



The Daily Dish

President Trump and Bilateralism

DOUGLAS HOLTZ-EAKIN | OCTOBER 9, 2018

Eakinomics: President Trump and Bilateralism

President Trump brought into office a new approach to international economic relations: bilateralism. In doing so, he discarded the traditional U.S. focus on multilateral agreements, such as the proposed Trans Pacific Partnership (TPP) in economics or the North Atlantic Treaty Organization (NATO) in defense. His administration argued that the previous approach was a failure and had produced bad agreements, and that therefore a new approach was needed.

Perhaps. But any flaws of multilateralism do not automatically mean that the bilateral approach does not have its weaknesses. To date, three major concerns have arisen (at least to me).

First, the focus on bilateral trade deficits is extremely troubling, as they are economically [meaningless](#). No matter how good a negotiator one may be, negotiating the policy levers to make a meaningless number smaller will not produce a meaningful agreement. Instead, it is much more likely to simply re-arrange the pattern of bilateral trade agreements and leave the overall picture relatively unchanged. There is also [no evidence](#) that bilateral trade agreements generate a larger increase in trade and thus greater economic benefit for the United States than multilateral agreements.

Second, bilateralism invites government intervention, backward-looking protection, and — in the extreme — corruption. The whole idea of a bilateral negotiation is to tailor the agreement to take advantage of the relative economic strengths of the two countries. Unfortunately, that approach focuses on what history has produced now. The more important criteria is the future. Bilateral trade negotiations have produced a focus on legacy industries like steel, aluminum, and autos. The agreements are *de facto* protection for those industries — not more open trade. And one should continually worry about the process by which an industry is deemed meritorious of having the sovereign powers of the United States excuse them from competing fiercely.

Notice that, in contrast, a multilateral agreement that enforces the principles of level and fair competition, allowing new competitors to enter, and limiting government interference will support the emergence of new products, services, and industries. It is better suited to take advantage of a dynamic, innovative economy geared to meeting the desires of households.

My final concern with the bilateral approach is that it is not well-suited to support the role of international economic relations as soft power in the pursuit of foreign policy objectives. The multilateral approach to expanding global trade was fueled by the need to knit together a western alliance to confront the Soviet Union. A similar approach would make sense for confronting the threat presented by China (and TPP could have been one prong of such an approach). We are witnessing the frustrating lack of leverage that comes from a bilateral approach to China. The Trump Administration has effectively acknowledged this limitation by including a provision stating that Mexico, Canada, and the United States cannot sign the United States-Mexico-Canada Agreement and pursue a trade agreement with a non-market economy (e.g. China). Unfortunately, it is extremely time-consuming and costly to knit together such a multilateral approach by negotiating piecemeal

bilateral agreements.

Multilateral approaches may not have been perfect. But an exclusive focus on bilateralism is unlikely to meet U.S. policy needs.