



July, 2008

From Twin Towers to Fawlty Towers: The Story of the Doha Round

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1. Introduction

The Doha Round has yet again collapsed. The July 2008 attempt to negotiate a broad headline deal between the main member countries of the WTO failed. The Round is already way beyond bedtime and members now need to ask themselves: Is it at all meaningful to continue the Round – or should it be put to sleep permanently?

This is a brutal way of framing the future of the Doha Round, and it contradicts with many views, informed or not, about how this Round should have played out. The condition for successful negotiations looked good on paper. Protectionist policies are clearly on the rise again. Together with the global economic slowdown, which certainly adds extra business weight to the case for a new global trade accord, the spectre of protectionism should have given most countries enough reason to agree to trade liberalizations within the Doha Round. If not for material reasons, so for the need, acknowledged by all members, to sound warning calls against protectionist sentiments.

Yet none of these reasons could sufficiently concentrate the minds of trade ministers. This should not come as a surprise. Already since its start the Doha Round has followed the manuscript of WTO disbelievers and offered many reasons to sceptically review the vitality of today's multilateral trade organisation. The Round was midwifed in the ashes of the Twin Towers – in the eminent spirit of stimulating closer economic integration – but is soon came to follow the manuscript of Fawlty Towers. Throughout the Round, the dialogues between Mr and Mrs Fawlty have felt more honest and sincere than the Doha talks.

A harbinger of what was to follow came already before the Round started. The original plan, nurtured especially by the European Commission and its free-trade allies in the EU Member States, was to launch a Millennium Round in the late 1990s; a Round with a distinct development flavour but at the same time an all-inclusive Round with a host of new issues which never had been subject to substantive negotiations.

Building on the successful conclusion of the Uruguay Round, and the surprisingly successful negotiations in the late 1990s of “sectoral” trade agreements (e.g. the Information Technology Agreement), optimism was in good supply. Other organisations for international economic governance – such as the IMF, World Bank, OECD, UNCTAD, et cetera – had for a long time experienced a declining relevance and influence in world economy affairs, but the World Trade Organisation was in ascendance. This was to be the biggest Round ever in history. It was intended to deliver multilateral liberalizations of an unprecedented magnitude. The ship of the WTO was unsinkable.

This illusion crashed brutally at the WTO Ministerial Meeting in Seattle in 1999. The Seattle meeting was marred by street riots and was the first of many meetings of international economic organisations that was accompanied by rioting anti-globalisation groups. Yet this was only street-theatre on the fringe and not the reason why the new Round was not launched in Seattle. True, the Seattle Ministerial Meeting was ill-prepared politically as well as organisationally; there had been too little trade diplomacy in advance of the meeting. Many developing countries also expressed a “liberalisation fatigue” after a decade of Washington Consensus reforms. Yet these reasons were minor in comparison to good ol’ protectionism – especially the low political support for the new Round in the United States – which blocked the start of new trade negotiations. Bill Clinton, the then outgoing President, derailed the talks by insisting on labour and environmental standards to be included in the new agenda.

This was the pre-crisis of the Round, and it has been followed by several other crises and collapses. In 2003, two years after the Round started, another Ministerial Meeting collapsed, this time in Cancun. Several items of the Doha agenda were subsequently discharged to oil the negotiation mechanics. A rescue package in the summer of 2004 kept the Round from another breakdown. Yet the negotiations could not advance far enough before the Trade Promotion Authority (also known as a fast-track negotiation mandate) of the current U.S. President expired mid-year 2007. A rescue attempt in Potsdam in the spring of 2007 failed. Negotiators have since then been busy narrowing down the differences between countries, but these efforts did not lead far enough. Even if

a broad deal had been reached in Geneva this July, it is by no means certain it would have survived and led to a final agreement. Many member countries were not represented during the Geneva mini-Ministerial, and the consent of absent members would have required too. Moreover, it was only two negotiating areas that were subject to negotiations, and a final deal would have needed a much broader coverage, including services and several other fields.

This paper aims at examining the structural problems of the Doha Round and, by extension, the WTO and its current institutional setup. It offers a broad stock take of the current climate of trade negotiations and offers explanations to the failing Doha efforts to liberalise trade.

2. The virtue of sober perceptions

The Doha Round got off badly because of misguided perceptions of what it was about and what it would lead to. Two perceptions have been particularly vexing: first, the idea that it was to be a Round that only should address developing-country concerns (the development dimension); second, the notion that it would have unprecedented economic effects.

The first perception was clearly wrong to anyone who bothered to read the Doha Development Agenda, but it is a view that was exploited by some developing countries with the help of the NGO commentariat. It became a serious obstacle because it i) led to a discharge of negotiation items that, regardless their intellectual merits, would have been helpful when stitching up the entire Doha package (the Singapore issues); ii) forced an excessive interest in aid-for-trade (the WTO cannot work as an aid organisation); and iii) it conveyed a view of the negotiations as only being about agricultural subsidies and tariffs in Europe and the United States. The Zambian trade minister, Dipak Patel,

expressed this clearly in 2005 when saying: “This is supposed to be a development round and not a market access round”.¹

Agricultural tariffs and subsidies should have been done away with decades ago, and it is easy to sympathize with countries who feel it is hypocritical of the EU and the U.S. to ask for liberalization in developing countries when they have not managed to liberalize their agricultural sectors. Yet trade negotiations have never been about a one-way delivery of benefits. The belief that it were soured the negotiations for several years (it still does) and prevented members from engaging in meaningful negotiations.

The second notion is more troubling. A successful Doha Round would give a push to global economic growth. But one should not exaggerate its welfare effects. At an early stage of the negotiations economic research pointed to considerable welfare benefits to emerge from this Round if ambitions stayed at high levels (e.g. Francois et al, 2003). Such research should always be carefully interpreted, but economists were essentially right to suggest a significant growth effect.

Yet since the Round started the growth calculus have changed: issues have been discharged from the Doha agenda and liberalising ambitions have generally been diluted. The Doha ambitions of trade liberalisation in 2008 look different from Doha ambitions in 2001. What is more, countries have liberalised autonomously and a not insignificant part of the liberalisation accounted for in the early studies of Doha effects have already been achieved by other means. All this affect the amount of benefits emerging from the Doha Round (Hertel and Winters, 2005; Anderson et al, 2006). It also suggests the virtue of caution when estimating the effects of global trade deals.

Many parties – negotiators, politicians, journalists, academics – have failed to give a proper account of what the negotiations have been about and conveyed exaggerated estimates on its outcomes. Experienced observers suspected already from the outset of the negotiations that the high ambitions would never survive. The liberalising zeal would

¹ Beattie (2005).

diminish as the Round progressed and entered the difficult parts, and the end-deal (if achieved) would be a diluted version of the early ambitions.

Reasons for such scepticism could also be found in the Uruguay Round. That eight-year long Round is hailed as a great success. It was also a Round in which ambitions were scaled up after its agenda was established. Yet the Uruguay Round did not deliver substantial reductions of barriers to trade for many countries. The successes of Uruguay Round were real, but they were mostly in the field of building institutions rather than in actual trade liberalisation. What this Round achieved was to provide a new institutional framework; a new overall structure of trade policy that, in contrast to all the Rounds up to the 1980s, incorporated services, agriculture and frameworks for some regulatory areas related to trade. The Uruguay Round did not result in big *de facto* liberalisation in any of these sectors; for agriculture it was rather the opposite as a core element of the new agricultural agreement was the transformation of all border protections into tariffs, which led to an increase of some tariffs (so-called dirty tariffication).

All this were real achievements, but they did not facilitate a considerable increase of world trade. The key explanation to the surging trade growth in the recent decade can only be found outside the WTO system; partly in the economics of trade, e.g. falling transaction costs and technological development, partly in trade policy and broad economic policy reforms undertaken autonomously. Arguably, the autonomous reforms undertaken by China, and its rise as a world-economy giant, have probably fuelled more trade and trade reforms than most trade agreements on record.

What's the moral of this story? WTO negotiations today can only have a limited role in driving *de facto* liberalisations. The chief role of the WTO is rather to lock in liberalisations already done outside the WTO; by binding countries trade policy the WTO limits their freedom to raise tariffs and introduce new barriers to trade. Protecting basic principles of non discrimination and updating the core rules of the WTO is an important agenda, but it seriously downplayed when ministers are chasing *de jure* tariff-formula cuts of unprecedented magnitude that *de facto* does not lead to much trade being

liberalised. A rules agenda does not provide sound bites for bumper stickers. Nor does it sell newspapers or academic research proposals.

This suggests there is a problem of perception. Various stakeholders have an interest to *ex ante* exaggerate the actual liberalisation in, and the benefits from, a Round. This might sound harmless, if not beneficial. But the perception of potentially great achievements and benefits prevent actors from taking a sober and realistic view of what is feasible. Countries start to ask for too much. They agree on ambitions that clearly cannot be achieved given the political constraints. Furthermore, it underpins a programme of trade reforms that on paper might look highly liberalising, and successful, but that is de facto diluted by many exemptions, flexibilities and escape clauses. A highly ambitious Swiss formula for tariff cuts, which have been agreed in the Doha Round, might sound appealing, but it inevitably leads to a Swiss cheese when countries, in one way or the other, insist on special protection of some goods. This is what happened in the Doha Round. Ambitions were too high and the carve outs became too many and too complicated. If the last versions of the agricultural or industrial goods agreements had been adopted, very few outside the Geneva circuit of trade negotiators would have understood what it was all about and what it would lead to.

3. The rise of bilateralism

It is feared that a collapsed Round will shift trade-policy strategies from multilateral to bilateral. There is no need to fear such a development. It is already here. Governments all over the world increasingly are inclined to negotiate bilateral or regional trade agreements. Such agreements are often portrayed as an efficient alternative to multilateral agreements: negotiations among a few countries are easier than multilateral negotiations among many countries, proponents say, and they can go deeper than multilateral agreements.

This is the textbook theory of Free Trade Agreements (FTAs). But this theory is not anchored in the real world. Around 200 current FTAs have been notified to the WTO and

since the creation of the WTO in 1995 as many as 250 FTAs have been notified (but all are not still in force). However, very few of them have provided real trade liberalisation of significant, let alone systemic, importance. Most of them are weak in market access liberalisation and do not go beyond WTO rules (Sally, 2006). They often come with a heavy regulatory package, especially onerous rules-of-origin regulation that are costly to comply with and that prevents trade. Overall it is more correct, as once quipped, to call them TFAs – Trade Free Agreements.

Equally disturbing, FTAs that actually liberalise trade run the risk of prohibiting non-discriminatory liberalisation in the WTO when the preference margin (the difference between the MFN tariff level agreed in the WTO and the preferential tariff level) in a trade-liberalising FTA is considerable, and, subsequently, when the agreement leads to trade diversion.²

Free Trade Agreements should not be dismissed without a fair examination. A handful of preferential agreements have considerably liberalised trade, pushed multilateral negotiations in the right direction and benefited welfare. The European Union, the North American Free Trade Area (NAFTA), and the Australia-New Zealand Closer Economic Relationship (ANZCERTA) undoubtedly belong to this category of preferential arrangements. Other agreements might not be gold or silver standard, yet they are still beneficial from the vantage point of foreign policy.

The preferential ground needs to be treaded cautiously. The proliferation of FTAs has already led to a patchwork of overlapping and discriminatory agreements that clogs world trade and makes WTO negotiations more complicated – the “spaghettini bowl” phenomenon of trade agreements. Yet cautiousness is not a recommendation respected by governments. There is currently a great rush to FTAs. There are 80 bilateral agreements negotiated or in the pipeline only in Asia. The EU has recently lifted its earlier

² Preferential liberalisation leads to both trade creation and trade diversion. That is, new trade is created, trade that did not exist before the agreement, but a discriminatory agreement also has the effect that existing trade (with a third party) decreases. The net effect of a preferential agreement is not necessarily trade creation; when more-efficient producers are replaced by less-efficient producers the overall effect might constitute a welfare loss.

moratorium on FTAs and launched a programme of FTA negotiations with more than 20 countries (the previous/current EPA negotiations with ACP countries not counted).

Most, if not all, of these FTAs are aiming for *market preference*. Such FTAs need to be separated from *market opening* FTAs. The latter FTAs are seriously aiming for market liberalisation and apply, to a considerable degree, reforms in a non-discriminatory manner; the former aims for a considerable preference margin that discriminates between preferential and non-preferential countries. The difference can sometimes be subtle, but it has a considerable effect on the consequences of an FTA.

It is impossible to tell to what degree the rush to preferential agreements have impeded negotiations in the Doha Round. Arguably, most observers have exaggerated their effects on the Doha negotiations. What is true is that they have taken the attention from Doha negotiations and moved it to bilateral negotiations. They have also enforced defensive and messy trade policies with a serious regulatory overload. The spirit of non-discrimination has been seriously diluted, and this affects the competition effect from a trade agreement. Rather than pitting the two worlds against each other, it is more warranted to say that the defensive attitudes in both multilateral and bilateral negotiations have reinforced each other.

4. Why has the Doha Round faltered?

The search for scapegoats has often turned to the metrics or the politics of the Round. Some observers have suggested bad personal chemistry between negotiators or suggest overall governance problems. Others have pointed to the problems in the machinery of reciprocity caused by autonomous liberalisation. For example, countries such as Brazil have undertaken tariff reductions autonomously and their applied rates are considerably lower than the bound rates. If the bound rates were to be taken down to the applied levels, Brazil and many other countries would have to lower the bound rates at an unprecedented rate. This decrease would not liberalise trade de facto or have fiscal implications (import

revenues), but in the eyes of negotiation formulas in the WTO, it would be a radical tariff liberalisation.

All these issues are important, but they only scratch the surface and too much lean on a worldview suggesting that all that matters happen in Geneva. To the typical WTO purist trade policy begins and ends in Geneva. But in the real world the negotiations are subject to great influence from domestic politics and general policy development around the world. What primarily should interest us, if we want to understand the Doha failure, is the linkage between the outside world and the Geneva machinery. I will point to three broad, structural factors to the faltering Round and discuss how they have affected the negotiations adversely.

From inter-sectoral to multi-sectoral

The WTO is a much wider organisation than the GATT and incorporates several new sectors and issues. This expansion of ambitions is justified and mirrors a general economic development, e.g. the growing importance of services and investments.

The Doha Round rests on the idea of an all-inclusive grand bargain between member countries. In crude terms, developing countries should get better access to rich-country markets for agricultural and semi-industrial products; developed countries should get better access to other rich-country markets *and* to developing-country markets for services and high-tech goods. This strategy, accommodating tangible interests of countries and world-economy development, looks good on paper. Yet in reality it has proven to be immensely cumbersome – some would even say the strategy is naïve.

The essential problem evolves around the change of the WTO from an effectively *inter*-sectoral to a *multi*-sectoral organisation. Until the Uruguay Round, the GATT was a forum for negotiations over trade in manufactures. Other sectors were exempted.

This was the golden era of GATT reciprocity – the overall mercantilistic philosophy of trade policy as a give-and-get haggling between countries. Reciprocity was a formula for success mainly because the membership was restricted to countries of similar level of development and industrial structure, and because the agenda was limited to one particular sector – manufactures. Negotiations then were largely inter-sectoral and focused on tariffs and simple border/non-tariff measures – which are fairly easy to measure, compare and (technically) bargain over. Industrial production is also a comparatively easy sector to liberalise as the economics of manufactures essentially rests on economies of scale.

But reciprocity has not been a successful formula in the multi-sectoral structure that characterises the WTO today. The problem is not technical in nature but political. It concerns factor mobility and the effects of trade on factor of production, primarily labour.

In the GATT era factor mobility was largely an issue of inter-sectoral mobility. If a textile worker in, say, Germany got unemployed because of increased trade, he or she could get a new job in another manufacturing sector. This adjustment process was fairly smooth and in the heydays of industrial growth it did not matter much that many countries employed labour-market policies that prevented mobility. Industrial jobs were in good supply and the unemployed worker could get a new job without a substantial period of education. On-the-job training usually sufficed.

Today's multi-sectoral structure is different. Industrial production is no longer primarily an activity by developed countries in the western hemisphere. The type of transfer envisaged in the grand-bargain structure of trade will require a movement of labour *between* sectors. In crude terms: an employed farmer in France should find a new job in an advanced industrial or service sector. This type of factor mobility is difficult, but the problems have also been exacerbated by strong labour-market regulations and an overall policy that prevents mobility and lock people into specific sectors.

This is primarily a concern for the developed countries, but the problem of factor mobility is also displayed in several middle-income countries. It is largely a problem of domestic nature – ineffective policies for climbing the value-added chain and especially to smooth factor mobility between sectors. But it spills over to the WTO and trade negotiations.

From GATT to WTO

There are today 153 members in the WTO. In the last two decades there has been a considerable increase in membership. The problem of this expansion is primarily not of quantitative nature; an organisation can operate effectively with many members. The problem is rather of qualitative nature: the expansion of membership – the process of building a global institution (WTO) of a small, club-like organisation (GATT) – has brought new sorts of conflicts into the WTO system. This expansion has overall been beneficial, but one of the errors in this process was the belief that the WTO could operate in the same way as the GATT. There are two concerns that need to be addressed: one is constitutional in nature, the other concerns leadership.

The GATT model of trade negotiations rested on the idea of a “marketplace” for bargains. The liberalisation agenda was advanced progressively on a give-and-get basis. With many members that are marginalised in world trade, and with no or little ambitions of participating in give-and-get bargains, this model has not worked. In fact, only about 50 countries account for well over 80 per cent of international trade and an even greater share of foreign investment (Sally, 2006). This comprises the OECD plus 20-30 developing countries that have been globalising rapidly and successfully (most of them in Asia, some in Latin America, and very few in Africa).

Furthermore, as many developing countries reject the idea of giving any “concessions” at all, and mainly consider the WTO and the Doha Round as an institution (or agenda) for redistribution between rich and poor countries, there is an inherent conflict of objectives (the constitutional concern) which needs to be addressed if the WTO should stay relevant.

This conflict of objectives extends beyond the Doha Round, but it has nonetheless been aggravated in the current Round by developing-country fear of preference erosion. If the non-discriminatory levels of protection in the world are reduced, the so-called preference margin for developing countries will deteriorate. Recent research shows that this fear has been exaggerated, especially due to non-utilised preferences and stringent rules of origin regulations in the developed world that prevents exports from developing countries. Yet preference erosion presents an overarching principle problem to the WTO. Preference schemes are of considerable value to a good number of developing countries, especially in Africa, but the core mission of the WTO is non-discriminatory liberalisation. Countries benefiting from the preference margin thus have an interest to block liberalisation in a non-discriminatory manner. They do not have an interest in a marketplace for bargains, but in a marketplace for transfers – a one-way distribution of trade privileges (Collier, 2006).

This has been a technical problem for the Round, but it also concerns the ideological foundation of the WTO: non-discriminatory liberalisation of markets. A host of countries in the WTO today has a clear interest of preserving privileges rather than enforcing a non-discriminatory system of regulations of trade, let alone liberalisations of trade. Such conflict of objectives arrests the negotiations to a considerable degree and prevents negotiations to follow simple principles and formulas. Furthermore, as previously discussed, too much of the Doha Round negotiations have been focused at exemptions from non-discriminatory liberalisation.

Yet it would be unfair to blame developing countries for the Doha failure. A considerably more pronounced problem has been the lack of leadership from the big developed trading nations, the European Union and the United States in particular. Both of them have been active in this Round, but mere activity does not translate into leadership. They have both escaped the responsibility of the world trade system that comes when you represent such a large share of world trade as they do. Again, this problem relates to the transformation of a small, club-like organisation to a global institution.

In the GATT era the Western world effectively constituted the organisation, but today the organisational structure is different. To some this change has led to a notion of leadership and governance based on equal responsibility between countries. This model assumes, among other things, that countries have equal capabilities and interests of assuming leadership. In other words, Ghana should be as capable of leadership as the European Union. This example might not be entirely fair, but it highlights what is a foundational concern in the current model of the WTO: a handful of countries (counting the EU as one) have the capability and the interest to assume leadership, but the constitutional structure of the WTO is pillared on collective leadership by every member. From a constitutional point of view, the multilateral trade organisation has changed from a forum of negotiations between largely similar countries (interests) to an institution resembling the United Nations.

Failing leadership of the Round could thus be blamed on the governance structure – that is, blamed on no one. Yet it is obviously clear to most observers that the EU and the U.S. has hidden behind this governance structure and avoided doing considerably more than what the governance model *de jure* demand from them.

The lack of leadership has particularly been expressed in the lack of substantive preparation for a Round, the actual implications of tabled proposals, and overt ambitions to bring new areas of regulations into the WTO family.

Neither the U.S. nor the EU did prepare themselves for a Round that inevitably would have agricultural liberalisation as a distinct feature. The Bush Administration clearly worsened the situation when it raised its agricultural subsidies in advance of the mid-term elections in 2002. When the Round started, the EU was in the process of reforming its agricultural policy, but the reforms achieved fell short on its ambitions and locked the EU into an exceedingly defensive position as the agricultural deal struck by Gerhard Schröder and Jacques Chirac extended to 2013. The failure of the U.S. and the EU to

progress reforms at home has made other countries justifiably suspicious of their intentions and limited their capability to assume leadership.

The proposals from the two world trade giants have also been flawed. Early in the Round, the U.S. tabled a proposal of full agricultural liberalisation. This is clearly a good ambition, but it was a silly proposal. The U.S. itself would not have been in a position to comply with such an ambition, which the latest farm bill bears testimony to. This proposal blocked meaningful negotiations for a long time. All other countries using trade-distorting subsidies became defensive and had to spend energy to defend themselves against a proposition that never was, nor intended to be, feasible.

The EU has equally contributed to impasses by not disclosing in detail what it has been proposing. In fact, for a long time it was unclear what the EU actually had offered as it did not reveal what product lines that hid behind a big exemption (4-8 percent of all tariff lines) from its proposed general cuts. This has arrested the attention of all parts of the Doha Round. It opened for an excessive use of exemptions and flexibilities, which the Round has never been able to escape.

When the two economic giants have continued to stall the agricultural negotiations little have happened in other negotiation areas. Neither the American nor the European behaviour was born out of a wish to poison the negotiations; there are domestic political reasons that explain their performance. But countries using the WTO negotiation machinery to perform for the protectionist domestic gallery cannot act as leaders.

Developing countries have been suspicious of hidden regulatory ambitions from the U.S. and the EU. President Clinton's *coup de grace* at the Seattle meeting in 1999, when demanding labour and environmental standards in a new WTO Round, made all parties suspicious and alert to similar calls. When EU pushed for such standards at the Doha meeting in 2001, the atmosphere for regulatory ambitions became worse. The discharge of the Singapore issues from the agenda in 2003 improved somewhat the atmosphere, but the damage had already been done and was reinforced by unilateral regulatory action

setting global standards, such as the REACH directive a few years later. The discharge was also a heavy price for the EU to pay for its calls for trade-impeding regulations. The Singapore issues, in contrast to labour and environmental standards, have trade-facilitating credentials and essentially belong to the WTO umbrella of international economic governance. But its exceedingly regulation-heavy ambitions blocked meaningful negotiations over investment and competition issues.

Climate of ideas

Ideas matter – also for the WTO. The WTO is built on a belief in open markets and an open world economy. This belief is dispassionately underpinned by analysis and proven experience, but the WTO system also performs against a backdrop of broad, principled economic liberalism. It is essentially an organisation that purports more markets and less government. One can agree or disagree with the foundational ideas of the WTO, but one cannot expect the WTO to function properly if the climate of ideas is biased against further economic liberalisation. That is simply not an environment that can facilitate more multilateral opening of markets.

The Uruguay Round, and some earlier Rounds, was assisted by a broad movement of economic liberalisation. Markets were liberalised across the globe. The Single Market in Europe and the North American Free Trade Area (NAFTA) were both negotiated and agreed during this Round. Margaret Thatcher and Ronald Reagan had also provided impetus to a broader programme of internal as well as external liberalisation. India started its comprehensive reform programme during this period and in Southeast Asia many countries were on a similar track. This was a political surrounding that gave impetus to the multilateral negotiations: many countries were already in the process of liberalising its external barriers to the world economy.

The climate of ideas today is different. It has shifted in the direction of a less favourable attitude towards open trade. The anti-globalization movement and the rise of what David Henderson has called New Millennium Collectivism (Henderson, 2004) have fuelled

ideas based on age-old distrust of markets and faith in government intervention. Anti-trade groups are far from as influential as many claims; they are not more than street theatre of the fringe. More damaging to the WTO, and to the general climate of external liberalisation, has been a shift in anti-market direction by established groups, governments and institutions. The new professed “mainstream” view largely accepts the reality of the market economy and globalisation, but rejects the notion of comprehensive liberalisation, especially liberalisation in developing countries (Erixon and Sally, 2006). It is biased in favour of new forms of trade regulations (e.g. labour and environmental standards) that regulates rather than open markets.

There is nothing wrong in challenging the ideological pillars of the WTO, but negotiations cannot be expected to yield much result in a climate biased against the idea of more markets and less government.

5. What now?

It remains to be seen what happens to the Doha Round. Pascal Lamy, the Director General of the WTO, has tasked members to think seriously about if, how and when negotiations should be resumed. It would be a waste, as Lamy said at the last TNC, to throw away what has been agreed so far and the thousands of negotiating hours that have been invested. On the other hand, investments should often be treated as sunk costs, impossible to recover, and not as handbooks for future actions. The rear-view mirror seldom tells you where to drive.

It will at least take a year for the negotiations to resume. Nothing will happen before i) the U.S. November election; ii) India’s federal election next year (or possibly this year); and iii) the change of the EU Commission in September next year (which likely will result in a new trade commissioner). Furthermore, it appears unlikely that a new U.S. administration will agree to re-started negotiations until a new TPA has been granted. The likelihood that it will looks ever more remote as the Democratic majority in the U.S. Congress seems set to increase after the November election. The Bush administration has

negotiated without such a mandate since July 2007. But a new president will face a different situation. The working hypothesis in the last year has been that a new president will be forced to battle the hill for a Doha approval if he inherits an already negotiated and signed agreement. It would be too a strong political signal for the new president to walk away from a negotiated Doha deal. But with such a deal absent, it would be politically foolish to engage in heavy fighting with the Congress for a future negotiation that previously has collapsed several times, that have no strong business friends, and that won't give you much kudos at home. Regardless the intellectual and political merits, the choice could be between a Round that fizzles out and will be forgotten – or a structured ending of the Round without any new agreements. Conditions might change in the years to come. The rush to PTAs might cause a greater desire among the membership to multilateralise such agreements. Heavy strains on the dispute-settlement system might inspire some members to re-think their positions. But to bank on such developments would be foolish. To return to an agenda designed in 2001 – perhaps ten years ago – will not be appealing.

When negotiators now take a leave from negotiations, they should not only think about the future of the Round but of the WTO as a whole. The WTO needs to be reformed to stay relevant. It cannot operate in the same fashion today as it did decades ago – or as it still does today. Much has changed. There are plenty new members. New issues have been put under the WTO umbrella. The face of the world economy has changed, especially with the rise of Asia. The domestic nature of trade policy is also different today, and this has led to new sorts of political conflicts over trade. Put differently, endogenous as well as exogenous factors have changed global trade policy. To expect the WTO to function efficiently without comprehensive changes is ignorant.

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