

Trade agreements

Doing Doha down

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Regional trade deals are no substitute for a Doha agreement. Indeed, they are its enemy

Illustration by Peter Schrank



SOMETHING is usually better than nothing. Shorn of all of the economic jargon and legal niceties, that is the logic behind the booming business in bilateral trade deals that is sweeping Asia. As the Doha round of world trade talks languishes, Asia's trading nations say that they cannot afford to sit on their hands and wait for Doha to revive. Better, they argue, to loosen up trade with simpler deals between a couple of countries or, if you are truly ambitious, a handful.

Some regional trade deals in the right circumstances have indeed added to economic well-being. But the sorts of deals that are now being signed in Asia, just when multilateral trade desperately needs supporting, are likely to do less for their countries' economies than for the egos of the politicians who sponsor them. Taken as a trend, they amount to a dangerous erosion of the system of multilateral trade on which global prosperity depends.

In 2001 there were just 49 bilateral and regional free-trade agreements (FTAs) in place. A deal signed last month between India and South Korea raised the total to 167 (see [article](#)). That recent agreement was trumpeted as a boon for both economies. South Korean firms say they are keen to make more use of India as a manufacturing base from which to export to the rest of the world. In return, Indian programmers will more easily be able to set up shop in South Korea.

More such agreements are likely to follow. And who could object to that? In a world of collapsing exports and rising protectionism, the fashion for bilateral deals looks like a welcome boost to the idea that trade is good. Peer deeper, however, and the message is far less reassuring.

Noodles all round

For a start, bilateral deals impose so much paperwork and bureaucracy on trade that companies rarely make use of their provisions. Only about a fifth of 609 firms in four Asian countries surveyed by the Asian Development Bank in 2008 took advantage of the agreements that applied to them.

When bilateral agreements are attractive to companies, it is often for the wrong reasons. Many bilateral trade deals offer favourable treatment to a few companies from a particular country at the expense of all the rest from elsewhere in the world. The companies that lose out may well be lower-cost producers, since such agreements are dictated more by politics than by economics. If so, the economy will suffer. Even if such a deal is eventually superseded by a broader one, it may already have caused long-term damage by allowing less efficient firms to become entrenched. Economies that are too small to extract concessions from their bigger bilateral negotiating partners fare particularly badly.

Then there is the complexity of the growing number of bilateral and regional deals. Each has its own rules and administrative requirements, leading to a confusing spaghetti (or perhaps noodle soup) of preferential agreements, instead of the predictability that multilateralism promises. As such agreements multiply, there is less chance that they create the wealth that their authors claim.

Some claim that the tricky issues that stand in the way of a multilateral deal can be more easily resolved when only two countries are sitting at the table. That rarely happens: in the rush to conclude an agreement, such issues are often shelved. India's deal with ASEAN last year, for instance, put aside the poisonous question of farm trade, which was one of the deal-breakers in the Doha talks last July.

Bilateral agreements, thus, do not, on the whole, serve as stepping stones to a comprehensive global deal. On the contrary, they both distract governments from the multilateral process and offer cover for politicians' failure to advance it. Moreover, the fear of losing favourable treatment in a bilateral agreement can deter governments from talking tough in multilateral negotiations.

Some defenders of bilateralism admit all this, but cling to one argument they regard as clinching—that bilateral agreements are at least possible, whereas the chances of concluding Doha seem ever more remote. The comparison, they say, is not between local deals and a global one, but between regional deals and no deals at all.

This argument ignores the lessons of the past. The history of the multilateral trading system is littered with rows, hiatuses, disillusion, despair—and sudden success. In the 1970s many people wrote off the precursor to the World Trade Organisation. The ministerial meeting of 1982 failed and the later Uruguay round of talks nearly collapsed, before being successfully concluded. Even now, amid deep pessimism about ever finishing Doha, the Indian government is holding a summit of trade ministers in the hope of restarting the talks. If they truly want Doha to succeed, the bilateralists need first to acknowledge that their own deals are poisoning its chances.