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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. Back then, commerce between countries—taking place via ships—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' (although he prefers to call himself 'Tariff 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. Today, trade consummated even between just two countries is generally comprised of complex supply chains embodying *multiple* intermediate transactions conducted across several national borders. This is why the bedrock rules governing modern trade—embodied in the World Trade Organization (WTO)—are *multilateral* in nature.

Importantly, the disciplines of the WTO, whose founding was championed most strongly by the U.S., are negotiated among *sovereign,* not business, entities. Moreover, the WTO is not some inanimate entity managed by a faceless bureaucracy; rather it's a very small organization, and run strictly by *consensus* among the 164 country members. Blaming the WTO for problems in the way international trade is conducted is actually blaming oneself.

It would appear that the contemporary—and yes, complex—system of trade agreements governing global commerce is far outside of Mr. Trump's comfort zone, perhaps even his understanding. As indicated by his handling of the frictions that characterize commerce between the U.S. and China—where China's trade and investment conduct is indeed seriously problematic and frankly hasn't been dealt with sufficiently by earlier U.S. administrations—President Trump's anathema towards building a coalition among the 163 other 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 core 'Most Favored Nation' (MFN) principle—where all WTO signatories are automatically 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).

It really is not the "either or choice" Trump makes it out to be, however. The WTO specifically *allows* for preferential agreements—whether structured on a bilateral, regional or a plurilateral 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 PTAs in one form or another. But these bilateral deals *coexist* with multilateral agreements.

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

It is true that every industry engaged in exporting or importing doesn't necessarily operate in inherently globalized markets. But it is increasingly the exception to find sectors producing even the simplest of 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, today's 'rules of origin'—which stipulate the extent to which a good is counted as being produced in facilities located in a particular jurisdiction covered by a trade agreement—are notoriously harder to meet because components from third countries are increasingly common in all *bilateral* trade.

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

This is why even small entrepreneurs—just as their large corporate counterparts—abhor a *series* of bilateral agreements compared to a unified 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, long ago most developing countries embraced the principle of multilateralism or regionalism 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 WTO's forerunner organization, the General Agreement on Trade and Tariffs (GATT), just a decade after the Great Depression. Like the WTO, the GATT also was spearheaded by the U.S.

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 over 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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