is already very open it has less bargaining power to make the partners open their markets more.

The UK's largest services exports are business services and financial & insurance services.[8] From Table 9 we see that the trade restrictiveness across these services is relatively similar across most of the countries of interest, and in some cases, such as accounting and architecture services, the UK appears more restrictive than the CPTPP parties. This indicates that there is scope for further trade liberalisation both for the UK and the CPTPP.

Table 9: Services trade restrictiveness index 2017

Sector	UK	Australia	New Zealand	Canada	Mexico	Japan	Chile
Accounting	0.32	0.22	0.17	0.27	0.19	0.20	0.08
Architecture	0.25	0.17	0.20	0.21	0.23	0.16	0.11
Engineering	0.20	0.14	0.19	0.18	0.23	0.12	0.11
Legal	0.18	0.14	0.22	0.17	0.20	0.58	0.14
Commercial banking	0.18	0.18	0.18	0.18	0.37	0.21	0.21
Insurance	0.16	0.18	0.13	0.21	0.25	0.18	0.16

Source: OECD's Services Trade Restrictiveness Index (STRI). Brunei, Malaysia, Peru, Singapore

[8] ONS Pink Book 2018

and Vietnam are not covered by the STRI index. Zero represents an open market and one represents a market completely closed to foreign services providers.

There is a striking similarity of size of services barriers between the UK on one side and Australia, New Zealand, Canada and Japan on the other. This might suggest that the parties are all relatively, but not totally open, reciprocally. National Treatment might be an acceptable and valuable proposal, both from the UK's wish to promote its own exports and from the efficiency-enhancing effect of opening our economy to greater competition.

An overall assessment

Taken overall, the Sussex Framework is not suggestive that an agreement with CPTPP would have large effects. This conclusion is primarily driven by the comparatively low shares of trade of the CPTPP in the UK's trade and vice versa; and by the low levels of tariffs. Evidence on NTBs is harder to come by. However, the analysis has identified that the sectors that are likely to be important are those in which standards, regulations, and issues such as mutual recognition are likely to be important. These are precisely also the areas where it is likely to be harder for the UK to unilaterally achieve much liberalisation with the CPTPP countries, if it wishes to remain closely aligned to the EU systems. The Revealed Market Access indicator hints that there might be hidden regulatory barriers, although the barriers could be due to structural economic factors which may be unresponsive to trade agreements. While there is some overlap between the UK and world export structures to the CPTPP-countries, even for products in which our competitiveness is high at a global level, there is limited evidence of potential for value chains.

Conclusions

- The CPTPP region is far from the UK. Distance remains a powerful force for both goods and services trade. Even if all trade barriers were removed, we could not expect a large share of our trade to be with this region, which apart from Japan (and eventually South Korea) is a much smaller share of world trade than our closer trading partners.
- The UK is a (significantly) larger economy than each of the CPTPP members, except Japan. Tariffs are lower than in the UK on average, apart from Malaysia and Vietnam. This suggests that they maximise their negotiating heft by acting as a group. By extension this weakens the UK's bargaining power.
- Britain would increase its negotiating strength by rolling over existing EU FTAs (notably Japan and Canada) after Brexit and negotiating with the other CPTTP members separately.
- On regulation, the CPTPP is initially not as deep as some of the EU FTAs but would push the UK somewhat in the US direction. For cars in particular, to sustain existing value chains with the EU would suggest maintaining Japanese Singaporean (and Korean if it joins the CPTPP) attachment to ECE Standards.

Barriers to services trade among developed members of CPTPP are low and of a similar level to the UK perhaps this argues for an agreement on Mutual National Treatment

NOTE ON THE ANALYSIS

Analysis of the data has been conducted using Tradesift software: https://www.tradesift.com/

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