David Davis has demonstrated a decidedly muddled understanding of trade policy

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One of the arguments made by the Leave campaign during the UK's referendum was that Brexit would allow Britain to negotiate trade deals with other countries around the world more quickly than would be possible via the EU. **Mark Manger** *writes that the plans outlined so far by David Davis, the UK's new 'Brexit Secretary', indicate this is likely to be a key priority for Theresa May's government. However, he argues that the model put forward by Davis illustrates considerable confusion about how trade policy works in practice.*

With the key figures in Theresa May's cabinet confirmed, the UK's future trade policy orientation is becoming clear. Of the many voices of the Leave campaign, those in favour of liberalisation and deregulation appear to be winning out. While the PM speaks of a more compassionate policy, other members of her cabinet talk of an export-led growth strategy.

David Davis, appointed as minister for the Brexit negotiations, has suggested that such a strategy is within easy reach for the UK outside the EU. The roadmap is to negotiate deals with third parties while still in the EU, a process that should take no more than two years, and then present the EU with a *fait accompli.* Unfortunately, this strategy illustrates considerable confusion about how trade policy works in practice, even among the highest levels of the new British government.

The realities of trade policy

Bilateral trade negotiations tend to follow three simple principles. First, in any bargain, the alternative to the deal on the table is to walk away from it. The better the alternative of "no deal," the stronger the negotiating position. It follows that market size equals bargaining strength, because the bigger partner needs the smaller partner less than vice versa. Second, patience is a virtue: if one side can hold out a bit longer than the other, it will get the better deal. Lastly, even though we'd all be better off in a world without trade barriers, countries need to hold on to theirs so that they can offer to reduce them in exchange for access to the other party's market.

What, then, is the UK's position in future trade negotiations? To evaluate the alternative to any proposed deal, we need to remember that the United Kingdom is already a member of the World Trade Organization, with all the rights and responsibilities this entails. All EU member states are also WTO members, as well as the EU itself. Following Brexit, the UK will remain a WTO member.

The European Commission has negotiated agreements on trade in services on behalf of the UK and other members and these agreements are legally binding on the UK. The issue is more complicated when it comes to tariffs on goods and non-tariff barriers. Having left the EU, what duties would the UK levy on imports from other WTO members? With little precedent, it makes most sense to just adopt the existing tariffs of the EU. Raising tariffs would open the UK to legal challenges in the WTO, and would contradict the government's stated aims of free trade and deregulation.

The British government could also immediately cut tariffs, but it would have to apply these reduced duties to all WTO members equally – including the EU itself. The essence of WTO membership is that countries are not allowed to discriminate against individual countries, and to only grant better access to partners in the form of a trade agreement. This holds for goods as for services, and establishes a baseline for any proposed negotiation.

All of this implies that the UK is only likely to get better market access than it currently enjoys if it gives up more of its own trade barriers. Countries like Chile and Singapore can negotiate deals quickly because they demand little from their partners and are largely unencumbered by any barriers of their own. While it would be possible for the UK to negotiate deals in less than two years, it contradicts decades of experience to claim that quickly giving away most of your own barriers would lead to much improved market access.

London Thamesport on the River Medway in Kent. Credit: Richard Clark (CC-BY-SA-2.0)

Furthermore, once negotiated, trade agreements have to be ratified. Here the EU processes are lengthy because of the number of actors involved, but signed agreements are rarely unpicked – though this is not so in the United States, where Congress has repeatedly caused trouble after the Executive had negotiated trade agreements. Davis' claim that 'the EU is clumsy at negotiating free trade deals' also betrays a lack of understanding of how the EU works in the trade arena. Once a mandate has been given to the Commission, trade negotiations proceed with great focus: the agreement with Chile took just over two years to conclude. Sometimes, as in the case of the EU-Mercosur negotiations, there is simply too little overlap in the goals to come to an agreement, but the EU is rarely the difficult partner.

The lengthy negotiations with Canada, for example, took years not because of the EU, but because Canada's constitution and politics required negotiators of all provinces and territories as well as the federal government to be in the room – and these provinces even retain trade barriers *between themselves* in the same country. Canada offered virtually no improvements in market access in sectors of key interest to the EU like telecommunications and financial services. Nothing suggests that this would play out any differently for Britain, except that the UK might choose to unilaterally eliminate most of its own trade barriers without asking for much in return.

Dropping most of the UK's own barriers would not only weaken the UK's bargaining position, including vis-à-vis the EU, but also prevent it from protecting what Davis calls its 'indigenous car industry.' In fact, no such indigenous industry exists, as it is almost entirely foreign-owned, and much of what it produces goes to the EU.

Finally, as my colleagues Italo Colantone and Piero Stanig have emphasised in a recent study, the UK regions that voted strongly in favour of Leave are also those most severely affected by imports from China. While a powerful economic argument can be made in favour of unilateral trade liberalisation, the regions that stand to benefit most voted to stay in the EU. Those who lacked the means, mobility and education to withstand economic competition with immigrants and imports while in the EU will be even less able to do so without it.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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