



Department for
International Trade



UK-Mexico

Free Trade Agreement
The UK's Strategic Approach

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Chapter 1: Strategic Case



Introduction

The United Kingdom (UK) and Mexico have agreed to enter into negotiations on a new and bespoke Free Trade Agreement (FTA). Our existing trade agreement provides a foundation from which to build, as we seek to upgrade to a deal tailor-made for our two economies and fit for the global economy of the future. An upgraded trade agreement with Mexico supports the UK Government's strategy to secure modern and comprehensive trading relationships with dynamic economies in the Americas and cement close ties with the Indo-Pacific, delivering economic growth to all the nations and regions of the UK.

In December 2020, the UK and Mexico agreed to enter into negotiations on a new and bespoke trade agreement within one year of entry into force of the current Trade Continuity Agreement (TCA), therefore by 1 June 2022. Mexico is a key partner for the UK and negotiations will allow us to build on our existing trading arrangements to agree a more comprehensive and effective bilateral trade agreement.

Mexico is a growing market of geo-strategic importance, and whilst this is currently reflected in our trade, which was worth £3.8bn in 2020, we want to go even further.¹ Mexico's demand for imports is forecast to grow by 35% between 2019 and 2035 (at 2019 prices and exchange rates) as its economy expands.² The negotiations will allow us to agree an updated agreement which provides new benefits for world-leading UK services firms, and push to reduce duties on exports of UK meat and dairy products, whilst simplifying trading arrangements for UK business wanting to export to Mexico. Securing an agreement which enhances our trade relationship will give the UK access to a market which promises both short and long-term benefits.

The government is clear that any agreement will have to uphold our high environmental, labour, public health, food safety and animal welfare standards. The government has also been clear that when we are negotiating trade agreements, we will protect the National Health Service (NHS). The UK's trade agreements must work for consumers, producers, and businesses alike.

As an independent trading nation, Mexico provides a wealth of opportunity for the UK strategically. This is reflected in our objectives.

An FTA with an important partner

The UK and Mexico share interests in addressing global challenges. We have growing people-to-people and educational links. We are also working closely together on the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Strengthening our trading relationship with the world's 15th biggest economy in 2020 will complement this broader strategic alignment.³

A partnership to strengthen Global Britain

An upgraded FTA with Mexico is part of the wider UK Government effort to achieve the strategic trade objective of using our voice as a new independent trading nation to champion free trade, fight protectionism and remove barriers at every opportunity.

A more liberalising bilateral trade agreement with Mexico underpins the UK's aim to deepen our relationship and increase our trade ties with countries in North America. In particular, as a close trading partner and US-Mexico-Canada Agreement signatory, an enhanced FTA with Mexico should complement the UK's trade relationships with the US and Canada.

An upgraded FTA will also support the UK's role and objectives in Latin America, a region with untapped potential and opportunities for trade. The UK, as an observer nation of the Pacific Alliance, works closely with Mexico to promote free trade and economic integration. These are values which are central to both countries and will be reflected and developed in our negotiations.

The UK is committed to strengthening engagement across the Indo-Pacific and the Americas, helping define the high-quality trading rules that will shape the future of this high growth region, whilst opening up opportunities for British businesses. UK accession to CPTPP, of which Mexico is a founding signatory, will help cement close ties with the Indo-Pacific region by giving access to new supply chains. Together, the enhanced FTA and UK membership of CPTPP will benefit British and Mexican businesses by providing a wide range of preferential terms.

¹ ONS, UK total trade: all countries, non-seasonally adjusted (July to September 2021).

² 2035 projections for Mexican import demand are calculated using the methodology described in the Global Trade Outlook (September 2021).

³ IMF World Economic Outlook (October 2021).

Opportunities that benefit the whole of the UK

Key benefits of an upgraded FTA with Mexico include:

Increased opportunities for UK services

The UK is the second largest exporter of services in the world and service exports to Mexico were worth £0.9 billion in 2020, increasing from £0.5 billion in 2010.⁴ An upgraded trade agreement with modernised provisions can support UK trade across financial, creative, digital and technology services, important sectors to the UK.

It is estimated that, if modern and ambitious services commitments are agreed, trade flows in the insurance sector alone could increase by around £80 million. Exports of financial services could also increase by around £20 million.⁵

Building a digital economy

The majority of service exports to Mexico are delivered digitally, with over four-fifths of exports to Mexico digitally delivered from the UK to Mexican customers in 2020.⁶ Both countries are measured as being among the most open to digitally-enabled services. Including modern digital and telecommunications chapters will allow the FTA to be better tailored to the UK economy and maximise opportunities for digital trade across all sectors of the economy, including by promoting export growth to Mexico, which had 72% of its population aged six or over online in 2020.⁷

This agreement will contribute to the UK's ambition to be a global leader in digital trade, with a network of international agreements that drive productivity, jobs, and growth across the UK.

Fit for the future

Whilst pursuing our objective of establishing the UK as a global science superpower, it is important that our trade policy retains flexibility and can adapt to changes in what and how we trade. By securing provisions which encourage trade in cutting-edge technologies and modernising our approach to emerging industries, we can foster conditions for innovation.

We are also committed to ensuring that our trade policy supports environment and climate objectives, both now and in the future. We will maintain our high levels of environmental protection and seek opportunities to strengthen cooperation to help tackle shared environmental challenges, including climate change.

Upgrading our FTA provides the opportunity to be world leaders and pursue ambition in areas of mutual interest, such as advancing gender equality in trade.

An FTA for the entire UK

Mexico is an important market for goods exports across the UK. For example, businesses in the North East of England exported more than £80 million of goods there in 2020, including £21 million-worth of telecommunications and sound-recording equipment. Drinks makers from around the UK also benefit from trade with Mexico – with Scotland alone exporting £65.8m worth of beverages there in 2020.⁸

Mexican-owned businesses operating in the UK employed over 5,300 people in 2019, with the West Midlands, Yorkshire and The Humber, and East Midlands benefiting most from this employment.⁹ In 2016, 25,000 direct and indirect full-time jobs were supported by UK exports to Mexico alone.¹⁰ An upgraded agreement will ensure certainty for key industries whilst creating economic growth that is distributed across the UK.

⁴ ONS, United Kingdom total trade: all countries, non-seasonally adjusted (July to September 2021).

⁵ DIT internal modelling. <https://www.gov.uk/Government/publications/services-trade-modelling-working-paper>. Modelling assumes UK services trade liberalised in line with the EU-Japan FTA. Mexico Services Trade Restrictiveness Index (STRI) scores change in line with the falls partner countries have experienced in previous FTAs agreed by the UK.

⁶ ONS, Trade in services by modes of supply, UK: 2020.

⁷ World Bank, Individuals using the Internet (% of population).

⁸ HMRC data source for regional UK trade data: HMRC Regional Trade.

⁹ DIT analysis of ONS (2021), Business Structural Database. This work was produced using statistical data from ONS. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

¹⁰ Research carried out by the Fraser of Allander Institute at the University of Strathclyde, on behalf of DIT. Evaluating the impact of exports on UK jobs and incomes, March 2021.. Estimates are experimental and relate to 2016 (i.e., they do not reflect the impact of economic shocks such as Covid-19 and EU exit). 'Direct' export-supported jobs are jobs in industries that export goods or services. 'Indirect' jobs are jobs in industries that are in the UK supply chain of exporting industries. These jobs are existing UK-based jobs (that is, 'supported') rather than newly created jobs ('created'). See FAI (2021) report for full list of caveats.

Championing Small and Medium Enterprises


A diverse range of businesses benefit from FTAs; however, Small and Medium Enterprises (SMEs) in particular benefit from the increased transparency and reduced exporting and importing costs. In 2020, around 2,700 SMEs exported to Mexico and at least 800 imported goods.¹¹ With an upgraded agreement, the UK will be able to increase the number of businesses trading with Mexico further by removing specific barriers faced by SMEs, providing them with the information they need to seize new business opportunities. This will be achieved through a bespoke SME chapter and will benefit smaller businesses.

Conclusion

The UK has a longstanding and positive relationship with Mexico, and these negotiations offer the opportunity to deepen it further through a modern and comprehensive FTA. It will complement our role on the international stage as a Global Britain, providing a gateway to the Americas and Indo-Pacific.

Our approach to these negotiations has been informed by a wide-ranging Call for Input on trade with Mexico, which received a wealth of responses from the UK public, businesses and civil society. Our response to the Call for Input can be found in Chapter 2, whilst the Outline Approach and Scoping Analysis can be found in Chapters 3 and 4.

¹¹ HM Revenue & Customs, UK trade in goods by business characteristics.



Chapter 2: Response to the Call for Input on upgrading our trade deal with Mexico

In support of negotiations with Mexico, the Department for International Trade (DIT) launched a Call for Input on 18th May 2021, requesting views from consumers, businesses, and other interested stakeholders on an upgraded trade agreement with Mexico, helping us to develop an agreement that supports economic growth across the entire UK.

The Call for Input ran for 8 weeks, closing on 12 July 2021. In support of its launch, we held a webinar with the Confederation of British Industry to discuss their member's views and encourage responses to the Call for Input.

Throughout the period when the Call for Input was live, we engaged directly in forty-six webinars via existing DIT engagement fora, as well as via additional engagements with British and Mexican businesses, industry associations and chambers, Non-Governmental organisations and think-tanks in the UK and Mexico. At these events, we discussed stakeholder priorities for a future FTA and encouraged attendees to respond to the Call for Input.

We would like to thank all those who took the time to respond to this Call for Input. We will continue to engage as collaboratively as possible with stakeholders as we progress negotiations.

What we asked

The questions in the Call for Input focused on ways in which the UK-Mexico TCA could be made more ambitious. The questions were therefore focused on understanding what aspects of the UK's current trading relationship with Mexico we should aim to keep the same, and what aspects we should aim to change or improve.

Overview of the responses

In total, we received 111 responses to the Call for Input for Mexico. Respondents were given the option of replying either through our online tool, hosted on the Qualtrics platform, or to a DIT-monitored inbox. The questions that were included via the online platform were provided to respondents in a PDF copy on the gov.uk page to facilitate review and distribution.

The online survey had a total of 53 questions. All respondents were asked the same core 12 questions, alongside 7 questions for identification and data protection purposes. In addition, demographic and logistical questions were asked, tailored to each group. Individuals were asked 9 questions, Non-Governmental organisations (NGO) 5 questions, Public Sector Bodies (PSB) 4 questions, businesses 10 questions, and business associations 6 questions.

The division between the number of responses can be seen below:

- Online survey responses: 88
- Emails: 23

Respondents were categorised into one of the following five groups:

- An individual – Responding with personal views, rather than as an official representative of a business, business association or another organisation.
- Business – Responding in an official capacity representing the views of an individual business.
- Business association – Responding in an official capacity representing the views of a business representative organisation or trade association.
- NGO – Responding in an official capacity as the representative of a non-Governmental organisation, trade union, academic institution or another organisation.
- PSB – Responding in an official capacity as a representative of a local Government organisation, public service provider, or another public sector body in the UK or elsewhere.

A breakdown of responses by respondent group can be seen below:

Respondent group	Responses (portal)	Responses (email)
Individual	14	2
NGO	17	4
Business	25	5
Business association	30	9
PSB	1	3
Other	1	0
TOTAL	88	23

The responding business associations collectively represent over 200,000 members, and over 250,000 businesses and organisations.

Summary of responses

In this section, the views of respondents are summarised and broken down by key trade policy areas. After each summary, there is an explanation of the government's intended approach to this policy area.

The policy areas are:

- Trade in Goods
- Rules of Origin
- Customs and Trade Facilitation
- Regulation and Standards (Sanitary and Phytosanitary measures, Technical Barriers to Trade, Regulatory Cooperation and Transparency)
- Trade in Services
- Investment
- Digital Trade and Telecommunications
- Intellectual Property
- Government Procurement
- Competition, Consumer Protection, State Owned Enterprises (SOEs), Subsidies
- Dispute Settlement
- Small and Medium-sized Enterprises (SME)
- Labour Standards
- Gender Equality and Women's Economic Empowerment
- Trade Remedies
- Environment
- Innovation
- Anti-Corruption
- Human Rights

Trade in Goods

Trade in goods refers to the import and export of goods between the UK and Mexico, including those listed in the tariff schedule of both countries. Tariffs are taxes levied on particular imports from Mexico into the UK or by Mexico on UK exports.

The main views from respondents relating to tariffs were that the agreement should seek to maintain existing preferential tariff treatment and that further reducing Mexico tariffs across several key sectors including meat, dairy, and processed food and drinks could be highly beneficial. Respondents highlighted that any liberalisation should be equitable between the UK and Mexico and fair for UK businesses. Other respondents wished for lower tariff arrangements on goods to help support climate change goals and for new technologies to be correctly categorised.

Policy explanation

Standing at £2.3bn in 2020,^{12,12} trade in goods between the UK and Mexico is already significant, supported by preferential tariffs on a large number of UK and Mexico exports. The government shares the respondents' views that a further reduction or removal of Mexico tariffs on UK products in these and other sectors can offer great opportunities for UK businesses and can help to support climate change goals. In an upgraded UK-Mexico FTA, the government will seek to reduce or remove tariffs for UK exports, making them more competitive in the Mexican market.

Some concerns were raised about the impact of increased competition from Mexican exports on the UK market. The government will ensure a balanced approach to tariff negotiations that considers the interests of consumers, businesses, and industrial and agricultural producers potentially exposed to increased competition. The government recognises concerns about the potential impact of tariff liberalisation on some sectors and some parts of the UK. The government will consider how best to manage any adjustments that may be necessary.

Rules of Origin

For a good to be eligible for the preferential tariffs agreed in the FTA, it must meet the rule of origin for that good, which determines whether the good originated in the FTA party. Rules of Origin (RoO) therefore prevent the circumvention of tariffs and tariff quotas by goods from countries which are not party to the agreement.

Some respondents stated that we should recognise existing supply chains, ensuring continuity for UK industries, as well as future supply chains. Finally, respondents noted that Product Specific Rules (PSRs) should take emerging and innovative technology into account.

Policy explanation

The government recognises that existing preferential access and certainty for supply chains are vital for both UK businesses and Mexican businesses. To support this, the UK will seek simple RoO which recognise both existing and future supply chains.

Customs and Trade facilitation

The Customs and Trade Facilitation Chapter of a trade agreement ensures that procedures at the border are as facilitative as possible in order to make importing and exporting easier.

Respondents highlighted that the agreement should seek to simplify customs processes and reduce paperwork where possible, including by digitising processes. Ensuring that procedures are transparent and accessible to businesses of all sizes, including Small and Medium-sized Enterprises (SMEs), was another key theme among respondents.

Respondents also requested strong commitments on the timely release of goods, including for perishable goods, so as to provide greater certainty to businesses on how their goods will be handled at the border.

Policy explanation

The government recognises the importance of ensuring that customs procedures are efficient, consistent and transparent for both UK and Mexican businesses. The UK is committed to ensuring through its FTAs that customs procedures reduce friction at the border and that administrative burdens for businesses are minimised.

The government also notes businesses' interest in ensuring that release times for goods, including perishable goods, are consistent and timely. The government will look to provide greater clarity on such issues through its new FTA with Mexico.

Regulations and standards

One of the main barriers to international trade is the difference between countries in what evidence producers need to provide to prove that their products are safe and effective for that market. Regulations and standards include:

- Technical Barriers to Trade
- Sanitary and Phytosanitary measures
- Regulatory Cooperation
- Transparency

Respondents highlighted the importance of maintaining or going beyond existing standards on animal welfare and food safety, including the UK's position on strict rules against hormones and on pesticide use. Respondents felt the agreement should include provisions on establishment listing, health certification, and the ability to put in place effective import controls.

¹² ONS, United Kingdom total trade: all countries, non-seasonally adjusted (July-September 2021)

Respondents highlighted issues with Mexican Sanitary and Phytosanitary border checks and resulting delays, and wished to see commitments to release goods within pre-determined time frames.

Respondents wished to see provisions on improved accessibility and transparency of regulations, particularly to assist SMEs. Responses highlighted the agreement should go further in facilitating regulatory cooperation between the UK and Mexico, for example in the automotive and pharmaceutical sectors. Responses further suggested the agreement should promote the use of international standards and cooperation between standards-setting bodies, to further facilitate trade between the parties.

Policy explanation

The government agrees with respondents that there are opportunities to enhance and expand the chapters covering standards and regulations and will continue to ensure the safety and quality of products on sale in the UK. This includes the development of transparent and accessible regulations, and provisions that ensure good regulatory practices. The government notes the concerns respondents have regarding food safety and standards in negotiating the UK-Mexico FTA. Maintaining safety and public confidence in the food we eat is of the highest priority.

The government remains firmly committed to upholding our high standards on food safety, public health, animal, plant and human health, animal welfare and the environment. The government recognises the case for seeking enhanced commitments for dialogue, cooperation and transparency on Sanitary and Phytosanitary measures.

The government will continue to ensure the safety and quality of products on sale in the UK, recognising the important role that international standards and regulatory cooperation play.

Trade in Services

In trade agreements, parties typically seek to build on a country's existing commitments under the World Trade Organisation (WTO) by increasing legal certainty for their service suppliers. This is so that service suppliers abroad can be confident that they will not face discrimination or protectionism when exporting to, or investing in, a partner's market.

Respondents felt there was opportunity to liberalise and improve trade in a number of service sectors, including transport, financial services, legal services and professional business services. Respondents highlighted the importance of the Recognition of Professional Qualification, although they should not undermine professional standards or safety.

Respondents wished to see the removal of regulation and compliance requirements which impede access to the Mexican market. Respondents noted that liberalisation should not limit the government's right to regulate in the public interest.

Policy explanation

The government will seek certainty and improved market access for key export sectors, including financial services, legal services, professional and business services and transport services. Facilitating temporary movement of business people is important to promoting cross-border trade in professional services. The government will also seek provisions which aim to support the recognition of professional qualifications, whilst maintaining the UK's high professional standards. At the same time, the government will protect the UK's right to regulate in the public interest and protect public services, including the NHS.

Investment

Investment provisions seek to improve market access for businesses establishing a commercial presence abroad and protect them from unfair or discriminatory treatment.

Feedback from respondents highlighted the FTA should include investment liberalisation provisions that prohibit discriminatory treatment of foreign investors and remove barriers to market access. Several respondents noted challenges operating in Mexico and thought the FTA should include greater protections for UK investors in Mexico.

Some respondents were in favour and some were against the inclusion of Investor-State Dispute Settlement (ISDS) provisions. Some were in favour of maintaining the separate UK-Mexico agreement for Promotion and Reciprocal Protection of Investments, whilst other respondents wanted to replace it with more ambitious provisions through the new FTA.

Policy explanation

Investment flows between the UK and Mexico make a valuable contribution to both economies through supporting job creation and increased competition. The government is committed to supporting UK investors in Mexico, addressing the barriers that they face to open up market access, and improving legal certainty and transparency for them.

The government will maintain, in all cases, the UK's continued right to regulate in the public interest to uphold public policy objectives, including for public health purposes.

Digital Trade and Telecommunications

Digital trade is crucial for businesses exporting both goods and services across a wide range of sectors, including finance, technology, professional services and creative industries. Trade agreements provide the opportunity to secure provisions that facilitate free and trusted cross-border data flows, as well as enabling businesses to trade more efficiently and cost-effectively by supporting trading systems that are digital by default.

Telecommunications is also an important part of the UK's services economy. Liberal telecoms trade provisions can increase market access for UK telecoms providers and facilitate economic growth by supporting businesses to export, and consumers to benefit as a consequence.

Respondents highlighted that the agreement should secure comprehensive digital trade and telecommunications chapters, including electronic contracts, authentication provisions and commitments that champion competition and ensure ease of access to Mexico's telecommunications market. Respondents wished to see the agreement facilitate the free flow of data whilst protecting personal data.

Policy explanation

The government recognises the need to secure strong digital trade commitments that support all sectors of the economy. The government notes concerns regarding data protection and will ensure that robust protections for personal data are maintained, whilst supporting the free flow of data. On telecommunications, the government will seek to minimise barriers to trade in telecommunications services, promoting fair access to the Mexican market and ensuring transparent and non-discriminatory regulatory frameworks.

Intellectual Property

A balanced and effective Intellectual Property (IP) regime is an essential element of a vibrant and creative economy, providing confidence and protection for innovators and creators whilst also reflecting wider public interests. Trade agreements provide the opportunity to build upon the minimum IP standards set out under the WTO Trade Related Aspects of Intellectual Property Rights Agreement and secure tailored provisions which will maximise trade and investment opportunities around the world.

The UK and Mexico agreed protection for 10 Geographical Indications (GIs) under the UK-Mexico Agreement on the Mutual Recognition and Protection of Designations for Spirit Drinks. This includes protections for Scotch Whisky, Irish Whiskey / Whisky, Irish Poteen and Irish Cream. Respondents called for GI protections under the UK-Mexico Spirits agreement to be maintained, as well as for further existing UK GIs to be protected under the renegotiated FTA.

Respondents highlighted that the agreement between the UK and Mexico should maintain the UK's current high standards of IP protection and should strengthen cooperation and knowledge sharing on IP, as well as strengthen both parties' commitments to implementing international IP treaties.

Respondents made requests to strengthen IP protection in areas of interest to the creative, digital, and pharmaceutical industries. Respondents indicated a desire for provisions to ensure the robust enforcement of IP rights to tackle copyright piracy and trademark counterfeiting in Mexico, including in relation to the online environment. Respondents raised a lack of sufficient design protection in Mexico, and noted the importance of promoting transparency, accountability, and good governance among collective management organisations.

Policy explanation

The government recognises the importance of a high standard IP chapter in the future UK-Mexico agreement. The UK is widely recognised as being a world leader in IP protection, providing an effective balance between rights holders, users and consumers. IP-rich and creative industries make a significant contribution to the UK economy.

Both the UK and Mexico have made commitments in their previous FTAs on the protection of IP rights, including provisions on the transparent and effective enforcement of IP rights. The government will seek to enshrine and build upon these commitments in the future agreement. The government recognises the importance of maintaining existing commitments in any new trade agreement and the need for the agreement to deliver a balanced outcome for right holders, users, consumers, and wider societal interests.

Government Procurement

Procurement provisions in FTAs promote transparency, non-discrimination, and competition within the trading partners' government procurement markets. These provide enforceable rules and standards for how the procurements that are covered by the agreement should be run and ensure that suppliers from the other party are treated the same as domestic suppliers.

Some respondents raised that the agreement should allow for more access to Mexican public procurement opportunities and allow for a fair system of access to government contracts and national treatment, with open and transparent processes. Some respondents suggested the agreement should aim to match the

WTO Government Procurement Agreement (GPA) standards. Others have highlighted that the agreement should include provisions which allow for consideration of environmental and social factors during the procurement process.

Policy explanation

The UK will seek to gain increased legally guaranteed access to government procurement opportunities in Mexico, building on the commitments made in the UK-Mexico TCA and in line with the GPA.

The government is committed to developing improved rules, where appropriate, to ensure that procurement processes are open and transparent, and accessible for all potential suppliers.

The government will ensure appropriate protections remain in place for key public services, such as NHS health and care services and broadcasting.

Competition Policy, Consumer Protection, State-Owned Enterprises, Subsidies

Competition policy, State-Owned Enterprises (SOEs) and subsidies chapters ensure there is open and fair competition for businesses in each other's markets.

Competition policy covers the rules and regulations concerning the way businesses operate within a market and the enforcement of such rules. Provisions ensure that the parties maintain competition law (typically covering anti-competitive agreements between firms, abuse of a dominant position and merger control), committing the parties to apply measures on a procedurally fair, transparent, and non-discriminatory basis. Competition policy chapters often also commit countries to consumer protection rules and cooperation.

Respondents raised that the agreement should maintain existing competition commitments and strengthen them further. Some respondents asked that provisions should ensure that domestic regulations provide for market transparency and fair competition, and some called for a consumer chapter to formalise and protect consumer interests.

SOEs provisions provide for open and fair competition between commercially oriented SOEs and private businesses, for example rules around non-discrimination and subsidies.

Some respondents felt that the agreement should contain protections for the right of governments to use SOEs to support economic, social, and environmental development and objectives. Respondents also believed that provisions should discipline the granting of subsidies to state-owned financial institutions.

Policy explanation

The government will seek to promote open and fair competition for UK firms at home and in Mexico through strong commitments on effective competition law and its enforcement, including transparency commitments. The UK will also seek consumer protection commitments.

The government recognises that provisions relating to subsidies and SOEs are an important issue for businesses. The government will seek to ensure SOEs are not entitled to any subsidies which can have trade distortive effects and that UK firms operating in Mexico can compete fairly with SOEs.

Dispute Settlement

Dispute settlement refers to the formal state-to-state mechanism for resolving disputes where one or more parties consider that there has been a breach of obligations under the relevant international trade agreement, and it has not been possible to resolve the dispute informally.

Policy explanation

The government considers an effective dispute settlement mechanism to be an important part of an FTA. An effective dispute settlement mechanism gives parties and stakeholders the confidence that commitments made under the agreement can be upheld, and that any disputes will be addressed fairly and consistently.

The government recognises that respondents want a dispute settlement mechanism that is transparent and fosters cooperation. Under the future agreement, the government will seek to create a strong state-to-state dispute settlement mechanism that promotes compliance with the agreement. Provisions will ensure state-to-state disputes are dealt with consistently, fairly and in a cost-effective and timely manner, whilst providing predictability and certainty for businesses and stakeholders.

Small and Medium-sized Enterprises Policy

Small and Medium Enterprises (SMEs) are an integral part of the UK economy. Over 99 percent of the business population in the UK are SMEs.¹³ Barriers to trade disproportionately affect smaller firms and can even prevent them from exporting altogether.

¹³ BEIS, Business population estimates for the UK and regions 2021: statistical release (October 2021).

Respondents called for inclusion of an SME Chapter with dedicated support for SMEs, including the creation of improved online information that explains parts of the FTA relevant to SMEs. Several respondents wished to see a reduction of non-tariff barriers for SMEs.

Policy explanation

The government is committed to seeking an FTA that reduces potential barriers to international trade so as to benefit the 2,700 SMEs that exported goods to Mexico in 2020 and create opportunities for new SME exporters.¹⁴ The government will also seek to ensure that SMEs have easy access to the information necessary to take advantage of the new opportunities generated by the upgraded FTA.

Labour Standards

Labour chapters in FTAs address issues on trade and labour protections and provide the opportunity for parties to reaffirm commitments to international obligations.

Respondents wished for the UK to maintain its high labour standards and sought that labour commitments in the FTA be effectively enforced, including the fundamental International Labour Organisation (ILO) conventions, particularly those related to forced labour and child labour. Respondents wished for commitments from both parties to ensure that they do not fail to enforce labour protections in ways that could create an artificial competitive advantage.

Furthermore, some respondents noted that the agreement should protect the rights of migrant workers, refugees, and asylum seekers.

Policy explanation

The government shares the public's high regard for worker protections and has made clear that it will not compromise on these. The UK will maintain its high standard of workers' rights and continue to advocate for the highest standards and working conditions. The government will seek to ensure parties reaffirm their commitment to international labour standards.

The UK has one of the most dynamic, flexible, and supportive labour frameworks in the world, with important protections for individuals. It is also world-leading in our pursuit of the elimination of all forms of forced labour. The government will seek to ensure that the agreement allows the UK to protect its regulatory sovereignty, protect against labour rights being reduced to gain a trade advantage, and provide for appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

Gender Equality and Women's Economic Empowerment

Gender equality is a crucial issue, affecting all areas of trade. As such, it is increasingly becoming a feature of modern international trade agreements. These can address issues such as discrimination, or the barriers faced disproportionately by women in trade, including lack of access to markets and business networks.

Alongside issues such as human rights and labour rights, respondents highlighted the importance of gender equality and the specific challenges faced by women participating in the workforce and global supply chains. Concerns were raised particularly around the risk of gender-based violence and sexual assault. Some respondents called for FTA provisions or increased bilateral cooperation to foster gender equity and women's economic empowerment in business, trade, and society.

Policy explanation

The UK is committed to ensuring that our trade policy supports women's economic empowerment and furthers our efforts to promote gender equality. The government will explore opportunities, in partnership with Mexico, to reflect this in our FTA. The government will also seek to build our evidence base on how the impacts of trade vary by gender, including by exploring options for conducting gender-focused trade analysis.

Trade Remedies

Trade remedies act as a safety net to protect UK businesses from injury caused by unfair trading practices, such as dumping and subsidies, or injury caused by unforeseen surges in imports. Respondents noted the importance of securing trade remedies provisions to champion free and fair trade between the UK and Mexico.

Policy explanation

The government recognises the importance of trade remedies as part of a rounded trade policy. In the upgraded agreement, the government will seek provisions which facilitate trade liberalisation whilst providing a safety net for UK businesses against injury caused by dumped, subsidised or unexpected surges in imports of goods. The government is committed to seeking trade remedy provisions which uphold our WTO commitments and aim to ensure that trade remedy measures are applied in a proportionate and transparent manner.

¹⁴ HM Revenue & Customs, UK trade in goods by business characteristics.

Environment

Trade policy can support clean growth and efforts to tackle climate change, including through the promotion of low carbon exports which can help to deliver the full economic benefit of the UK's shift to a low-carbon economy.

Respondents asked for the UK to seek strong environment and climate provisions in line with our international commitments and role as a global leader.

Respondents highlighted that provisions should seek to support UK net zero commitments and uphold key climate change accords and Multilateral Environmental Agreements (MEAs) committed to by both parties, such as the Paris Agreement on climate change. Respondents also highlighted that commitments to cooperation in these areas was important.

Responses illustrated a desire for the future agreement to protect the UK's high environmental standards and ensure effective enforcement of environmental provisions.

Policy explanation

The UK is a world leader on climate action. We promote delivery of our environmental and climate commitments both bilaterally and multilaterally, across a range of environmental issues including climate change, biodiversity and sustainable forests.

The government is firmly committed to maintaining our high domestic standards of environmental protection in trade agreements, and expects future environmental provisions with Mexico to support these objectives. It is important both parties do not waive or derogate from their environmental commitments, or fail to enforce domestic environmental laws.

The UK and Mexico are party to many MEAs, including the Paris Agreement. We are committed to upholding our international obligations under these agreements and will continue to play an active role internationally.

The UK recognises countries' sovereign right to regulate for their own levels of domestic environmental protection and we will ensure this is maintained under the future deal, whilst also seeking opportunities to advocate for clean growth and cooperation in the global fight against climate change.

Innovation

Provisions relating to innovation will allow the UK and Mexico to discuss the impact of innovation on trade, including regulatory approaches, commercialisation of new technologies, and supply chain resilience, and ensure that our FTA remains fit for purpose.

Respondents across sectors have requested the improvement and expansion of the trading relationship and cooperation regarding innovation, science and technology.

Policy explanation

The UK's Innovation Strategy sets out our ambition to be a global leader in innovation and secure FTAs that support innovation and innovative businesses. The UK is driving the consideration of the impacts of innovation on trade, ensuring the global trading system works for innovative businesses. The government will seek an FTA which is live to the challenges and opportunities that innovation presents and remains fit for purpose as our trade relationships and our economies grow and develop across the lifetime of the agreement.

Anti-Corruption

Respondents highlighted concerns about the impact of bribery and corruption on businesses, and how these can act as a barrier to entry for businesses, emphasising the importance of anti-corruption provisions within FTAs to help address this.

Policy explanation

The government recognises that respondents highlighted the trade-distorting effects of corruption and importance of fair competition.

The government is committed to tackling corruption, to ensure free and fair global trade and competition. The government will secure provisions that address the trade-distorting effects of corruption on global trade and fair competition. The government is working with Mexico on the implementation of the commitments from the London Anti-Corruption Summit in 2016 and has signed Memorandums of Understanding with Mexico on Anti-Corruption, Transparency and Open Government, and Government Modernisation and Public Procurement.

Human Rights

Respondents highlighted the protection of human rights more generally as a part of their concerns, and that trade should not come at the expense of human rights.

Policy explanation

The government is clear that more trade will not come at the expense of human rights. By having stronger economic partnerships across the world, we can have more open discussions on a range of issues, including human rights.

Human rights are discussed with Mexico through existing dialogues, exchanges, diplomatic engagement and other initiatives. The UK has a strong history of protecting human rights and promoting our values globally. The government will continue to encourage all states to uphold international human rights obligations and hold those who violate human rights to account.

Continued engagement

In line with DIT's approach to new agreements and independent trade policy, we will ensure that our agreement with Mexico works for the whole of the UK and its wider UK family. Parliament, the Devolved Governments, local Government, business, trade unions, civil society and the public from every part of the UK will have the opportunity to engage and contribute.

We will continue to engage through:

- The Strategic Trade Advisory Group (STAG), to seek informed stakeholder insight and views on relevant trade policy matters
- Trade Advisory Groups (TAGs) and Thematic Working Groups (TWGs), to contribute to our policy development at a detailed technical level
- engagement outreach events across the whole UK

The STAG's principal purpose is for the government to engage with stakeholders on trade policy matters as we shape our future trade policy and realise opportunities across all nations and regions of the UK through high level strategic discussion. The STAG's remit extends across the breadth of trade policy and more information can be found online at GOV.UK.

The objective of the TAGs and TWGs is to enable the government to draw on external knowledge and experience to ensure that the UK's trade policy is backed up by evidence at a detailed level and to deliver positive outcomes for the UK. We will draw on the expertise of these groups to gather intelligence for informing the government's policy positions.

DIT is committed to ensuring we will have appropriate mechanisms in place during negotiations to inform the government's position. As we move forward, we will review our approach to engagement and consider whether existing mechanisms are fit for purpose. We welcome further and ongoing feedback and input from stakeholders during this process.

The government is committed to ensuring that our trade policy is transparent and subject to appropriate parliamentary scrutiny and will provide regular updates throughout negotiations.

After launching negotiations with Mexico, we will continue to work closely with all our stakeholders, plus the Devolved Governments, to ensure that negotiations with Mexico further the UK's key interests and bring benefits for the whole of the UK.

The government has built close working relationships with colleagues in Wales, Scotland and Northern Ireland at a Ministerial and Official level on trade matters. These discussions will continue to develop as the UK pursues an ambitious independent trade agenda.

Chapter 3:

Outline Approach



Overall Objectives

- Pursue an ambitious and comprehensive FTA that builds upon the UK-Mexico TCA and on the access the UK will gain through CPTPP, to secure additional benefits for the whole of the UK.
- Increase trade in goods, services and cross-border investment with Mexico, providing opportunities in new areas such as digital trade, innovation, climate and advances gender equality in trade.
- Provide opportunities for UK businesses, including SMEs and investors, and facilitate greater choice and lower prices for UK producers and consumers.
- Ensure high standards and protections for UK consumers and workers and build on our existing international obligations. This will include not compromising on our high environmental and labour protections, public health, animal welfare and food standards, as well as maintaining our right to regulate in the public interest.
- Uphold the government's manifesto commitment that the National Health Services (NHS), its services, and the cost of medicines are not on the table. To this end, we will not accept any provisions that would increase the cost of medicines for the NHS. Protecting the NHS is a fundamental principle of our trade policy, and our commitment to this will not change during our negotiations with Mexico.
- Secure an agreement which works for the whole of the UK and takes appropriate consideration of the UK's constitutional arrangements and obligations.
- Send a powerful signal to the rest of the world that the UK as an independent trading nation will continue to champion free and fair trade, fight protectionism, and remove barriers to trade at every opportunity.

Trade in Goods

- Secure comprehensive access for UK industrial and agricultural goods into the Mexican market through the reduction or elimination of tariffs and non-tariff barriers.

Rules of Origin

- Develop simple and modern rules of origin that reflect UK industry requirements and consider existing as well as future supply chains, supported by predictable and low-cost administrative arrangements.

Customs and Trade facilitation

- Secure commitments to efficient and transparent customs procedures which aim to minimise costs and administrative burdens and associated costs for businesses.
- Ensure that customs processes are predictable before, at, and away from the border.

Technical Barriers to Trade

- Continue to reduce technical barriers to trade by removing and preventing trade-restrictive measures in goods markets, whilst upholding the safety and quality of products and the UK's right to regulate in this area in the public interest.
- Seek arrangements to make it easier for UK manufacturers to have their products tested against Mexican rules in the UK before exporting.
- Promote the use of international standards, to further facilitate trade between the parties.

Sanitary and Phytosanitary Measures

- Uphold the UK's high standards of food safety, animal and plant health, and animal welfare, and the UK's right to regulate in these areas in the public interest.
- Enhance access for UK agri-food goods to the Mexican market by seeking enhanced commitments for dialogue, cooperation and transparency on Sanitary and Phytosanitary measures which may present challenges to businesses, with a view to helping UK firms trade more easily.
- Seek enhanced cooperation on the important issues of animal welfare and antimicrobial resistance.

Good Regulatory Practice and Regulatory Cooperation

- Reduce regulatory obstacles, facilitate market access, and improve trade flows by ensuring a transparent, predictable, and stable regulatory framework, to give confidence to UK exporting businesses and investors.
- Ensure commitments to the application of good regulatory practice, such as:
 - internal coordination

- transparency in the regulatory process, including making relevant information freely and publicly available online
- meaningful public consultation in the development of regulatory measures
- the use of proportionate impact assessments for proposed major regulatory measures
- the periodic evaluation of regulatory measures in force
- Promote regulatory cooperation.

Transparency

- Ensure world class levels of transparency between the UK and Mexico, particularly with regards to the publication of measures (such as laws and regulations) affecting trade and investment, public consultation, and the right to appropriate review of these measures.

Trade in Services

- Pursue modern rules for all services sectors, as well as sector-specific rules to ensure transparency and support our world-leading services industries, including key UK export sectors such as financial services, legal services, professional and business services, and transportation services.
- Ensure certainty for UK services exporters continuing to operate in the Mexican market and transparency of Mexican services regulation.
- Seek to improve access for UK business people to operate in Mexico by enhancing opportunities for business travel. We will continue to preserve the integrity of the UK's domestic immigration system.

Public Services

- Protect the right to regulate public services, including the NHS and public service broadcasters.
- Continue to ensure that decisions on how to run public services are made by the UK Government, including the Devolved Governments.

Telecommunications

- Agree a comprehensive telecommunications chapter that promotes liberalisation and competition and that minimises barriers to trade in telecommunications services with Mexico.
- Ensure fair and non-discriminatory access to the Mexican telecommunications networks and services.
- Promote fair and transparent regulatory frameworks, overseen by independent and impartial regulators.
- Secure greater connectivity for UK consumers and businesses in the Mexican market.

Digital Trade

- Include a comprehensive digital chapter that maximises opportunities for digital trade across all sectors of the economy, and businesses of all sizes, across the UK.
- Seek commitments that facilitate free and trusted cross-border data flows, prohibit unjustified data localisation, and maintain the UK's high standards for personal data protection.
- Promote online consumer protection and seek necessary business safeguards in digital trade.
- Seek commitments to facilitate more efficient and secure international trade through use of digital technologies, including through paperless trading.
- Cooperate on evolving areas of trade such as innovation and emerging technologies.

Financial services

- Seek to agree ambitious financial services provisions that will provide for a comprehensive, transparent and modernised arrangement with Mexico.
- Expand opportunities for UK financial services and ease frictions to cross-border trade and investment.

Investment

- Agree provisions that create new opportunities for UK investors in Mexico, whilst addressing existing barriers that investors currently face.
- Provide greater protection for UK investors and guarantee that they receive fair and non-discriminatory treatment, ensuring access to adequate remedies in the event that these obligations are breached.
- Maintain the UK's right to regulate in the national interest, and, as the government has made clear, continue to protect the NHS.

Intellectual Property

Protect the UK's existing Intellectual Property (IP) standards and secure provisions which:

- Ensure right holders receive protection and fair remuneration for the use of their works abroad, whilst ensuring reasonable and fair access for consumers.
- Achieve an effective balance between rewarding research and innovation, whilst reflecting wider public interests such as ensuring access to medicines.
- Adequately secure protection for brands and design-intensive goods, whilst keeping the market open to fair competition.
- Promote the accessible, transparent, effective, and efficient enforcement of IP rights including for online IP infringement and facilitate cross-border collaboration on IP matters.
- Are consistent with the UK's existing international obligations, including the European Patent Convention, to which the UK is party.
- Promote provisions which take account of emerging opportunities and challenges in the digital age.
- Seek effective protection of UK geographical indications in a way that ensures consumers are not misled about the origins of goods whilst ensuring they have access to a range of products.

Government Procurement

- Secure comprehensive access for UK businesses to compete for procurements at all levels of government, based on clear and enforceable rules and standards.
- Seek rules to ensure that procurement processes are simple, fair, open, transparent and accessible to all potential suppliers.
- Ensure appropriate protections remain in place for key public services such as NHS health and care services, and broadcasting.

Competition Policy and Consumer Protection

- Provide for effective competition law and enforcement that promotes open and fair competition for UK firms at home and in Mexico.
- Provide for transparent and non-discriminatory competition laws, with strong procedural rights for businesses and people under investigation.
- Ensure core consumer rights are protected.
- Promote effective co-operation between enforcement agencies on competition and consumer protection matters.

Subsidies and State-Owned Enterprises

- Secure industrial subsidies provisions that promote open and fair competition for UK firms at home and in Mexico.
- Provide for open and fair competition between commercially oriented State-Owned Enterprises (SOEs) and private businesses by preventing discrimination and unfair practices.
- Obtain transparency commitments on SOEs.
- Ensure that UK SOEs, particularly those providing public services, can continue to operate as they do now.

Trade Remedies

- Ensure provisions support market access, uphold our WTO commitments, and are underpinned by transparency, efficiency, impartiality and proportionality.
- Agree provisions which facilitate trade liberalisation whilst protecting against unfair trading practices.

Disputes Settlement

- Establish appropriate mechanisms that promote compliance with the agreement and seek to ensure that state to state disputes are dealt with consistently and fairly in a cost-effective, transparent and timely manner whilst seeking predictability and certainty for businesses and stakeholders.

Small and Medium-sized Enterprises Policy (SMEs)

- Support UK SMEs to seize the opportunities of UK-Mexico trade by:
 - Ensuring a dedicated SME chapter to facilitate co-operation between the UK and Mexico on SME issues of mutual interest.

- Ensuring that SMEs have easy access to the information necessary to take advantage of the trade opportunities generated by the agreement.
- Seeking to include SME-friendly provisions throughout the agreement that support businesses trading in both services and goods.

Environment and Climate

- Ensure provisions that support and help further the government’s ambition on environment and climate change and achieving net zero greenhouse gas emissions by 2050, including promoting trade and investment in environmentally and climate friendly goods and services, and collaborative commitments across a range of issues.
- Maintain the UK’s right to regulate to meet environmental objectives, including on climate change.
- Affirm commitments to Multilateral Environmental Agreements such as the United Nations Framework Convention on Climate Change and the Paris Agreement.
- Ensure that parties do not waive or derogate from, or fail to enforce, their domestic environmental laws in ways that create an artificial competitive advantage.
- Apply appropriate mechanisms for the implementation, monitoring and dispute resolution of environmental provisions.

Trade and Development

- Seek to deliver an agreement that supports the government’s objectives on trade and development.

Labour Standards

- Reaffirm commitments to international labour standards.
- Include measures which allow the UK to protect its regulatory sovereignty, provide meaningful protection, and maintain the integrity of its labour protections.
- Provide assurance that parties will not waive from or fail to enforce their domestic labour protections in ways that create an artificial competitive advantage.
- Provide appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

Anti-Corruption

- Provide for measures that address the trade distorting effects of corruption on global trade and fair competition, to help maintain the UK’s high standards in this area.
- Provide for appropriate mechanisms for the implementation, monitoring and dispute resolution of anti-corruption provisions.

Trade and Gender Equality

- Promote women’s access to the full benefits and opportunities of this Agreement as workers, business owners, entrepreneurs and consumers.
- Seek cooperation to address the barriers which exist disproportionately for women in trade.
- Recognise the importance of upholding protections on gender equality.

Innovation

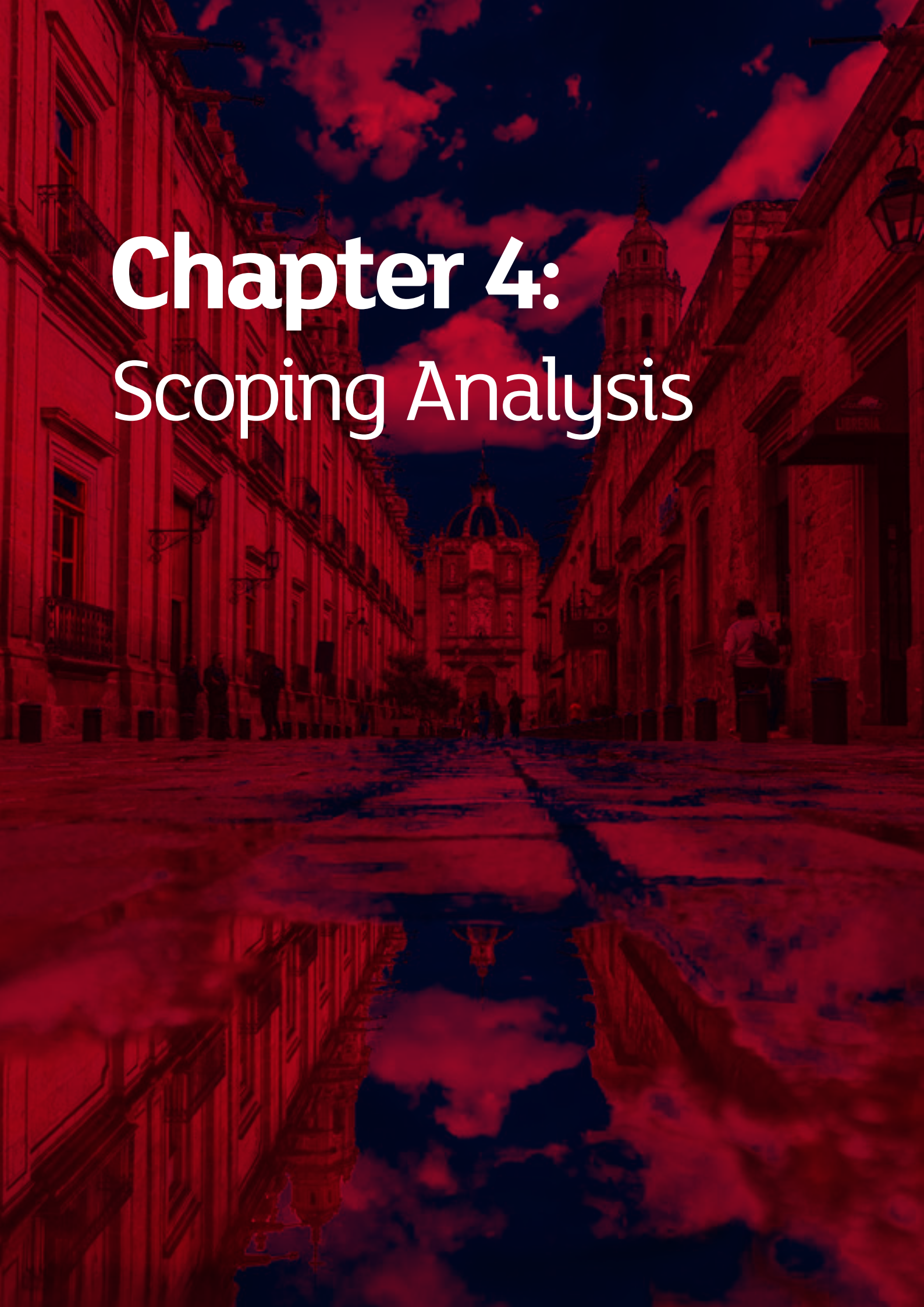
- Provide an opportunity to enhance co-operation on shared global and economic challenges, including the development of low-carbon technologies, and emerging technologies.
- Agree provisions focusing on the role of trade policy in facilitating innovation and ensuring our FTA is flexible to emerging business models and global trends and events.
- Signal the UK’s ambition and build like-mindedness on developing trade policy that is supportive and responsive to innovation.

General Provisions

- Ensure flexibility for the government to protect legitimate domestic priorities by securing adequate general exceptions to the agreement.
- Provide the option to review the economic relationship and operation of the agreement. Allow for the agreement to be amended when necessary, in support of mutual objectives.

Territorial Application

- Provide for application of the agreement to all four constituent nations of the UK, taking into account the effects of the Protocol on Ireland/Northern Ireland.
- Provide for further coverage of the agreement to the Crown Dependencies and Gibraltar and Overseas Territories, as appropriate.

A photograph of a street in Havana, Cuba, featuring a prominent church with a dome at the end of the street. The image is overlaid with a red color and a reflection effect at the bottom. The text 'Chapter 4: Scoping Analysis' is centered in white.

Chapter 4: Scoping Analysis

Background

The UK currently trades with Mexico under the terms of the UK-Mexico TCA, which came into force in 2021. The UK-Mexico TCA replicated the effects of the EU-Mexico Global Agreement, which entered into force in 2000, and made changes where necessary to suit the bilateral context. DIT is preparing for negotiations to upgrade the current TCA to a new, upgraded and comprehensive one. This upgraded FTA with Mexico will enhance the existing relationship in trade, which was worth £3.8 billion in 2020. The UK's accession to CPTPP is anticipated to provide additional levels of liberalisation which will complement a new trade agreement with Mexico.¹⁵ This scoping analysis describes the potential economic impact of an upgraded FTA between the UK and Mexico.¹⁶

About Scoping Analysis

Scoping Analysis is used where the negotiations cover an augmentation of an existing trade agreement and is focused on areas of additional gains. It uses tools including services gravity modelling, tariff analysis and descriptive analysis as the main evidence base to highlight where there are remaining barriers to trade. Given there is an existing FTA in place already, it does not include economic Computable General Equilibrium (CGE) modelling, which estimates the potential impacts on the macroeconomy. Nor does it include (at this stage) an assessment of the impact on UK nations and English regions, SMEs, protected groups of the labour market or developing countries.

At the end of negotiations, a final Impact Assessment will be published.

A note on data and statistics

Statistics in this scoping analysis are based on 2020 or the latest available data as of February 2022. Due to the COVID-19 pandemic, trade data was more volatile in 2020. Therefore, the impacts of services liberalisation are compared to 2019 trade flow data and tariff liberalisation analysis uses 2016-18 or 2017-19 average trade flow data.

The existing trade and economic relationship between the UK and Mexico

Total trade in goods and services between the UK and Mexico was worth £3.8 billion in 2020,¹⁷ 3,400 UK businesses exported goods to Mexico, which was the UK's 45th largest trading partner in 2020.

¹⁵ ONS, United Kingdom total trade: all countries, non-seasonally adjusted: July to September 2021.

¹⁶ UK accession to CPTPP: the UK's strategic approach. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1027860/dit-cptpp-uk-accession-strategic-approach.pdf.

¹⁷ ONS, United Kingdom total trade: all countries, non-seasonally adjusted: July-September 2021

Figure 1: Economic indicators for the UK and Mexico.



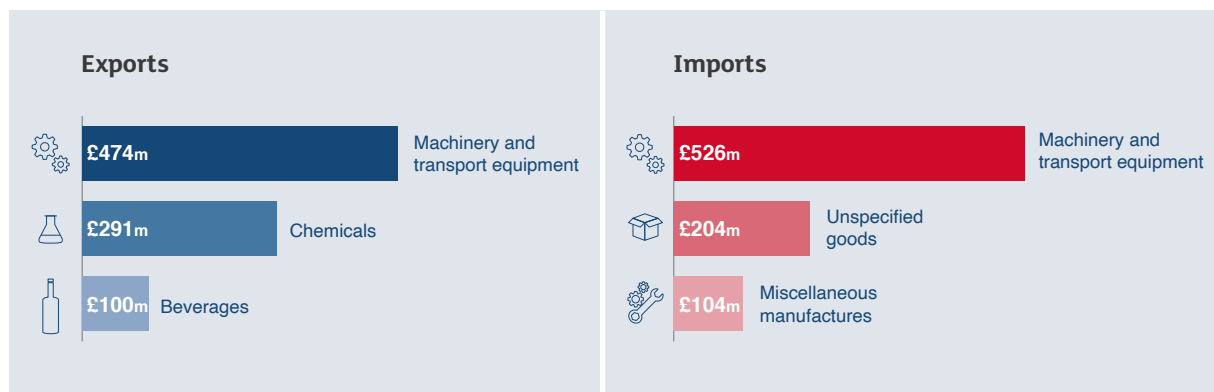
Figures from 2020 unless stated otherwise. Sources: IMF World Economic Outlook October 2021, World Bank, ONS UK total trade: all countries, non-seasonally adjusted July-September 2021, DIT Jobs supported by UK exports 2021, HMRC UK trade in goods by business characteristics. Figures on jobs supported refer to those directly supported (e.g. labour used by exporting firms to produce the goods and services that are exported) and indirectly supported (labour supported in firms within the supply chains of exporting firms) by exports to Mexico.

Trade in Goods

The UK exported around £1.1 billion of goods to Mexico in 2020, with 97% of product lines eligible for duty-free trade.^{18,19} The UK's largest exports and imports with Mexico are shown in Figure 2. The UK's largest exports were machinery and transport equipment, chemical products and beverages and tobacco. These accounted for 79% of the UK's exports to Mexico.

The UK imported £1.2 billion worth of goods from Mexico in 2020, with 91% of product lines eligible for duty-free trade.²⁰ The UK's largest imports were machinery and transport equipment, unspecified goods (which includes non-monetary gold) and miscellaneous manufactures. These accounted for around 70% of the value of UK imports from Mexico.

Figure 2: Key goods traded between the UK and Mexico in 2020



Source: ONS trade in goods – country by commodity exports and imports, UK trade in services: service type by partner country, non-seasonally adjusted, Unspecified goods includes uncategorised goods, such as parcel post and low value trade; as well as nonmonetary gold.

Businesses across the UK traded goods with Mexico. 0.7% of goods exported from Northern Ireland and the North East went to Mexico – compared to 0.4% for the UK as a whole. Similarly, businesses from the North East and the South West imported 0.5% of their goods from Mexico – relative to 0.2% for the entire UK.²¹

¹⁸ ONS, United Kingdom total trade: all countries, non-seasonally adjusted: July-September 2021.

¹⁹ DIT calculations with 8-digit tariff line data. 2021 preferential tariff is matched with 2016-18 trade flow data from ITC TradeMaps).

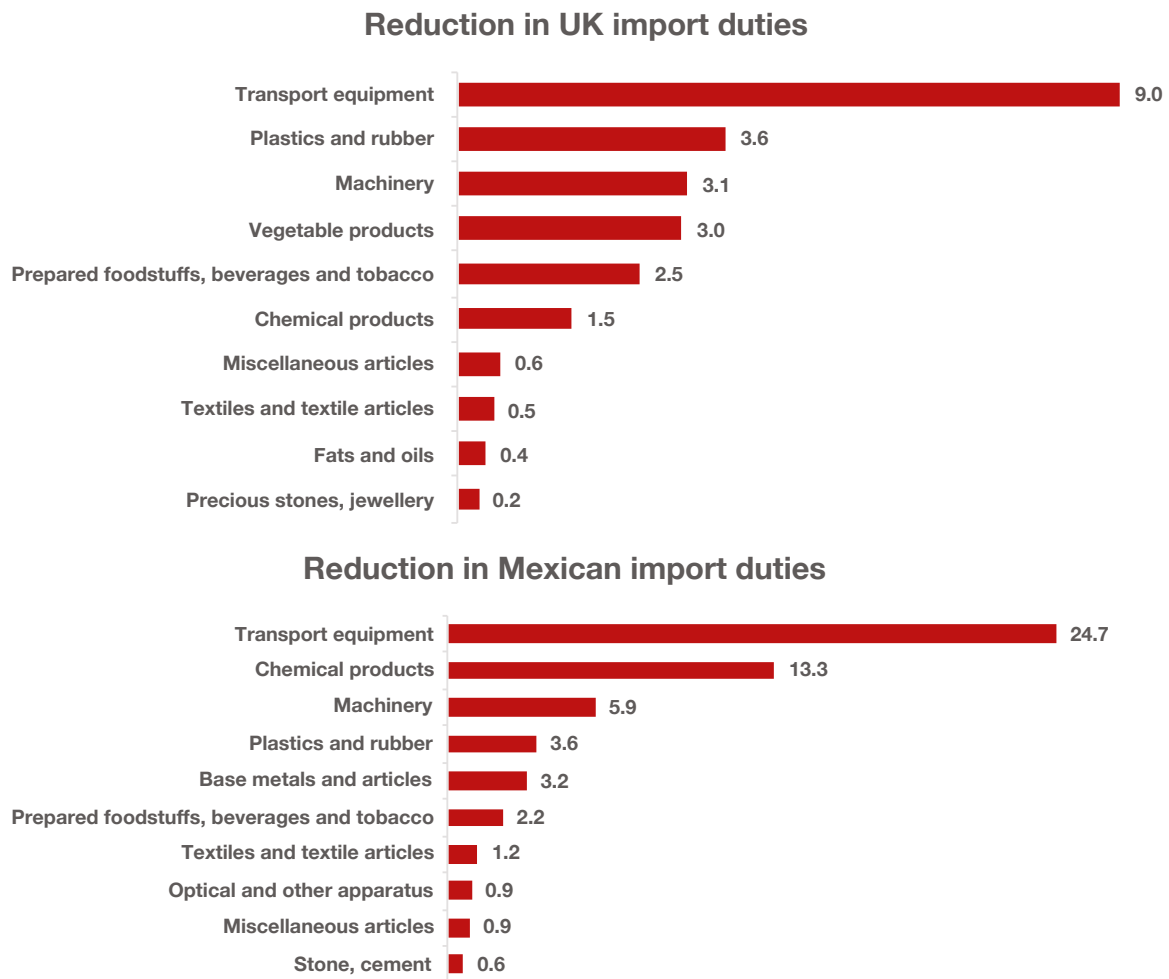
²⁰ ONS Trade in goods: country-by-commodity imports.

²¹ HMRC, UK regional trade in goods statistics disaggregated by smaller geographical areas.

The UK-Mexico TCA meant UK exports to Mexico could have been subject to £57 million less in duties relative to trading on MFN terms, if available preferences were fully utilized. These reductions were concentrated in transport equipment, chemical products and machinery exports. This is shown in Figure 3.

UK businesses importing intermediate products have benefitted from access to cheaper inputs. Greater openness increases competition between firms, enhancing their incentives to improve productivity in order to maintain and improve their market share. Less productive domestic firms may also exit the market as they cannot compete with more productive foreign producers, boosting aggregate productivity. Consumers may benefit from lower prices of final goods and increased product variety due to tariff liberalisation on imports into the UK.²² The UK-Mexico TCA ensured that businesses importing from Mexico had access to preferences that would have reduced annual duties by an estimated £25 million per annum between 2017-19.²³ Figure 3 shows these predominantly benefitted imports of transport equipment, plastic and rubber and machinery.

Figure 3: Maximum annual reduction in tariff duties on exports and imports available to businesses for the top 10 Harmonised System (HS) codes under the UK-Mexico TCA (£ million)



Source: DIT internal analysis. This is based on UK imports data between 2017-19 and tariffs as applied in 2021. For export duties analysis Mexican imports data was used between 2016-18. It also assumes full utilisation of tariffs and compliance with rules of origin requirements. The Mexico imports duties analysis uses TradeMap data, whilst UK import duties analysis uses HMRC data.

Trade in Services

Services activity accounts for the majority of the UK economy and a large proportion of exports. In 2020, the sector provided 73% of economic output by value, a high proportion by international standards.²⁴ Services accounted for 49% of UK exports to the world and 38% of total trade with the world in 2020.^{25,26}

²² The extent to which businesses or consumers in the UK have benefitted from the reduction in tariffs will depend on the rate of "pass through" of lower import costs from the importing business to the end consumer.

²³ This is based on UKGT schedules.

²⁴ Source: World Bank: World Development Indicators.

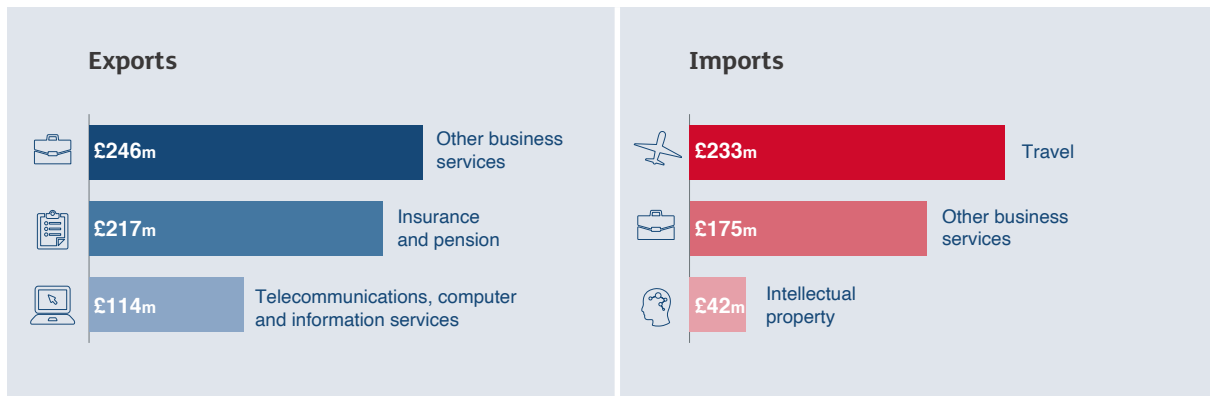
²⁵ ONS, United Kingdom total trade: all countries, non-seasonally adjusted: July to September 2021.

²⁶ ONS: United Kingdom trade: country by commodity, January 2022 release.

UK-Mexico services trade was worth £1.5 billion in 2020, of which 61% was UK exports (£928 million) and 39% was UK imports (£583 million).²⁷ Over four fifths of UK services exports to Mexico were digitally delivered in 2020 (also known as Mode 1 of services trade).²⁸

The three largest services exports from the UK to Mexico in 2020 were other business services (which includes accountancy, legal and architectural services), insurance and pension services, and telecommunications, computer and information services.²⁹ These accounted for 63% of the value of the UK's services exports. By contrast, the UK predominantly imported travel services, other business services and transportation services from Mexico. These accounted for 76% of the UK's services imports from Mexico.

Figure 4: Key services traded between the UK and Mexico in 2020



Source: UK trade in services: service type by partner country, non-seasonally adjusted. Note: Other business services includes research and development; professional and management consulting services; and technical, trade-related and other business services not included elsewhere

²⁷ ONS, United Kingdom total trade: all countries, non-seasonally adjusted: July to September 2021.

²⁸ ONS, Trade in services by modes of supply, UK: 2020. Mode 1 is used as a proxy for digital delivery. These statistics are experimental and should be treated with caution.

²⁹ ONS, UK trade in services: service type by partner country, non-seasonally adjusted.

The rationale for a bilateral FTA with Mexico

- **The existing TCA committed the UK and Mexico to commencing negotiations on a new FTA no later than one year after it entered into force.** The deal ensured that over 97% of tariff lines on UK exports remained duty-free. By entering negotiations, the UK can preserve these benefits and ensure it maintains duty-free trade in exports, such as for vehicles and machinery where MFN tariffs would otherwise be 20%.³⁰ A bilateral agreement allows for a more bespoke deal, tailored specifically to what UK stakeholders want.
- **There is scope to negotiate a deeper trade agreement with Mexico which improves access for services trade between the UK and Mexico.** The current agreement with Mexico is shallow, covering mostly goods trade. Services gravity modelling by DIT highlights that a deeper FTA liberalising services trade could increase UK exports of insurance services by around 41%, equivalent to around £80 million relative to 2019 trade levels (ranging from £50 million to £120 million)³¹. Financial services exports could increase by around 22%, equivalent to around £20 million (ranging from £10 million to £30 million).
- **The elimination of remaining tariffs could reduce annual duties on UK exports to Mexico.** Mexican tariffs on UK exports such as dairy products and alcohol are up to 45% and 20% respectively.³² These are products which the UK is relatively specialised in exporting to the world. Part of the reductions in duties could be achieved through an enhanced bilateral FTA with Mexico or the UK's accessions to CPTPP, depending on the outcome of negotiations. However, an enhanced agreement could also reduce administrative burdens on business and improve utilisation of preferential tariffs, which would reduce the cost to business.
- **There are opportunities to agree ambitious and modern digital provisions in the upcoming negotiations.** Over four fifths of UK services exports to Mexico were digitally delivered in 2020.³³ Mexico is more restrictive to digital services trade than the UK, although less restrictive than the OECD average.³⁴ These negotiations provide the opportunity for the UK and Mexico to open up opportunities to further digital trade.
- **The UK is negotiating to join CPTPP, a free trade area of 11 Indo-Pacific and Americas economies, including Mexico,** covering £8.4 trillion in GDP in 2020.³⁵ Analysis by DIT suggests that joining CPTPP could increase UK GDP by £1.8 billion in the long run.³⁶ There are some aspects of trade which are not covered in CPTPP, and a bilateral FTA will ensure UK business can maximise the benefits of trade with Mexico.

Economic analysis of a bespoke UK-Mexico FTA

The current trade agreement between the UK and Mexico is relatively shallow. 91% and 97% of tariff lines on imports and exports respectively are duty-free under the UK-Mexico FTA. Figure 5 shows it has a rating of 4 on the DESTA scale, which measures the depth of FTAs up to a maximum of 7.³⁷ Mexico has negotiated more ambitious trade agreements, including with Japan and the European Free Trade Association (EFTA). A deeper agreement could include provisions covering issues such as intellectual property rights, investment and services. Some modern agreements go further and include provisions on trade in digital services and data. Call for Input respondents highlighted that these are areas that they would like a new FTA with Mexico to cover.

30 DIT analysis of Mexico MFN tariff schedule.

31 DIT internal modelling. <https://www.gov.uk/government/publications/services-trade-modelling-working-paper>. Modelling assumes UK services trade liberalised in line with the EU-Japan FTA. Mexico STRI scores change in line with the falls partner countries have experienced in previous FTAs agreed by the UK.

32 DIT analysis of MacMap data.

33 ONS, Trade in services by modes of supply, UK: 2020. Mode 1 is used as a proxy for digital delivery. These statistics are experimental and should be treated with caution.

34 OECD (2021), Digital Services Trade Restrictiveness Index.

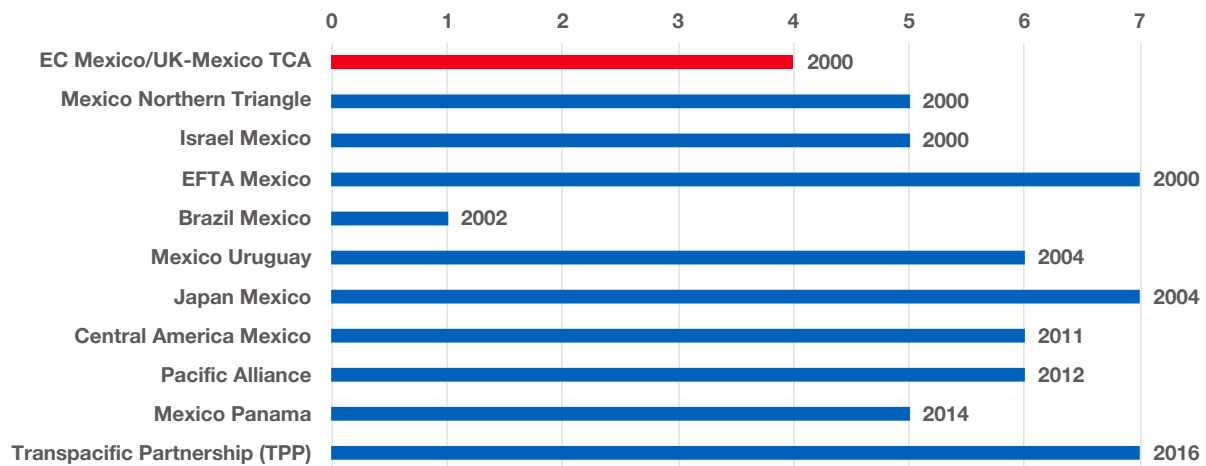
35 IMF World Economic Outlook, October 2021, 2020 data.

36 UK accession to CPTPP: the UK's strategic approach. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1027860/dit-cptpp-uk-accession-strategic-approach.pdf.

37 Design of trade agreements database. Score represents number of broad areas covered, out of a maximum of seven.

Available at: <https://www.designoftradeagreements.org/>.

Figure 5: Depth of Mexico's post-2000 FTAs by the year they were signed, as measured by the DESTA index



A deeper and more comprehensive FTA would benefit businesses against the backdrop of Mexico's economic growth. Between 2019 and 2035, its economy is projected to grow by 28% in real terms (at 2019 prices and exchange rates).³⁸ It is a middle-income economy with a large, young population, which is projected to grow by 18.2 million people (14%) between 2019 and 2035.³⁹ Mexico's demand for imports is forecast to grow by 35% between 2019 and 2035 (at 2019 prices and exchange rates) as its economy expands.⁴⁰

Market Access

Call for Input respondents asked to retain preferential tariffs and greater liberalisation where possible. Removing the remaining tariffs on UK exports to Mexico could reduce annual duties by around £4.7 million.⁴¹ This would particularly benefit UK exporters of vegetable products (where duties on UK exports are worth £3.1 million) as well as prepared foodstuffs (where duties on UK exports are worth £1.1 million). It would also benefit UK exporters of animal products (where duties on UK exports are worth £600,000).

Eliminating the remaining tariffs on UK imports could reduce annual duties by around £0.4 million per year.^{42,43} This would predominantly benefit importers of prepared foodstuffs, beverages and tobacco, and could feed through into lower prices for UK consumers. Part of the reductions in duties could be achieved through an enhanced bilateral FTA with Mexico or the UK's accessions to CPTPP, depending on the outcome of negotiations.

Utilisation of the agreement

Usage of preferential tariffs in the UK-Mexican TCA are lower than some other UK FTAs which include more modern provisions. 63% of UK exports to Mexico used available preferences in 2019 – around the same as the rate for UK exports to preferential trading partners. 43% of UK imports from Mexico used available preferences over the same period – relative to 82% across imports from preferential trading partners.^{44,45} This means there is scope to bring preference utilisation rates for UK imports from Mexico in line with rates on imports from other partner countries.

Difficulties meeting rules of origin, or in customs and administration, could be barriers to using preferential tariffs. Many respondents to the Call for Input expressed a desire to see modernised rules of origin and highlighted issues with customs administration burdens in time and cost, which particularly affect SMEs. Enhancing our agreement provides the opportunity to reduce administrative burdens, resulting in higher utilisation of preferential tariffs and lower costs for businesses.

As an illustration, a 5 to 10-percentage point increase in use of available preferences would reduce annual duties on UK exports to Mexico by £2.6-4.1 million. These reductions would be largest for the chemicals sector (£0.7-1.3 million) and transportation equipment (£1.0 million).⁴⁶ Machinery and mechanical appliances and chemical products hold some of the largest value of UK exports to Mexico, but their preference utilisation rates are only 44% and 50% respectively. Average UK utilisation rates for exports to

³⁸ 2035 projections for Mexican GDP are calculated using the methodology described in the Global Trade Outlook (September 2021).

³⁹ World Bank, Population estimates and projections.

⁴⁰ 2035 projections for Mexican import demand are calculated using the methodology described in the Global Trade Outlook, (September 2021).

⁴¹ This is calculated using average Mexican imports from the UK between 2016-18 from TradeMap data and information on Mexican tariffs on UK exports under the UK-Mexico TCA from the MacMap database.

⁴² This figure excludes Tariff Rate Quota product lines.

⁴³ This is calculated using average imports from Mexico to the UK between 2017-19 from TradeMap data and information on UK tariffs on imports from Mexico under the UK-Mexico TCA from the MacMap database.

⁴⁴ DIT analysis of European Commission/DG TRADE data.

⁴⁵ DIT analysis of European Commission data. Preference utilisation rates are calculated for countries where there is data available on utilisation and the UK has an FTA in place. The European Commission data contains information on trade with 33 export partners and 76 import partners.

⁴⁶ Transportation equipment already has a preference utilisation rate of 96%, so an increase of 5% and 10% yields a 100% preference utilisation rate, hence the reduction is £1 million for both scenarios.

preferential trading partners in these sectors were 71% and 63% respectively. Therefore, there is scope to improve utilisation with Mexico. Increased take up of preferential tariffs could lead to higher UK exports to Mexico in these sectors. Mexican consumers could also benefit from increasing product availability and choice of goods.⁴⁷

Similarly, a 5 to 10-percentage point increase in use of available preferences would reduce duties on UK imports from Mexico by between £1.3-2.4 million. The reductions would be largest in UK imports of transportation equipment (between £0.5-0.9 million) and could lead to increases in UK imports from Mexico in these sectors. There is scope for an increase in the use of preferential tariffs on UK imports from Mexico. For example, transportation equipment and machinery and mechanical appliances (accounting for 11% and 27% of UK imports from Mexico respectively) have preference utilisation rates of 12% and 18%. Average utilisation rates on UK imports to 76 preferential trading partners in these sectors were 79% and 68%.⁴⁸

Trade in Services

Trade in services between the United Kingdom and Mexico takes place on terms outlined in the General Agreement on Trade in Services (GATS). This is a WTO agreement governing trade in services.⁴⁹ The existing TCA focuses specifically on liberalisation of goods trade. Since 2000, Mexico has negotiated more comprehensive services agreements than that in the UK-Mexico TCA. These include the EU–Mexico modernised agreement and the US–Mexico–Canada Agreement.

Call for Input respondents called for further liberalised access to the UK and Mexico services market, including simplifying the process to establish local presence and for temporary movement of business people. In particular, greater support and flexibility for the finance sector was highlighted as a benefit of a modernised agreement.

A deeper FTA reducing restrictions to trading insurance services between the UK and Mexico could increase bilateral UK exports of insurance services by around 41%, equivalent to around £80 million compared to trade levels in 2019 (ranging from £50 million to £120 million). Liberalising financial services trade could lead to exports increasing by around 22%, equivalent to £20 million (ranging from £10 million to £30 million).

To some extent, these exports might be diverted from other countries. For example, the analysis suggests that only around half of the UK’s increase in insurance services exports to Mexico come as additional trade, with the remaining half being diverted from other countries.

There may also be a small increase in services imports as a result of a deeper FTA between the UK and Mexico. Other business services imports could increase by around £10 million (with range £10 million to £20 million).

This is based on services gravity modelling of an agreement that leads to reductions in Services Trade Restrictiveness Index (STRI) values for the UK and Mexico based on those achieved in recent FTAs signed by the UK.⁵⁰ Further details are available in the Annex.

Digital Trade

Mexico is more restrictive to digital services trade than the UK, although less restrictive than the OECD average.⁵¹ Electronic transaction barriers and other barriers to digital trade (which includes performance requirements, and limitations on downloading, streaming and online advertising) are the main impediments to trade, accounting for 21% and 22% of restrictions respectively. The main difference between the UK and Mexico relates to the “payment system”, where the UK has no barriers but this accounts for 18% of restrictions to digital trade in Mexico.

UK businesses raised issues around restrictions on the acceptance of digital documentation in the Call for Input. Respondents from the digital sector also raised the importance of ensuring no unjustified data localisation measures, and assurances that data will be able to flow freely.

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) can provide UK firms with access to higher quality production inputs, including technologies and working practices. Inward FDI generates benefits as technological advances can be passed from foreign to domestic firms through the supply chain. FDI is also an important contributor to economic growth due to its potential to enhance productivity and innovation, create employment and lead to several other benefits. UK businesses with inward FDI links are 69% more productive than businesses without an FDI link.⁵² However, there may be risks for domestic firms due to increased competition in the domestic market.

47 This is calculated using preference utilisation rates for each HS section for UK exports to Mexico in 2019. For UK exports, the calculations also use average exports for each HS code between 2016-18 using data from the TradeMap database. For UK imports they use HMRC trade data between 2017-19. Preference utilisation rates are assumed to increase by 5-10 percentage points.

48 DIT analysis of European Commission/DG TRADE data. ‘All countries’ signifies all countries where the UK has an FTA and preference utilisation rate data is available.

49 This is the basis of most-favoured-nation terms for services trade under the World Trade Organisation, whereby countries cannot discriminate between trading partners. WTO members must offer market access on the same terms to each trading partner.

50 DIT internal modelling. <https://www.gov.uk/government/publications/services-trade-modelling-working-paper>. Modelling assumes UK services trade liberalised in line with the EU-Japan FTA. Mexico STRI scores change in line with the falls partner countries have experienced in previous FTAs agreed by the UK.

51 OECD (2021), Digital Services Trade Restrictiveness Index.

52 ONS (2020), UK foreign investment, trends and analysis: August 2020.

Outward FDI from the UK can also generate benefits for the UK economy. Multinational companies use outward investment to strengthen their capabilities and competitiveness by entering new markets, importing intermediate inputs from foreign affiliates at lower prices, producing a larger volume of final goods and services abroad at lower cost, and accessing foreign technology. It also increases access to knowledge and improves collaboration.⁵³ Research points to a positive link between outward FDI and employment in the long run, as internationally expanding firms increase their demand for labour.⁵⁴ However, in the short term there can be instances where outward FDI reduces home country employment, such as when the investment is aimed at moving UK jobs to lower cost economies.

Some Call for Input respondents asked for further commitments on investment liberalisation. In 2020, the stock of FDI from the UK in Mexico was £14.0 billion, which accounted for 0.8% of the total UK outward FDI stock.⁵⁵ However, the OECD FDI Regulatory Restrictiveness Index highlights that Mexico is relatively restrictive to FDI. It has a score of 0.19 relative to the OECD average of 0.06, where a higher score indicates greater restrictiveness.⁵⁶ Restrictiveness is highest in sectors including Media, Transport and Fisheries due to equity restrictions.

Business groups called for UK businesses to have comprehensive market access to public procurement for services in Mexico. An enhanced agreement could provide opportunities to open up procurement markets. General government procurement is worth approximately 5% of Mexico's GDP and 17% of its total government expenditure.⁵⁷ The majority of Mexican procurement takes place at a sub-central level. In the current TCA, UK businesses are not given the right to bid for sub-government contracts, and Mexico only offers preferential access to one other trade partner.

Consultation responses highlighted opportunities for increasing procurement opportunities in the legal sector, as well as for regional, provincial, and municipal government contracts. This could provide UK businesses with additional business and increase employment opportunities.

Wider economic impacts

An enhanced FTA provides the opportunity to:

Support both small and large businesses that trade with Mexico. In 2020 around 3,400 businesses exported goods to Mexico, with around 2,700 of these being SMEs.⁵⁸ Similarly, 1,300 UK businesses imported goods from Mexico, with at least 800 of these being SMEs.

Figure 6: Regional trade with Mexico in 2020



Source: HMRC data source for regional UK trade data: HMRC Regional Trade Statistics (data extracted from the interactive tables).

Support UK jobs across the UK. In 2019, there were over 260 Mexican-owned local business units operating in the UK, employing 5,300 people. Of these, most were employed in the West Midlands (1,100 people), followed by Yorkshire and The Humber (1,000 people) and the East Midlands (600 people).⁵⁹ In addition, businesses that export to Mexico are distributed across the country. In 2020, the South East and London had over 1,900 businesses exporting goods to Mexico, with a combined value of £200 million.

53 World Bank Group (2018), Global Investment Competitiveness Report.

54 Riccardo Crescenzi, Robert Ganau, Michael Storper. Does foreign investment hurt job creation at home? The geography of outward FDI and employment in the USA. Journal of Economic Geography. 2021.

55 ONS, foreign direct investment involving UK companies (directional), outward: 2020.

56 OECD FDI Restrictiveness Index, 2020.

57 OECD Government at a Glance, 2021, 2019 data.

58 HM Revenue & Customs, UK trade in goods by business characteristics.

59 DIT analysis of ONS (2021), Business Structural Database. This work was produced using statistical data from ONS. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

Support women's access to the benefits of trade. Recently published experimental analysis by the DIT and Fraser of Allander Institute shows that, in 2016, 64% of full-time equivalent jobs directly and indirectly involved in exports were held by males, with the remaining 36% filled by females.⁶⁰ As opportunities are created for workers, businesses and consumers, the UK and Mexico can work together to overcome the barriers to trade experienced by women. This FTA provides the opportunity to advance gender equality in trade.

Enable the UK to increase its trade with the wider Asia-Pacific region. The UK is negotiating to join CPTPP, a free trade area of 11 Indo-Pacific and Americas economies, including Mexico, covering £8.4 trillion of GDP in 2020.⁶¹ Analysis by DIT suggests that joining CPTPP could increase UK GDP by £1.8 billion in the long run. This translates into higher wages for UK workers, with take-home pay increasing by £800 million relative to 2019 levels.⁶² There are some aspects of trade which are not covered in CPTPP, and a bilateral FTA will ensure UK business can maximise the benefits of trade with Mexico.

Environmental impacts

In 2018 the UK emitted 5.4 tons of CO₂ per person, compared to 3.7 tons emitted per person in Mexico. Both countries have lower emissions per person compared to the OECD average, 8.8 tons per person.⁶³

The UK became the first G20 country to legislate binding commitments in 2019 to bring greenhouse gas (GHG) emissions to net zero by 2050.⁶⁴ From 1990 to 2019, the UK has reduced its emissions by 40%, whilst GDP has grown 78% over the same period. The Sixth Carbon Budget requires a reduction in emissions of 63% from 2019 to 2035.⁶⁵

FTAs can affect the environment indirectly by expanding and redirecting economic activity. Many respondents to our Call for Input to see support for UK net zero commitments and environmental standards.

Environmental impacts can occur through channels including:

- as a direct result of greater volumes of bilateral and world trade (e.g., from increased production and transport emissions)
- as economic activity shifts between sectors with different levels of emissions (a 'composition effect')
- as economic activity shifts between countries with differing levels of environmental protection

FTAs provide the opportunity to address some of these consequences, including through:

- the transfer and adoption of new and potentially more environmentally friendly, technologies as well as production methods (a 'technique effect')
- provisions which strengthen bilateral cooperation on issues relating to the environmental and climate change

As discussed above, the rationale for an enhanced agreement with Mexico is focused on increased liberalisation in areas such as services and digital trade. This means that the enhanced agreement may have relatively limited environmental impacts, given that services trade generally has a lower environmental impact than industrial and agricultural trade.⁶⁶

60 Research carried out by the Fraser of Allander Institute at the University of Strathclyde, on behalf of DIT. Evaluating the impact of exports on UK jobs and incomes, March 2021. Estimates are experimental and relate to 2016 (i.e. they do not reflect the impact of economic shocks such as Covid-19 and EU exit). 'Direct' export-supported jobs are jobs in industries that export goods or services. 'Indirect' jobs are jobs in industries that are in the UK supply chain of exporting industries. These jobs are existing UK-based jobs (that is, 'supported') rather than newly created jobs ('created'). See FAI (2021) report for full list of caveats.

61 IMF World Economic Outlook, October 2021, 2020 data.

62 UK accession to CPTPP: the UK's strategic approach. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1027860/dit-cptpp-uk-accession-strategic-approach.pdf

63 World Bank data, Metric tons of CO₂ emissions per capita, 2018 data).

64 HM Government, Net Zero Strategy: Build Back Greener, October 2021.

65 Climate Change Committee (CCC), Progress in reducing emissions, 2021 Report to Parliament, June 2021.

66 OECD TEC02 database.

Annex: Services gravity modelling explanation

The impact of services liberalisation is modelled using a gravity simulation methodology set out in a DIT analysis working paper.⁶⁷ Services gravity modelling is used instead of CGE or partial equilibrium modelling because it allows for counterfactual analysis against a baseline, which enables us to highlight the benefits of further liberalisation. There is also greater scope for further services liberalisation, whilst there is limited scope to achieve additional market access for goods.

The model works in several stages. In the first, a standard structural gravity model is estimated for the sector in question. It uses data on trade over time to estimate the effect of different factors in determining how much trade occurs between countries. This accounts for the effect of bilateral frictions like physical and cultural distance, as well as country-specific factors like GDP and tax regime, which we control for through 'fixed effects'. There are two key estimated effects which we take from this stage and use in the other stages. The first is the sensitivity of trade flows to the OECD's STRI, which translates qualitative information on services trade policy into a quantitative measure. The second is an estimated series which captures how changes to trade costs in a given country affect trade costs for the rest of the world.

In Stage 2, a scenario is modelled using OECD data on the STRIs in regional trade agreements.⁶⁸ The STRI component uses 2020 data. The reduction in the UK STRI scores is based on the EU-Japan agreement. Changes in Mexico's STRI scores are modelled looking at the percentage difference between Most Favoured Nation (MFN) STRI scores, which reflect the restrictiveness on services trade where there is no Free Trade Agreement, and the STRI scores partner countries have in Free Trade Agreements with the UK. These percentage differences are then applied to Mexico's MFN STRI scores to show an indicative level of liberalisation.⁶⁹

In the third stage, we feed the specified scenario back into the structural model we estimated in the first stage. Bilateral trade adjusts in accordance with the estimated sensitivity of trade flows to the STRI but also affects trade with other countries. These third country effects, in turn, feed back into the initial bilateral relationship. The final simulated results presented here do not account for linkages across sectors within an economy or the reallocation of factors of production, such as capital or workers.

Confidence intervals are produced at the 80% level using a bootstrapping method, which accounts for the uncertainty in the estimates of the sensitivity of trade flows to the STRI. The method takes 5000 random draws from the estimated distribution around this parameter, runs each of these draws through the simulation framework, then takes quantiles from the final outputted results to produce a confidence interval.

⁶⁷ <https://www.gov.uk/government/publications/services-trade-modelling-working-paper>

⁶⁸ <https://read.oecd.org/10.1787/fee5c901-en?format=pdf>

⁶⁹ This analysis focuses on the provisions providing reductions in restrictiveness, whereas the analysis in the CPTPP strategic approach focused on reductions in uncertainty, or 'water', so the gains are distinct.

The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

We are an international economic department, responsible for:

- supporting and encouraging UK businesses to drive sustainable international growth
- ensuring the UK remains a leading destination for international investment and maintains its number one position for international investment stock in Europe
- opening markets, building a trade framework with new and existing partners which is free and fair
- using trade and investment to underpin the government's agenda for a Global Britain and its ambitions for prosperity, stability and security worldwide.

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