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The Lord Davies of Brixton
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10 January 2024

Dear Brinley,

Thank you for your comments during the Trade (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) Bill Committee Stage on 14 December in which you asked about the department's impact assessment approach for CPTPP, and the implications of this analysis for our financial services sector.

CPTPP includes a high standard chapter on financial services that opens up financial service markets between members, expanding opportunities for UK financial services and easing frictions to cross-border trade and investment, especially for Malaysia and Brunei. Financial Services was one of the top UK services exports to and from CPTPP countries in 2022 (almost £6.6 billion in exports and £1.4 billion in imports) and represented 19% of UK services exports to CPTPP members that year.

CPTPP provisions also help to encourage more dynamic business models, such as provisions on the performance of back-office functions, avoiding restrictions on residency requirements, and measures that help liberalise cross-border trade, including to protect the free flow of financial information.

Although the UK's financial services sector is expected to grow in the future, in the modelling it appears to grow marginally less than it otherwise would have done in the absence of a deal (estimated around 0.05% of sector Gross Value Added or ca. £45m in the long run once the effects have worked through the economy). This is because within the model, the comparatively larger liberalisation gained in other sectors leads to a slight reallocation of resources (capital and labour) over the long run, in response to the changes in the relative barriers business face trading with CPTPP members following accession. In practice, this effect is likely to be dwarfed by wider forces shaping employment and investment decisions in the financial services sector.

Furthermore, this modelling is not designed to capture international financial services activity undertaken through local establishment, subsidiaries or branches – as such, this excludes a significant amount of international financial services trade. In addition, some key simplifying assumptions combined with the lower liberalisation relative to other sectors generates these results. It is also important to note that global import demand for financial services is expected to grow from £478 billion in 2021 to over £550 billion by 2035.

I am placing a copy of this letter in the Library of the House.
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With very best wishes,

Lord Johnson of Lainston CBE
Minister for Investment and Regulatory Reform
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