JANUARY 31, 2017 @ 11:18 PM

Trump’s Unilateral Approach To Bilateral Trade Deals Will Fail

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In the year that he’s occupied the Oval Office, President Trump has left many eye-catching imprints on the way he has positioned the U.S. to act unilaterally with the rest of the world’s economies. Perhaps nothing is more notable in this context than the Negotiator-in-Chief’s penchant for championing the negotiation of *bilateral* trade deals. The May 2017 China-U.S. agreement was his first foray into this practice, which received far more press attention than it merited, and to date has borne little tangible fruit. And, overhanging the current renegotiation of NAFTA—a *plurilateral regional* trade agreement—is Trump’s threat, which I think of as "Threatenomics", to simply dissolve the treaty in whole and instead work out two separate bilateral agreements, one with Mexico and one with Canada.

Trump has asserted he could potentially envision pursuit of broader *multilateral* trade deals based on the World Trade Organization’s (WTO) bedrock ‘Most Favored Nation’ (MFN) principle—where all 164 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 in his heart, Trump sees international trade negotiations as ‘Bilateral Man’—hardly surprising for someone who cut his teeth conducting real estate transactions in New York. Indeed, he’s noted on several occasions recently that he can get a far better bargain taking up trade agreements with other heads of state on a bilateral basis.

Yet in the complex, nuanced world of international trade agreements, 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.

It’s more than obvious that a bilateral trade negotiation between a country with a large market--and the U.S. is of course still the largest economy on the planet—and a nation with a smaller market, engenders substantial leverage for the former over the latter. Given the potential for unfair advantage in such situations, that is why the WTO agreement carefully spells out the rules and disciplines with which all its members must legally comply when structuring PTAs, including the transparent notification to all WTO members of the specific terms of any such agreement. Thus, the U.S. trying to put in place preferential agreements willy nilly is a non-starter. A member that attempts to negotiate a WTO-inconsistent PTA will be sanctioned by the membership at large. It is not a pretty sight.

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 fundamentally multinational in character in some fashion, it is a fact of life.

In the parlance we 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 multilateral nature of the global economy, rather than an artificial hodgepodge of a series of separate bilateral trade agreements that superimpose fragmented rules on a game that is less and less fragmented.

It is for this reason that, whether it is a small entrepreneur or a large corporation, who, after all are the engines of new investment and job creation, abhors a series of bilateral agreements compared to multilateral trade regimes. In a nutshell, no one with real experience in international commerce responds well to overly complex and often overlapping multiple 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 General Agreement on Trade and Tariffs (GATT), the forerunner of today's WTO, in 1947. An effort spearheaded by the U.S. and the other large trading powers just a decade after the Great Depression, our leaders *back then* 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. This certainly makes the obsession by today's White House with bilateral trade deals ironic.

There are other ironic dimensions of the current state of affairs. The most obvious is Trump's recent remarks about possibly changing his mind about the U.S. withdrawal from the Trans Pacific Partnership (TPP), what was once a 12-country but now an 11-country regional trade agreement that was actually initiated by the U.S. years ago. While the dumping of TPP was a centerpiece of his 2016 campaign, Mr. Trump *may well* be having a bit of 'seller's remorse'. Problem is, it's now too late: the modified TPP—known as TPP11 (reflecting the absence of the U.S.)—is planned on being signed in March 2018.

But there's an even greater irony to consider. While taking the sincerity of their commitments with far more than a grain of salt, China's and India's leaders are, for the first time, engaging in outspoken posturing of their allegiance to multilateral trade deals—exactly at a time when the U.S., the erstwhile global champion of economic multilateralism for almost three-quarters of a century, is heading in the exact opposite direction. If nothing else, in the war of words the White House now finds itself on the defensive.

In fact, if the White House were smart, it should take the Chinese at their word: rather than dealing with Beijing's trade policy infractions piecemeal and bilaterally, such as the recent tariffs the White House imposed on solar energy components and washing machines (which also were applied to South Korea), Washington would do well to embrace the 'power-in numbers' principle. It should enlist the support of other WTO members and utilize the WTO's instruments, especially those concerned with state-sponsored trading, to seek remediation from Beijing. Washington would be surprised with just how many WTO members would be their allies in such an endeavor.

These ironies aside, one may ask: just what are the prospects for the White House's success in negotiating materially significant bilateral trade agreements to which Mr. Trump can point as an affirmation of his strategy? Regrettably, they do not look very strong at this juncture. An approach to the U.K. was turned down, inasmuch as Britain is (more than) fully preoccupied with its Brexit negotiations with the E.U. And, an invitation by Washington to Tokyo was also rejected due to Japan's focus on the signing and then the ratification of TPP11.

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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