



Trump's Trade Policy Is For 1818, Not 2018 Bilateral deals are no match for borderless trade

By Harry G. Broadman, Special to Gulf News

President Donald Trump sees international trade negotiations as if he was living in 1818, when commerce between countries more often than not was conducted bilaterally. He's proclaimed on several occasions that he can get a far better bargain taking up trade agreements with other heads of state on a one-to-one basis. Indeed, the U.S. Negotiator-in-Chief is '*Bilateral Man*,' hardly surprising for someone who cut his teeth doing one-off *commercial* real estate deals within the confines of New York City.

But this is 2018, and trade consummated even between two countries generally is comprised of multiple intermediate transactions mediated across several national borders. Hence, that is why the bedrock rules governing trade agreements today—embodied in the World Trade Organization (WTO), the successor organization to the General Agreement on Trade and Tariffs (GATT), which was founded in 1947—are *multilateral* in nature and negotiated among *sovereign*, not business, entities.

It would appear that the modern—and yes, complex--system of trade agreements is far outside of Mr. Trump's comfort zone, perhaps even his understanding. As indicated by his handling of the trade problems between the U.S. and China—which are indeed serious and haven't been dealt with sufficiently by earlier administrations—his anathema towards building coalitions among the 162 other countries that are WTO members to improve governance of international trade exposes all of us to significant risks.

In fairness to Mr. Trump, he has asserted he could potentially envision pursuit of broader *multilateral* trade deals based on the WTO's 'Most Favored Nation' (MFN) principle—where all WTO signatories automatically are afforded uniform, non-discriminatory treatment. Such agreements, of course, stand in contrast to bilateral deals, where, by definition, the included parties treat each other on more favorable terms than either extends to all excluded countries. Hence why they are officially referred to as 'preferential trade agreements' (PTAs).

But it really is not the "either or choice" Trump makes it out to be.

The WTO specifically *allows* for preferential agreements—whether structured on a bilateral or a plurilateral, regional basis--as long as they meet certain criteria specified within the WTO agreement. In fact, with the 2016 bilateral trade agreement between Japan and Myanmar now in place, *all* WTO members are party to PTA's in one form or another. But these bilateral deals coexist with multilateral agreements.

But even in the absence of a WTO or its strictures, any intent to govern a country's amalgam of international trading relationships on a bilateral-by-bilateral basis in today's globalized economy is short-sighted, if not foolhardy. Every Econ 101 student knows that. Here are several reasons why.

Yes, it is true that every industry engaged in exporting or importing does not necessarily operate in inherently globalized markets. But it is increasingly the exception to find sectors producing even simple tradeable items—whether in manufacturing, services or agriculture—whose fortunes, either on the input or output side, are conditioned solely by bilateral economic relations. Thus, while it may be cliché to state that everywhere competition among firms, workers and customers is inescapably and fundamentally multinational in character in some fashion, it is a fact of life.

In the parlance we veteran international trade negotiators use, in an increasingly globalized world economy, the 'rules of origin'--which identify the extent to which a good is produced in facilities located in a particular jurisdiction covered by a trade agreement--are notoriously harder to meet for manufactured products because components from third countries are increasingly common in *all* bilateral trade.

At the same time, it is far more cost-effective to have world trading rules that are harmonized with the true multilateral nature of the global economy, rather than an artificial hodgepodge of separate bilateral trade agreements that superimpose fragmented rules on a game that is less and less fragmented.

It is for this reason that small entrepreneurs as well as large corporations abhor a *series* of bilateral agreements compared to one multilateral trade regime. In a nutshell, no one with real experience in international commerce responds well to overly complex and often overlapping multiple trading rules with which to comply.

Moreover, in light of the huge differences among countries in terms of economic size, small states—most of whom are developing countries—usually find negotiating on a bilateral basis with larger countries a truly unappealing enterprise. To this end, most developing countries long ago embraced the principle of multilateralism for structuring trade agreements inasmuch as there is power in numbers. Their leaders weren't—and still aren't—dummies.

Indeed, multilateralism was the core impetus for the creation of the GATT, which was an effort spearheaded by the U.S. and the other large trading powers just a decade after the Great Depression. Back then our leaders were enlightened enough to recognize that without creating incentives for developing countries to integrate into the world economy, global growth would be fundamentally handicapped and ultimately *all* countries would be worse off. Today, emerging markets are the engines of the globe's economic growth. This certainly makes the obsession by the Trump White House with bilateral trade deals ironic.

Previous U.S. Presidents have come to the White House with seemingly strongly held notions about how they want to do battle on the international trade front, only to learn in time that their strategies needed to be modified. Indeed, the bilateral approach has been tried before, particularly in the George W. Bush administration. But in the end no big economies were interested. Preferring bilateral deals sounds nice on first blush, but it's a recipe for no significant agreements.

Let's hope Mr. Trump becomes open to making that conversion.

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