

Challenges to the Multilateral Trading System

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Making the case for trade liberalisation has always been easy in theory but an uphill struggle in practice. The tyranny of 'common sense' insists that exports are good, imports bad and the balance of trade should preferably be in surplus. Economists since David Hume have pointed out the illogic of the everyday notion that the strength of the nation depends on a constant current account surplus.¹ Sadly, logic still seems to do constant battle with an instinctive mercantilism, just as it has for centuries.

The logic of the case for freeing trade is compelling, to the extent that it is the one thing the great majority of economists seem to agree on. Trade across borders is an extension of the process of specialisation which lies at the heart of economic growth, with

mutual benefits arising as each trading partner specialises wherever their comparative advantage lies. Indeed, this kind of specialisation seems fundamental to social organisation, while its geographic scope has extended steadily from its origins in the individual family, household and village until it is now a complex web of global arrangements.²

Yet although the theoretical benefits of international trade have been well-understood since the days of Hume, Adam Smith and David Ricardo, and the experience of many decades tells us that growth in trade and economic growth have indeed gone hand in hand, trade liberalisation always was and still remains a hard sell. The benefits of trade lie in the expansion of imports: people are able to consume more, and in greater variety, than if all their needs had to be met through domestic production. Comparative advantage is the source of mutual benefits. But the policy debate is conducted entirely in terms of how much it will be possible to expand exports, of access to other markets, which turns

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¹ David Hume, 'Of the Balance of Trade', in *Essays, Moral, Political and Literary*, vol I, 1752, reprinted in *International Finance*, pp. 25–37, ed. R. N. Cooper, Penguin, 1969.

² See *The Company of Strangers*, Paul Seabright, Princeton University Press, 2004.

trade into a zero-sum battle between competitor firms. Trade negotiations are therefore a morass of competing bids from producers, metaphorically looking over the shoulders of the negotiators on each side of the table.

Mercantilism of this kind has much longer and deeper roots in history than does trade theory. There is little to be gained from wishful thinking about the scope for shedding the light of reason on the dark corners of trade policy. Even so, the practical agenda for those of us who would like to see a successful new trade round has rarely seemed more challenging than it is now. Although the past five years of negotiations have in fact brought within reach an agreement on headline tariff numbers and the supporting commitments, the prospect of a successful conclusion to the round is uncertain. At present (February 2007) it appears extremely unlikely that the Democrat-led Congress will extend President Bush's fast-track negotiating authority, which expires mid-2007. Without an extension, the US almost certainly could not deliver Congressional approval of a trade agreement. If there is to be an agreement, it needs to be reached at least in outline within a month or two.

Where does this prospect of at best a last-minute outline agreement, and at worst complete failure, leave international trading arrangements? During the past five years, with the multilateral talks making little progress, we have seen a growing number of bilateral and regional trade agreements. Jagdish Bhagwati famously described the resulting tangle of arrangements as

a 'spaghetti bowl', although 'noodle bowl' would be more apt.³ Further tangles would seem the inevitable consequence of a failed Doha Round, with all the unpredictability and unfairness which are inherent in a proliferation of differing bilateral deals between powerful and less powerful partners.

The consequences of failure in the multilateral trading system are too great for any of us to consider it with equanimity. It would seriously damage the environment for international trade and investment. I also believe that the gains from a successful multilateral trade round would be so large that we should anyway be moving towards a much bigger game within a few years. The World Trade Organization (WTO) needs an ambitious new agenda. This will require some institutional and operational reforms in the WTO. More fundamentally, however, fresh momentum will require a widespread political commitment to important new goals.

Here, I want to set out the case for a renewed ambition for the WTO, and look at the weaknesses of the Doha round since its launch to draw some lessons about how to accomplish this.

The importance of multilateral trade liberalisation

Ever since the General Agreement on Tariffs and Trade (GATT) was established in 1948, the growth in international trade and economic growth has

³ The term was first used by Jagdish Bhagwati in 'U.S. Trade Policy: The Infatuation with Free Trade Agreements', in Jagdish Bhagwati and Anne O. Krueger, *The Dangerous Drift to Preferential Trade Agreements*, AEI Press, 1995.

been remarkable. Both for the countries rebuilding their economies after the Second World War and for countries such as Korea and Taiwan or more recently China, India and Brazil making a successful transition from poverty to prosperity, the impact of international commerce has been central. The value of world merchandise exports rose from \$58bn in 1948 to over \$1 trillion in 2005. Growth in exports has exceeded GDP growth in most years: during the past 10 years export growth was close to 6% while world GDP growth averaged 3%. In fact, growth in the volume of merchandise exports has averaged over 6% a year since 1950. When trade liberalisation efforts faltered, from 1973 up to 1990, both trade growth and global GDP growth slowed (respectively to 4% and a little over 2% a year on average). The impact of the Uruguay Round, along with the North American Free Trade Agreement (NAFTA), the expansion of the EU and autonomous trade liberalisation in Asia (especially China) is apparent in the acceleration in trade growth after 1990. What's more, developing countries' share of total merchandise trade has been increasing rapidly, and stood at about a third in 2006.⁴

Multinationals are playing an increasingly important role in the growth of trade. Their foreign direct investment has expanded substantially since 1990. The combined expansion of both trade and foreign direct investment (FDI) reflects the splitting up of

production chains and the global reallocation of the individual links in the production process. This process has been under way in manufacturing for a quarter of a century and manufacturing output is therefore radically globalised compared with the early 1980s. A third of merchandise trade now consists of trade in components, rather than finished goods, with the proportion still climbing, according to United Nations Conference on Trade and Development (UNCTAD) estimates.

This process of international specialisation is driven by the strategies of multinationals making use of new technologies and taking advantage of policy liberalisation. And it has become increasingly fine-grained. Thus any finished consumer good is no longer really 'made in' anywhere, as its components will typically have been designed, manufactured, processed, assembled and distributed in numerous countries. Individual countries possess a range of sometimes surprisingly narrow specialisations, reflecting the specific patterns and histories of multinationals' relationships with certain suppliers or locations.

The rise in FDI started early in the 1980s due to a combination of factors, including the revaluation of the yen and policy changes, but in the initial stages the weaving of global supply chains primarily linked the OECD economies to each other. A particularly striking example of the scope and scale of these links is offered by the car industry. Japanese manufacturers have partnered with European and US car makers: Nissan and Renault have merged; Suzuki is partnered with GM;

⁴ Figures from International Trade Statistics 2005, WTO.

and Mazda with Ford. Behind each of these global partnerships lies an extensive web of alliances and joint ventures between suppliers all the way upstream to the initial research and design. It is hard to imagine how a product could be more transnational than today's automobile. It is hard to remember, too, just how contentious this network of relationships used to be, with frequent rows about local content and employment practices, even though one of the original motivations for Japanese manufacturers' investments in European production facilities was the growing sensitivity of direct imports of Japanese cars to EU markets.

By the late 1980s, intra-EU investment due to the Single Market programme had become especially significant in driving cross-border investment growth. The European context is still driving the process forward. German car industry jobs have gone across the border to the Czech Republic or Poland. A cluster of car manufacturers has emerged in the Czech Republic, with annual volumes approaching a million vehicles, while Hungary has a cluster of engine makers, supplying the engines for one in every 25 cars sold in the world today, while a group of Polish producers specialise in transmission. Meanwhile in their home bases, the western European parent companies have specialised in design and marketing, the higher value activities in the production chain.

Developing countries have been the destination for a rising share of total FDI (although most of this has been

concentrated in a handful of countries, mainly in Asia and notably China). The share of the OECD economies in the global stock of FDI has declined from 75% in 1980 to 70% in 2005, according to the UNCTAD figures, while the developing country share of FDI inflows had risen to over a third in 2003–2005.

The same process of the radical globalisation of supply chains is starting to get under way in services too, promising the potential for significant growth in services trade. The potential this holds for sustaining the continuing expansion of prosperity in countries which take part in this trade is enormous; there is huge scope for specialisation in areas of comparative advantage in the sector which makes up more than two-thirds of the developed economies. Exports and imports of commercial services have been growing at 10% a year since 2000, and accounted for just under 20% of total world exports and imports in 2005. This is a highly significant trend. However, the reallocation of supply chains across borders in services is likely to present difficult new challenges. In countries such as the US and UK which are at the forefront of this process, 'offshoring' has already had a political impact out of all proportion to the scale of the business being outsourced to other countries. Many areas of services are intrinsically politically sensitive, including utilities, education and health care. There is already vast misunderstanding of the scope and role of WTO rules in such areas. It will nevertheless be important for the expansion of services trade, with all

the mutual benefits that will bring, that multilateral rules continue to set the framework for services trade and investment.

The point demonstrated by the emergence of these dense networks of trade and investment relationships around multinationals and their supply chains, whether in manufacturing or services, is that the traditional mercantilism of trade relations is less and less appropriate for the global economy. Going into the negotiating chamber to further the narrow interests of national corporate champions is not just ill-conceived but a positively incoherent approach. Even if the interests of national corporations could once sensibly have been conceived as a good proxy for the national interest in any meaningful sense, that is certainly no longer the case. The focus of trade negotiations now ought to be on the creation of a predictable and mutually beneficial environment for the expansion of trade and investment.

The proliferating number of bilateral trade deals does not accomplish this. They make the business environment more complex and unpredictable. A trade deal between two countries, even when they are major trading partners, is not helpful to a company with operations and a supply chain that span many countries. At worst it will complicate business decisions and distort investment, to the detriment of efficiency, and ultimately jobs and dividends. The importance of global multinational production networks is a key reason there needs to be a multilateral trade framework. The efficiency gains from production span-

ning many countries can only be fully realised if activity within the multinational group and its supply chain is not distorted by differential barriers to trade at the national level.

It is easy to see why bilateral deals have looked appealing, when multilateral talks have seemed hopelessly bogged down. Bilateral agreements are certainly easier than bargains struck amongst 150 partners. They look to offer political advantages, or at least that must be the perception, because bilateral deals are for the most part sealed with actual or desired political allies. In terms of domestic politics, they offer advantages to certain domestic exporting sectors or firms. They also create the scope to attach conditions on, say, labour rights in return for market access, which also frequently pleases domestic political lobbies, although such clauses mainly act as barriers to access for the poorer trading partner. Wider regional agreements do have some value to the extent that they can reciprocally grow trade between neighbouring countries, although this is less effective than a customs union like the EU. A regional arrangement in Africa could in principle have such merits.

But having said all this, there are compelling reasons why bilateral and regional trade agreements make a poor substitute for a multilateral trade round. Above all, preferential trading agreements erode the principle of non-discrimination whereby the best tariff and non-tariff conditions extended to any trading partner have to be extended to all. The preferential agreements thereby favour the powerful, as

many weaker partners seeking access to a large market have discovered. They significantly distort trade away from the underlying comparative advantage, and they create rents which are almost always appropriated by special producer interests. They multiply the complexities associated with aspects such as rules of origin, technical regulations, health and safety standards and administrative arrangements. They are far harder to enforce than WTO rules; the WTO's dispute resolution mechanisms are widely acknowledged to have been very effective.

Partial agreements outside the scope of the WTO lack the power of universal rules and legally binding commitments when it comes to two vital areas. One is the everyday regulation of commerce in a clear and predictable manner. WTO obligations create stability and predictability not only in terms of tariffs but also import licensing, customs valuations, border procedures, local content requirements, anti-dumping and all the other detailed aspects of exporting and importing. This is all rather dull detail, but it has the potential to impose substantial transactions costs which reduce trade growth.

A second key advantage of the multilateral framework is the impact of WTO obligations on the domestic reform process. Economic reform is extremely difficult to achieve politically, and external commitments have often been the means by which domestic opposition to reform has been overcome. It is quite clear in the case of China, for example, that the

process of WTO negotiations was central to winning domestic political acceptance of economic reforms which would otherwise have taken far longer to achieve. China's WTO membership was also the key which unlocked the flood of inward foreign direct investment to the country in recent years. It was always going to be an attractive destination, given the sheer size and potential growth of the economy, but without the assurance of China's commitment to the multilateral regime, investors would not have been able to justify the risk of investment on the scale which has taken place.

As this example shows, and contrary to the arguments made by some campaigners, developing countries which have so far avoided a wholehearted commitment to WTO rules have the most to gain from trade liberalisation. It is clear that success breeds success in terms of FDI, and the vital step is the initial investment which can follow on from a policy commitment to WTO rules and continuing liberalisation. What's more, the political economy effects of a successful round in terms of giving an impetus to domestic reforms must be counted amongst the gains, and they could be substantial in many cases. I am convinced that the WTO is probably the most effective tool that governments of poor nations have at their disposal, if only they can use it. They deserve all the technical assistance we can provide, but the political choice is for them to make.

It is unclear exactly how trade policy plays into politics, but to put it at its weakest, it is unlikely that deeper international integration through trade

and the implementation of WTO rules will either weaken domestic policy reform or adversely affect international relations. Whilst we know from bitter historical experience that determined politicians can unpick peaceful trading links, with catastrophic economic and political consequences, it must surely be true that building trade will inhibit that kind of destructive politics by making it more costly.

What went wrong with Doha?

It is natural to ask why, if multilateral trade rounds have such decisive advantages, Doha has run into such trouble? There are several possible explanations, each making their own contribution. One of the most important is that there has been a key contradiction at the heart of the Doha Round from the start, and that was its construction as a 'development' round.

At the tail end of 2001, the world's political leaders understandably wanted to make a statement about their commitment to both multilateralism and development. It was the combination of the two which was a mistake. The concept of a development round gave developing countries unrealistic expectations of what they could expect when the process of inevitable give and take within detailed negotiations got under way. No country ever got everything it wanted from a trade round, and the same was always going to be true for developing countries. One-way concessions were never going to be feasible; businesses and politicians in the developed countries would naturally

look for commercial benefits from a deal. There are anyway other institutions far better placed to focus on economic development. The WTO's job is to focus on the creation of a favourable enabling environment for international trade and investment to grow. While the expansion of trade is a necessary (if not sufficient) condition for economic growth, the specifics of a trade deal can not in themselves deliver development. Trade deals inevitably need to incorporate significant elements of reciprocity.

Trying to turn the Doha Round into a branch of international official development aid may therefore have doomed it from the start. The rhetoric was inherently flawed because, as a matter of arithmetic, developing countries could never have gained disproportionately from trade liberalisation as they trade relatively little. Trade liberalisation will always favour most those who already trade the most. The expansion of trade is part of the virtuous circle of economic growth, whereby success starts small and feeds on itself over time. Trade policy can no more offer the silver bullet solution to poverty and the failures of developing economies than can any other policy, whether aid or debt relief. So the nomenclature of a development round raised unfulfillable hopes from the very beginning.

What's more, the decision to bill Doha as a development round opened the way for a damaging emphasis on the idea that developing countries deserve special treatment, in the sense that they should not be required to make the same commitments to WTO

rules as the developed countries. Although it is clear that developing countries do not have adequate technical capacity to move forward at the same pace as developed countries across the whole range of WTO commitments, that is a different matter from arguing that it is undesirable for them to aim to meet those commitments in due course. The avoidance of commitment to WTO rules, under the rubric of 'special and differential treatment' is not a true development agenda. It has not had a favourable effect on growth rates in developing countries.

On the contrary, avoiding WTO commitments almost always operates against the long-term economic interests of developing countries. It relieves their governments of the pressure to reform. It reduces their attractiveness to foreign direct investors. It slows the growth in their trade. Developing country governments should take on as many WTO commitments as they can, as quickly as they can, and their donors and the international institutions should tell them to do so plainly.

The decision to designate Doha as a development round not only perpetuated the false notion that differential treatment helps developing economies, it also invited the numerous development campaigners to find fault with the WTO negotiations. This would not have occurred in the same way without the scope for erroneous assumptions, due to the designation of the round, about the purpose and nature of trade negotiations. With hindsight, the furies unleashed in Seattle in December 1999 should have

acted as an immediate signal to those of us hoping for a further successful round of liberalisation to plunge into a period of engagement with the WTO's critics, in a bid to explain and educate. It should have given the EU pause for thought in its persistence in promoting an investment agreement, so soon after the anti-globalisation groups believed they had won a victory against the OECD's proposed Multilateral Agreement on Investment. It should have led the WTO to postpone further talks until after a period of engagement and reflection on some areas of the negotiations which affected sensitive domestic policy issues.

There was at the same time a dismayingly feeble political response to the cacophony of the anti-globalisation and anti-WTO protests. This was as clear a signal as could be of the lack of underlying political support for the Doha Round. Politicians evidently could see no upside in backing the WTO and challenging its critics. Like every other institution, the WTO will have to learn how to hold a constructive debate with the wider public in the internet age. Any new negotiating initiative will become instantly known outside, and almost as instantly interpreted and relayed with additional spin, by interested parties, including lobby groups and campaigners of all types. This puts a real onus on the continuing effort to inform and educate the wider public about the WTO's role and work. For it is the sentiments and proposals which emerge from the chain reaction of communication between the WTO and the general

public which ultimately create the political realities determining countries' negotiating positions. During the past few years, however, the result has been undue attention paid by politicians to ill-informed and unrepresentative special interests.

There are other culprits for the lack of success. An obvious one is that everyone was in too much of a rush. The Uruguay Round involved an enormous undertaking for all participants, a burden which was widely underestimated. To begin with there was inadequate technical assistance for those countries which needed it, although that has subsequently been corrected. The inbuilt agenda was challenging, requiring the negotiation from 2000 onwards on dossiers including agriculture, services and dispute settlement. Adding industrial market access would probably have been enough; again with hindsight, the EU was mistaken to insist on more at that stage, with its demand for an ambitious expansion of the agenda.

On one level, there has not been a Doha deal because too many of those involved did not want one, or at least not as much as they wanted to achieve other, possibly tactical, objectives. However, there is a deeper explanation for the failure of political will, which puts some responsibility on all of those who failed to engage in creating a more constructive climate of opinion. That includes the WTO itself, and leading politicians and negotiators who did want a positive outcome. The success of the Uruguay Round, negotiated between 1986 and 1993, depended on an extraordinary

degree of political risk-taking, with some individuals willing to put their ministerial futures on the line. That political courage has been absent in the Doha talks.

Some responsibility also rests with multinational businesses, which for the most part were slow to engage with their critics, and slow to set out the arguments for the positive impact of multilateral trade liberalisation. More open markets, predictable trade rules, consistent application of regulations and competition policy—all are vital for a buoyant investment climate. If the Doha Round fails it will seriously damage the trading and investment environment. It will put at stake the credibility of the multilateral trading system. While this is widely appreciated in business circles, many executives did not see making the case for Doha as one of their priorities, and indeed some industries have—as will always be the case—persistently lobbied for specific trade protections.

Next steps

Time is running out on Doha. It looks unlikely that the Democrat-dominated Congress will approve an extension of President Bush's Fast Track authority; US bipartisanship in favour of free trade has come to an end. The French presidential elections in spring 2007 present another problematic aspect of the political context, as public attitudes in France towards trade liberalisation and globalisation will constrain politicians across the spectrum. The most we can hope for in the next few months is an agreement on key

‘modalities’, and even this may be over-optimistic.

This is all the more disheartening as there is so much already agreed. Take the fraught issue of agriculture, for example. There is a general impression of a yawning chasm between the major participants. The EU feels the extent of CAP reform is not appreciated by its trading partners, but has utterly failed to convince them that things have really changed for farmers in Europe. Further improvements in the EU’s agricultural offer would depend on concessions from others. Yet, despite this apparent impasse, there are key areas of agreement:

- The EU has agreed, through WTO commitments on domestic farm support, to carry through the biggest reform of the Common Agricultural Policy in a generation. Once adopted in the WTO, it would be impossible to go back to massive trade-distorting subsidies
- WTO members have agreed to eliminate export subsidies and to discipline other unfair forms of export support by 2013
- The tariff cuts proposed by the G20 countries will open new export markets for agricultural products, albeit with still too many exceptions for ‘sensitive’ products.

There has been substantial progress in other areas too. Brazil, India and other countries have committed to bringing down their high WTO-guaranteed tariffs to close to the tariffs actually being applied, which is a very important signal of their commitment to reform and will bring much more

predictability to doing business with those countries.

The trade-facilitation agreement is far advanced, and everyone recognises the importance of faster and more efficient customs clearing and processing procedures. High costs and administrative burdens hinder developing countries from getting their own products across their own borders, and a WTO agreement would also help firms in OECD countries see newly credible markets in developing countries. This is uncontroversial.

All of this could perhaps still form the basis of a meaningful framework agreement before mid-year 2007. Perhaps this suggestion will look delusionally optimistic by then. But whatever happens in the near future, we will all—in ministries, in business, in NGOs—need to reflect on what happens next. Nobody can believe that either the outcome (whatever it turns out to be) or the path by which it was reached has been satisfactory. The steps needed can be divided into two areas: practical measures to reform the WTO and its processes; and longer-term steps towards enhancing political commitment to the framework of multilateral trade.

Institutional reform

In early 2005 a Consultative Board which I chaired reported to the director general on the future of the WTO as an institution.⁵ It was obvious that

⁵ The Report by the Consultative Board to the former Director-General Supachai Panitchpakdi can be found at http://www.wto.org/english/thewto_e/10anniv_e/future_wto_e.htm

the organization would have to review its structures and procedures. That remains the case, given that the credibility of the system has been endangered by the near-failure of the Doha Round. Some of our recommendations derive from the need to find manageable and effective negotiating structures.

The Doha Round has been a negotiation by formulae. The desire to make multilateral negotiations more precise and less ad hoc was understandable, but this approach has clearly been much less successful than the pragmatic bilateral give and take which characterised the Uruguay Round. In the case of Doha agriculture, non-agricultural market access and even services for a time were all subject to formulaic concessions covering every conceivable difference of interest. This led to very ambitious headline commitments, attenuated by a myriad of special conditions. The Uruguay Round, by contrast, involved broadly stated objectives met (or exceeded) through intensive bilateral bargaining. The outcomes were on the face of it less predictable, but the pragmatic approach got results. Absolute legal precision is not appropriate where there are immovable domestic political constraints or conflicts. The case for reintroducing greater pragmatism is overwhelming.

Equally important is the need to restore the role of an honest broker in the negotiations. The 'Green Room' system of earlier trade rounds was heartily disliked because it privileged the powerful and was too secretive. Yet we have ended up with an even worse

situation whereby small groups of major countries have been meeting (everywhere but Geneva) and thereby excluding others from any influence at all in decision-making. After several years of struggling with inclusive negotiations between nearly 150 governments, the Doha Round ended up as a negotiation among just four, then six. It is not obvious that the group dynamic has been helpful. It is hard to believe the energy put into achieving group positions then sticking to them rigidly has helped the negotiations. Limited access meetings are necessary and appropriate in forging the basis for a wider consensus in the negotiations. At some stage in the process either the negotiating group chairperson or the director general has to do the job of presenting a clean draft text, representing the closest approximation to a consensus position. This can be done with greater transparency, representativeness and accountability than the old Green Room system. The alternatives—either the present morass or a *fait accompli* presented by a handful of major players—are unacceptable.

Another key to an improvement in procedures is recognition that while transparency is all-important, universal participation is not equivalent to transparency. Equally, it is essential for some negotiations to be conducted in secret. The need for transparency applies to the issues and initial positions, and to the eventual outcomes, but there will always be a need for some negotiations to be private.

Ministerial engagement is also essential, and it came very late in the Doha process. The debate in Geneva

is all too often rather narrow and technical, dominated by lawyers and specialist diplomats. The WTO needs to incorporate in its internal debates regular, broad political discussion and engagement with both ministers and the wider public which ultimately shapes the political reality within which any negotiations must take place. This additional dimension will have to be given an institutional shape, separate from the decision-making apparatus, within the WTO.

These principles are reflected in the specific recommendations in the Consultative Board's report, which range from the timing and management of Ministerial Conferences of the WTO, and the appointment and role of the Director-General to the specific role of the secretariat in Geneva. Any programme of reforms must aim to achieve certain wider goals. One must be to ensure that there is a continuing debate within the WTO about the nature of globalisation, as an ever-present backdrop to the contractual decision-making between WTO governments. WTO members need to work much harder to build a favourable climate of opinion—amongst pressure groups, the business community, legislatures and consumers.

Enhancing political commitment to multilateralism

Thinking about the institutional basis for political engagement leads to the question of the underlying degree of political commitment to the WTO. It is in the nature of commitment that it means nothing until it is demonstrated

in testing conditions. After the fraught negotiations and failures of the Doha Round, with multilateralism in general strained to breaking point, we will see this year whether the key parties will affirm their commitment to the WTO. This will require changes in attitudes in a number of capitals:

- The US has always been a driving force behind multilateral institutions, but the credibility of its commitment to the WTO is in doubt. The trading partners of the US must hope that the new Congress will take a more constructive and less confrontational approach to trade, which will depend on the lead given by key figures in the Democratic Party
- The EU needs to be able to negotiate on manufacturing and services without having to stay constantly sensitive to its farm lobby. Although Europe's trading partners do not fully appreciate how far the EU has moved in reforming the Common Agricultural Policy, part of the reason lies in the continuing attention paid to the interests of the agricultural sector. A second challenge for the EU is for its politicians to advocate the benefits of trade liberalisation to voters, rather than taking the easy, populist route. Attitudes vary from country to country, but in too many cases there is a strong 'Fortress Europe' political instinct
- China has benefited enormously from its WTO membership, and has taken full advantage of it. So consumers elsewhere in the world have,

in turn, benefited from the growth in exports of Chinese products. While China took an understandably low profile, as a new member, during the Doha Round, its leaders should now take a more active role

- The same can be said of Japan, whose profile is so low it is easy to forget that it remains the world's third biggest exporter of services and fourth biggest exporter of goods. Tokyo is apparently concerned about the implications of the growth of the Chinese economy for its own strategic role in Asia. If so, an active engagement in the WTO will be all the more valuable
- Finally, Brazil and India must take much greater responsibility for the outcome of WTO negotiations. The same two developing countries dominated negotiations in the Uruguay Round: they are not innocents wandering the dangerous thickets of multilateral trade talks. They have a privileged position; as the largest amongst the developing countries, their views and interests have been given great weight. Yet both have appeared to be driven by doctrine and narrow self-interest, rather than a broader sense of the interests of either developing countries or the WTO membership as a whole.

More broadly, there must be a recognition that the true development agenda lies in making commitments to WTO rules, rather than in seeking exemptions from them under the rubric of 'special and differential treatment'. This is just as true of NGOs as

of developing country governments. The time has come to challenge the nonsense sometimes peddled by campaigners, because if politicians do not challenge the self-promoting interest groups they will find that the empty rhetoric becomes part of the political reality.

Institutional reform and political commitment will both be preconditions for the launch of some big new goals for the WTO. Whatever occurs this year, whatever the fate of the Doha Round, it is important to reaffirm an ambitious multilateral trade agenda. My suggestions would be setting a date for zero tariffs on goods, including agricultural goods; and re-opening agreements on investment and competition policy. In the aftermath of the struggles of the Doha Round, ambition is exactly what we need to reaffirm a commitment to multilateral trade.

Conclusions

The Doha Round negotiations, the first conducted under the auspices of the WTO, were an important test of the ability of the international community to govern a globalised world economy. It is a test we have largely failed so far, but one we can still pass within the existing institutional framework.

Effective leadership in trade requires a shared sense of potential losses in the event of failure as well as potential gains in the event of success. Without a real belief in the downside of failure, political leaders and legislators will not take domestic political risks, as they must in the compromises

inevitable in a trade round. As a first step, post-Doha, all WTO members must be clear about the value of multilateralism, especially as we are sure to see still more bilateral and regional trade deals in the year ahead. I think their drawbacks will become more apparent, and governments will return to the multilateral framework. Sooner would be better than later.

It is also important that we are all clear about the relationships between trade liberalization, trade growth and development. Developing country governments—and campaign groups—must be realistic about the nature of trade negotiations and the direct results they can expect from further liberalization. Trade negotiations are not a tool for economic development.

Wholesale institutional change is extremely difficult and rarely occurs without a crisis triggering a widely-perceived need for change. The alternative route is a long, slow effort to build a consensus for reform. We do not—not yet, at any rate—have the kind of crisis of geopolitics which would

permit wholesale change in the institutional framework for governing international trade and investment. Nor is it necessary to go back to the drawing board. But it will be important to implement some institutional reforms of the WTO.

We should not for a moment forget the huge institutional achievement embodied in the WTO, a rules-based system for economic co-existence in which the powerful are significantly constrained. It is not an unrestrained charter for free trade, but an institution which, to the mutual benefit of its members, offers a structured way to expand trade predictably and fairly. It embodies what Keynes called the ‘healthy rules of mutual advantage and equal treatment’, principles he regarded as fundamental to the system of international economic management being built after the Second World War. The same principles remain fundamental, and it is to affirm our commitment to them that we need to agree to a new and ambitious set of goals after Doha.