
A narrow metric for assessing the value of trade deals

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From Dr Ken Shadlen.

Sir, Alan Beattie ("Trading ritual and reality", September 19) observes that many bilateral and regional trade agreements have minimal effect on trade flows, and concludes that these agreements are insignificant. He is correct that many of these agreements are signed between countries that are already trade partners, so the additional trade is often minor and insignificant as a share of global trade. One could counter, however, that the function of many such agreements is to lock in existing trading relations, in which case Mr Beattie is comparing post-agreement trade flows against the wrong counterfactual.

More importantly, assessing the importance of the agreements on their effect on trade flows misses the point of the agreements, which, in the case of "north-south" agreements, is not mainly to reduce tariffs but to elicit deeper regulatory reform in the developing country. Bilateral agreements between the US (and the European Union and Japan) and developing countries typically include chapters on investment, intellectual property, services, government procurement and so on; and developing countries that sign these agreements commit to reforms in these areas that go far beyond their commitments as members of the World Trade Organisation.

In short, what we misleadingly call "free trade agreements" are not merely about liberalising trade but rather about harmonising regulatory institutions.

Utilising such a narrow and restricted metric for assessing their importance leads us to overlook the ways that proliferating "free-trade agreements" are fundamentally changing the international political economy.

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