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ADB attacks bilateral trade deals

By Florian Gimbel in Hong Kong

The Asian Development Bank warned on Thursday that a further spread of discriminatory bilateral trade agreements could harm growth prospects for Asia's emerging economies.

The Manila-based institution, which on Thursday predicted slightly slower growth in developing Asian economies over the next two years, expressed concern over the fast-growing "noodle bowl" of competing bilateral trade agreements.

Ifzal Ali, the ADB's chief economist, told the Financial Times: "A lot of these bilateral deals have nothing to do with economics. Instead, they [ADB's members] are mostly doing it for diplomatic reasons, including efforts to gain access to natural resources."

His comments echo warnings by Haruhiko Kuroda, ADB's president, and Victor Fung, chairman of Li & Fung, the Hong Kong-based global sourcing company.

Critics of bilateral trade agreements believe the plethora of different rules of origin are difficult and costly for businesses to administer and are ill-suited to modern global supply chains. Moreover, bilateralism tends to marginalise weaker trading nations. According to the ADB's latest modelling of trade scenarios, attractive trading partners such as China would see disproportionate gains by being at the centre of a web of bilateral deals. In aggregate, these "hub and spoke" scenarios were inferior to regional free trade and multilateral liberalisation. "A China hub generates just over half of the benefits of Asian free trade for Asian developing countries," said Mr Ali.

Earlier this week, Bill Thomas, President George W. Bush's most important congressional ally on trade liberalisation, urged the US administration to focus its energy on concluding bilateral trade deals, reflecting widespread frustration at the stalling of the Doha multilateral round of talks.

The US, which already has bilateral agreements with Australia and Singapore, is in negotiations with South Korea, the world's 11th largest economy. Japan, one of the main sponsors of the ADB, has preferential trade deals with Malaysia and Singapore, and is negotiating with Korea, Thailand, Indonesia and the Philippines.

The ADB's warning came as it unveiled its latest Annual Development Outlook, which covered 43 Asian and Pacific economies including China and India but excluding developed nations such as Japan and Australia.

“Against the backdrop of favourable global conditions, of marginally less accommodative macroeconomic policy settings, and of continued adjustments to high oil prices, aggregate growth is expected to soften a little to 7.2 per cent and by some more in 2007 to 7 per cent,” the report said. Last year, Asian economies grew by 7.4 per cent.

China’s economy was expected to grow 9.5 per cent this year and 8.8 per cent in 2007 – a slowdown that could be offset by growth in South Korea, buoyed by continued recovery in consumer demand, the report said.

The region would probably see slightly smaller current account surpluses in the next two years, reflecting a pick-up in domestic consumption spending.

“So far developing Asia has been largely resilient to higher oil prices, which rose by 43 per cent in 2005,” Mr Kuroda said in the report.

The ADB suggested that medium-term growth prospects could be hit by rising unemployment amid continuing population growth.

“Developing Asia needs to find almost three-quarters of a billion new jobs in the next decade. Ultimately, these jobs will not be provided if countries retreat into protectionism and turn their backs on trade liberalisation,” the report said.

In a separate chapter on textile manufacturing, the bank suggested that “competitive, well-positioned” suppliers such as Bangladesh, Cambodia, India and Pakistan would be able to lift their market shares in the US and Europe, following the abolition of quotas on textiles and clothing in December 2004.

Producers in Malaysia, the Philippines and Thailand, where unit labour costs were comparatively high, saw reductions in their market shares in the US and Europe, while “marginal producers” such as the Fiji Islands, Mongolia and Nepal suffered a severe downturn, the report said.