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AFTER THE BALI AGREEMENT: Lessons from the Doha Round for the WTO's Post-Bali Agenda

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Finally a successful result at a WTO summit!

The Bali Ministerial Meeting produced an overall agreement on a handful of issues, including better market access for the least developed countries and new standards for customs administration. Yet, despite appearances, the question for trade ministers attending the World Trade Organisation's Bali Ministerial Meeting was never about saving or rejuvenating the Doha Round of trade negotiations. In reality the task facing them was more about how to end a Round that already had failed: without a trade deal at all or with a deal so distant from the Doha Development Agenda that they hardly can be seen as relatives?

So, to paraphrase poet T. S. Eliot, this was how the Doha Round ended – not with a bang but a whimper.

Others think differently – and have hailed the Bali Accord as the re-start of the Doha Round. But this paper argue that the problems in all the other parts of the Doha Development Agenda are simply too big to be resolved by new negotiations in the next few years. Positions are entrenched. Despite good efforts to change the narrative of the Doha Round on the back of the Bali agreement, including a commitment in the Bali Declaration to now move on to other Doha issues, key economies have already deserted the DDA. This is deplorable for all of us with a strong affinity to the multilateral trade liberalisation, but the best way to help

SUMMARY

At the WTO summit in Bali late last year, trade ministers managed to clear the way for a new trade agreement. This is positive news – and it proves that the WTO system is not dysfunctional. The Bali agreement brings new trading opportunities for developing countries and establishes a new standard for transparency in trade administration. But the Bali deal is not a Doha Round deal – it is not even a "Doha light" deal. Taking the cue from Coca Cola, it is closer to being a "Doha Zero" agreement.

The idea that the Bali accord could build momentum for rejuvenating the entire Round, and get it to completion, is a bold one. The risks of failure are far greater than the chances of success. The post-Bali agenda should rather build on pragmatic approaches to negotiations while carving out new roles for the WTO as most trade negotiations for the rest of this decade will be non-multilateral.

This paper surveys the structural problems that prevented Doha Round success and outlines some ideas for a new post-Bali agenda for the WTO. Some of the structural problems relate to broad changes in the structure of the world economy, others to the absence of political leadership or mercantilist workhorses to help push the Round to the finishing line. Furthermore, as the climate of ideas has been souring on economic liberalism for more than a decade any attempt to create more markets and less government in cross-border commerce would be challenging.

the WTO to reassert its authority and relevance in global trade policy is now to rekindle its operative focus. The chief task now should be to restructure the WTO negotiation agenda and connect it closer to the main trends in global trade and global trade policy.

This paper aims at discussing the structural problems of the Doha Round and what should happen at the WTO in a post-Doha world. It is not an exercise in examining what happened at the Bali Ministerial – nor at any other Ministerial – for the simple reason that it is not faults by negotiators that explain the absence of a Doha Round result. The main thrust of the paper is concerned with broader economic and economic policy trends – and how they created conditions that discouraged results in the actual negotiations. I am not spending time at all on the claim, popular on the Geneva circuit some years ago, that new bilateral trade initiatives eroded the Doha Round. It is a misguided view of how trade policy typically evolves – and it prompted too many observers to neglect the endogenous and structural problems starring them in the face. Far more important were domestic political constraints on accepting broad liberalisation in key economies like the EU, the U.S., China, India and Brazil.

Furthermore, the paper offers some thoughts on post-Doha strategies for the WTO. My main point is that the end of the Doha Round does not mean the end of the WTO. The WTO has a wide body of trade agreements still offering the core backbone of international trade practices. These agreements are important and still respected. Some have feared the rulings of the dispute-settlement body to be neglected when the negotiation mechanics of the WTO became dysfunctional. Yet what we have seen so far is a record better than anyone could imagine at the time the new dispute-settlement mechanism was created – and that dispute resolutions have been respected also during the years of stalled trade negotiations. Countries whose practices can have systemic consequences for the WTO know that if they disrespect rulings against them, others will do the same when they have won. So: sauce for the goose is sauce for the gander. What is important now is for WTO members and the secretariat to figure out what role the "system" should play at a time when the idea of all-inclusive rounds of trade negotiations will take a long holiday.

WHY DID THE DOHA ROUND FAIL?

Who is to blame for the failure of the Doha Round?

Over the years, some observers have suggested bad personal chemistry between negotiators or pointed to overall governance problems. Others have nodded in the direction of India – or any other country that at some point played the role of the villain. For a time, many suggested that a big problem was caused by previous autonomous liberalisation: negotiating bindings of market access or subsidies when countries have already liberalised was perceived as difficult. 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 quite substantially, at least in comparison with past Rounds. This effort, however, would not liberalise new trade, but in view of negotiation formulas in the WTO, it would be a radical tariff liberalisation that would demand reciprocal radical moves.

All these factors of failure can be discussed, but in reality they only scratch the surface. And they lean too much on a worldview suggesting that the Round failed because of endogenous or technical aspects – a worldview that neglects larger economic, economic policy, and political developments. To the typical WTO purist trade policy begins and ends in Geneva – and, consequently, also succeeds or fails in Geneva. But in the real world, the negotiations are subject to great influence from domestic politics and general economic policy trends 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 four broad, structural factors to why the Doha Round failed. Before I come to them, let us outline some of the revealing features of the Doha Round.

Already at its start, the Doha Round followed the storyline of WTO disbelievers and offered many reasons to be sceptical about its future. Midwifed in the ashes of the Twin Towers – in the eminent spirit of stimulating closer economic integration – it soon came to follow the script of Fawlty Towers. Too often in this Round, the talks between ministers and negotiators have felt as insincere and bereft of passion as the dialogues between Mr and Mrs Fawlty.

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 among the EU Member States, was to launch a Millennium Round in the late 1990s; a Round with a built-in agenda from the Uruguay Round, a distinct development dimension, but still an all-inclusive Round with a host of new issues, which never had been subject to real substantive negotiations, that would offer a good reciprocal bargain between rich and poor, developed and developing, North and South countries.

Building on the successful conclusion of the Uruguay Round, and the negotiations in the late 1990s of "sectoral" trade agreements (e.g. the Information Technology Agreement, telecommunications, financial services), 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 declining relevance and influence in world economy affairs, but the World Trade Organisation was in the ascendance. This was to be the biggest Round ever in history. It was intended to deliver multilateral liberalizations and benefits 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 Millennium Round was dead on departure. True, the Seattle Ministerial Meeting was badly prepared politically as well as organisationally; there had been too little trade diplomacy ahead 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 fairly standard protectionism and the low political support for the new Round in the United States. Bill Clinton, the then outgoing President, derailed the Seattle talks by conditioning the launch of a Round on labour and environmental standards to be included in the new agreement.

This was the pre-crisis of what then became the Doha 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 (e.g. some Singapore issues) were subsequently discharged to oil the negotiation mechanics. A rescue package in the summer of 2004, establishing the formulas for the market access negotiations, 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 then U.S. President, George W. Bush, expired mid-year in 2007. A five-member summit in Potsdam in the spring of 2007 tried to narrow down the differences between the main world economies, but their efforts did not yield a result. The last time that involved senior negotiators believe a larger deal was within reach was in July 2008 when a marathon mini-Ministerial on agricultural and non-agricultural market access ended in – well, nothing. It was believed that an agreement between a subset of the membership on these issues would prompt negotiations on all the other issues that had been postponed as a consequence of the deal in Hong Kong on how to sequence the negotiations. Right or wrong, the simple fact is that they never got that far. The entire Round got stuck when trying to design a big-country bargain on market access and subsidies in agriculture and industry. They never found ways to unlock the positions of key countries. What looked like a plausible bargain in the abstract could not materialise in a real deal for the reasons that most involved economies were not very keen on changing their positions.

Two months after the mini-Ministerial in Geneva Lehman Brothers collapsed and credit markets around the world freezed. Global trade was certainly one of the big casualties of the financial crisis, taking a huge hit in the second half of 2008 and in 2009. Attempts to use fears of crisis-induced tit-for-tat protectionism a la the Great Depression to conclude the Round failed, too. G20 leaders signed several summit communiqués declaring their support for concluding the Doha Round "speedily". Yet not many actually believed key leaders were serious about concluding the Round by making necessary changes in their own positions. The attention of world leaders was taken up by other matters and ever since then no top political leader has offered the political leadership needed to make another push.

Those who assert that the Bali accord could lead to a restart in the Doha Round negotiations need to respond to some questions related to past failures.

First, are there signs that top political leaders with the capacity to effect a change in the stuck Doha negotiations are willing to revisit their previous positions? Will President Obama, soon going into an electoral cycle, be able to change the position of his administration and the U.S. Congress? Will the new government in India change its general reluctance to a multilateral deal that cuts its relatively high levels of protection in agriculture and certain industries? Could Brazil accept an agreement that opens up its protected industrial market while not getting all that it wants, far form it, in the negotiations over tariffs and subsidies in agriculture? Is President Xi willing to accept demands on liberalisation that goes far beyond what China expected to be its obligations in the Doha Round?

Second, and related to the discussion below, are there strong enough economic forces going in the direction of Doha that could be harnessed in a new attempt at negotiating tariffs and subsidies in agriculture and industry? Who of the big economies stands to receive export gains that are sizeable enough to motivate taking fights with the forces that have been opposing rather than supporting a Doha deal?

A short response to these two sets of questions is that top political leaders have largely written off the Doha Round and do not see a scenario where the politics of the Round could change to such a degree that countries would seriously change their positions on the key issues of the Round. Furthermore, big trade Rounds need to have market energy, they need to "go with the flow" of larger market trends. And one of the problems of the Doha Round was that it never had the connections to the big market trends.

Now begins the longer response.

1. From inter-sectoral to multi-sectoral trade policy – and adjustment

The Doha Round rested on the idea of an all-inclusive grand bargain between member countries. In crude and very simplistic terms, developing countries would get better access to rich-country markets for agricultural and semi-industrial products; developed countries would get better access to other rich-country markets and to developing-country markets for services and advanced industrial and consumer goods. This strategy looked good on paper. Yet in reality it did not work – and a few years into the Round, with growing BRICs and emerging market hype, it was impossible to maintain the notion that there could be a developed and developing bloc. Many developing or emerging countries feared Chinese competition more than anything else.

Yet the essential problem evolves around the change of the WTO from an effectively inter-sectoral to a *multi*-sectoral organisation – and how political perceptions about adjustments to new trade liberalisation do not fit with the modern reality of multi-sectoral trade and value chains that increasingly combine goods and services.

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 philosophy of trade policy as a give-and-get haggling between countries, leading to broadly equal results. Reciprocity was a formula for success mainly because those with an active stake in trade negotiations (countries that would be ask to take on new real liberalisation) were 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 measures, all of 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 the factors of production, primarily labour.

In the GATT era, factor mobility was largely an issue of inter-sectoral mobility. If a textile worker in, say, the United States 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 stylized and crude terms: a farmer in France, unemployed because of new competition, should find a new job in a growing and advanced service sector. Even less extreme examples of factor mobility are difficult to mediate. And the problems have been exacerbated by policies that have restricted labour-market flexibility, policies that generally prevent mobility and lock people into specific sectors.

This is a Western problem, arresting politicians in the United States and European countries. The problem can also be nuanced. Trade is only one factor that is changing labour markets; technological change and changed consumer preferences are more important factors behind structural labour market changes. Moreover, the adjustment process is seldom immediate or direct. Companies usually have capacity to manage new competition by changing its product supply and assortment, at least for a while, without reducing labour and invested capital. Obviously, the overall economic benefits of a trade agreement are reflections of how much a new agreement forces new competition upon an economy: no pain, no gain.

Political concerns about trade-induced labour substitution have affected the Doha Round in two ways. First, many Western countries have grown more anxious about trade and competition and reinforced instincts about chasing the marginal export gain. Second, and more important in this context, it has weakened the U.S. capacity for political leadership of global trade policy, at times even paralysing the Congressional debate about what trade agreements it can enter. And the way it has affected the U.S. is more important than how it has affected Europe. The United States has been the post-war leader of international trade and economic policy. Only the U.S., and not the EU or the bigger European economies, has had the requisite economic, political and institutional capacity to genuinely lead multilateral trade negotiations and underwrite new trade deals. The U.S. needed willing followers, but the political leadership to take a trade negotiation to the finishing line is a capacity that has been reserved for one country alone since multilateral trade talks got started.

Today the White House and the U.S. Congress are no longer confident leaders in trade policy. It is particularly concerned about rising industrial unemployment – that new trade agreements will create new industrial rustbelts throughout America. It is not willing to accept trade deals that generally are good for the American economy unless it can get special industrial demands attended to. So: the Doha Round has been leaderless at moments when a leader was needed. Skilled negotiators and trade ministers have been there, but they cannot substitute political leadership from the top.

2. From bargains to transfers – and then back

The Uruguay Round turned a small-ish, club-like negotiation-based organisation, the GATT, into a new organisation, the WTO, for international trade governance. The success of the Uruguay Round, and subsequent agreements in the 1990s, created an atmosphere in which countries and observers thought the new organisation could move from pragmatic haggling over "concessions" to something else – something related to abstract ideas of fairness or economic efficiency. It lost the spirit of "enlightened mercantilism" – the notion that you have to give something in order to get something.

The GATT model of trade negotiations rested on the idea of being a "marketplace" for bargains. The liberalisation agenda was advanced progressively on a give-and-get basis. It was not stuff for political romantics – or for those who wanted perfection in accordance with principles or free trade or economic rationality. The Doha Round, partly affected by the spirit of the WTO, got off track in a peculiar way. It was based on a built-in agenda from the Uruguay Round that had a certain "development dimension" attached to it. Yet despite the fact that the Round was based on an agenda which provided for a "balanced" outcome, it was promoted as a development Round – a Round that would be particularly attentive to developing countries that were more interested in receiving transfers (one-way, unreciprocated "concessions") rather than engaging in bargains. "This is supposed to be a development round and not a market access round", declared in 2005 the former Zambian Trade Minister, Dipak Patel. 1

Developing countries asking for new market access should not be blamed for the Doha failure. But Doha negotiations were affected at an early stage by the perception that this was going to be a Round primarily for transfers and correcting injustices in past trade deals. New developing-country groups were formed and positions were coordinated. At the WTO Ministerial in Cancun, big delegations from developing countries (far form all) stood up and cheered when the Chairman of the meeting declared there was no point in continuing negotiations because of too big distance between countries. Many of these countries thrived on the rise of an anti-globalisation movement. And they had distinct effect on the negotiations. It took a long time to get down to real business (haggling) and when they did (in 2004) the political-economy conditions had changed. Important agenda items had to be discharged (e.g. the Singapore issues) to please a certain opinion among developing countries. The focus zoned almost entirely in on agricultural and non-agricultural market access; other agenda items, important for the dynamic of the negotiations, never got off track. The attention paid in actual negotiations to the services sector, for instance, has not really moved beyond what was called a "signalling conference".

A particular form of "transfers" proved to become the big political obstacle in the Doha Round – the transfers to China. China joined the WTO in 2001 and accepted accession obligations going beyond what was perceived as standard for a developing country. In the Doha Round, China could claim what was called Recently Acceded Member status, which in effect meant that China had already made its down payment for the Round when it acceded and would not be asked to take on reciprocal obligations in order to get new market access.

But China quickly grew to become consequential for the world economy and after a few years it became evidently clear that other countries were not prepared to deliver on the promise to China. The longer the negotiations evolved, the more it became clear that getting better market access to the Chinese market became one of the chief ambitions for other key economies (e.g. the U.S. and the EU) and that other developing countries like Brazil and India feared taking on market access liberalisation that would expose them to greater competition from China. The five-country summit in Potsdam in 2007 and the mini-Ministerial in Geneva in the summer of 2008 centred upon this issue and reinforced demands for reciprocity that quickly grew in Western countries. And once the financial crisis hit the West, those demands would only grow stronger.

Now we are back in an era of reciprocity – or the era of bargains. No major trade deal involving the big economies can be cut without close to full reciprocity in the outcome of the negotiations. But that is a tall order. It is difficult to imagine that a larger multilateral trade agreement could be agreed before emerging countries like China have gone through new phases of root-and-branch structural reforms and climbed the income league tables to become developed. The difference between the Doha Round and previous Rounds is that China, and a handful other economies that are still developing countries, will not get one-way access or special and differential treatments of the kind they could receive in the past. They are today too important for sales and competition on the market. If there was a window of opportunity to get a Doha deal, that window closed a few years into the Round when the growth success of China and other countries had become central to the health of the world economy.

1. Beattie, Alan, 2005, "The multilateral approach is called into question". Financial Times, November 15, 2005 http://www.ft.com/cms/s/1/effa52ac-5611-11da-b04f-00000e25118c.html

3. The absence of mercantilist workhorses

It was said time and again during the course of the Doha Round that "business interest" was absent, or that business did not care much for the Round (or even fallen out of love with the WTO). Views of that kind are often beside the point – but in this case facts have been distorted to such a degree that business absence has become a mythology hiding more profound problems in the Doha Round. Business interest has not been missing in this Round. If the fate of the Doha Round were for global firms and business associations to determine, the Round would have ended successfully a long time ago.

The real question is rather about how the world has changed and how trade negotiations should be organized for business *to be allowed or able to have an effective imprint on negotiations*. The problem with the Doha Round is that it was structured in a way that – by accident or design – neglected a hard-earned experience from previous Rounds: the effects of a Round (or trade negotiations) on key revenue-generating strategies in firms is *the prime factor* behind the *political* willingness to close a trade deal successfully in key economies. Or to put it in academic terms: the political economy of trade liberalisation is in many ways a direct reflection of the perceived aggregate trade gains to business.

In other words, successful trade negotiations in the past were advanced and accelerated by mercantilist workhorses. Trade agreements were often designed to "go with the flow", the major market trends that affected the bottom lines of larger business. It is, admittedly, more difficult to engineer such negotiation agendas today. Attaching negotiations to core revenue strategies in global business are not so much about tariffs anymore, or perhaps not so much about classic trade-policy issues at all. For a good part of the GATT's heydays and the era of industrial internationalism, global business was focused at getting new market access for export products. The notion of export was easily and singularly defined: one company produced one good in one country and then exported it to other countries. It was relatively easy to configure trade negotiations that enabled them to "go with the flow" of cross-border revenue strategies in that era. Negotiations could be structured along sectoral lines and be focused at direct barriers to market entry or expansion. Request-offer strategies for tariff reductions could be designed, or negotiation could target formulas that were easy to understand for business.

But what is the "flow" today that trade negotiations need to harness to be successful? Tariff barriers are of course still relevant in some sectors, but decreasingly so. And it has for long been known that there are other barriers than tariffs that now make up the biggest obstacle to market entry and expansion. But the point here goes beyond these observations and concern the way business enhances revenues or cut costs through trade and cross-border exchange. Neither the old nor the newer themes or focuses of trade negotiation appears to capture the big flows in current and future business.

There are two defining aspects of revenue or cost strategies today that are especially important for trade negotiations to address. The problem is that the design of the Doha Round had few implications for them – and that some of the important agenda items were discharged along the way.

First, companies are focused at the value-added chain rather than the production chain. The traditional approach of trade negotiations – let us call it the political economy of the GATT – was to reciprocally exchange market access for final products. That model was later expanded to accommodate firms' need for intermediary imports. The world experienced a long wave of supply-chain globalisation – which is the single most important factor behind the sharp rise in world trade in the past thirty years.

The production chain is no doubt still important. But it is now, and increasingly will be, only one of several parts of a firm's value-added chain. For many firms a production-chain approach is no longer the predominant approach for expanding revenues or profits. There are different ways to describe the shift from a production chain to a value-added chain orientation. Some people would stress the integration between factors markets – in contrast to integration of product markets. Others would put the emphasis on the integration between market places. A more holistic view binds together innovation strategies, FDI and foreign sales. A more reductionist view holds that a value-added chain orientation directs the attention to the core effect of trade: competition.

Regardless of which view that is preferred, one thing seems clear: trade negotiations that structure themselves along the lines of the production chains run the risk of becoming too narrow to be of significant value to firms.

Second, companies are more focused on the return on intangible assets and other investments than the revenues form direct export. The value of every unit of trade executed has shrunk. Few of the really big companies – which are the big vectors of trade – build successful strategies these days on high volume, low margin globalisation. Real competition on the global market today is in many ways not about competition at the market, but competition to the market. In other words, revenue-strategies are built on the capacity to generate innovation and to create markets for new goods that may not have existed until the time of the innovation.

It is increasingly clear that companies are frustrated by market-access regulation that almost "balkanizes" innovation or intangibles. At a time when the business value of trade is not defined by the volume increase that a tariff reduction offers, but its opportunities to run cross-border value chains based on both investment and trade, and to launch new innovation globally, it is not surprising that global business got frustrated by a WTO process detached from the everyday life of companies. There were too few companies who were prepared to really invest lobbying power in getting the Doha deal done. That is a big difference to the Uruguay Round. There were enormous investments in pushing the Uruguay Round over the finishing line by companies in sectors like financial services, audiovisual services, and pharmaceuticals. They were the mercantilist workhorses of the Uruguay Round.

4. The climate of ideas

The classical triptych of political economy is institutions, interests and ideas. If you want to understand the design of policy, the recipe of political economy directs the attention to these three factors. The previous sections have covered institutions and interests. What about 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 supported by dispassionate analysis and proven experience, but the WTO system also performs against a backdrop of broad 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, got great assistance from broad trends of 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 energy 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 former OECD Chief Economist David Henderson has called New Millennium Collectivism 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 "mainstream" view largely accepts the reality of the market economy and globalisation, but rejects the notion of comprehensive liberalisation. The spurt of new regulation the world has witnessed in the post-crisis era has no doubt set the path for more market divergence. The new compact holds that trade liberalisation cannot happen anymore without attendant regulations to even out the conditions for competition. It is biased in favour of new forms of trade policy that often regulates trade more than it 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.

THE POST-BALI FUTURE

The premise of the Bali meeting was effectively to close the Doha Round. Negotiators and representatives of the WTO Secretariat claim that the zero-Doha deal in Bali will give impetus to new negotiations about the remaining Doha agenda. That is unlikely. Most governments have moved away from the Doha Round – but not from the desire to return trade policy to Geneva. The question is how that can be done?

The process now should rather be focused on a) closing the Doha Round in an ordered way, b) ensuring that there is good protection of past agreements, and c) conceiving new initiatives for pragmatic and selective trade liberalisation and providing necessary assistance to individual countries and group of countries so that their existing negotiations over bilateral, regional or plurilateral trade agreements can link back to the WTO and help to rejuvenate multilateral trade deals. Below are some thoughts on this process.

A. The end of Doha Round is not the end of the WTO. There is strong support for the WTO among its members. Countries are not trying to exit the WTO. Nor is there a real trend to erode past agreements, even if some countries express critical views. Moreover, countries also understand that they need to follow the rules even if the rules are not updated – in the same spirit that individuals have to follow national laws even if they do not like them. There is not a risk for countries starting to neglect rulings against them in the dispute-settlement system. One or two countries may go in that direction, but the key economies know that other countries will reciprocate at their expense if they deny other countries the effective protection of their trading rights through the WTO's dispute-settlement body.

B. The collapse of the Doha Round is not a crisis of free trade. There are certainly worrying trends of creeping protectionism and rising use of regulatory measures to effect changes in relative competition between countries and companies. And the climate of ideas has been souring on economic liberalism for quite some time, especially after the crisis. Yet no one has credible intellectual alternative to offer to free trade as a principle or free trade achievements in the past. Most countries of rank are also involved in negotiations top open up for more trade. Consequently, this should not be a time for intellectual soul-searching, finding a new identity for the WTO that goes against the free trade mission of the WTO. However, there are plenty of such offers on the table. But the political personality of the WTO is economic liberalism – free trade and fewer barriers to cross-border exchange. If that personality is changed, the WTO will wither away.

C. Forget the idea of institutional re-design. Plenty of working groups in the recent past have been tasked to propose an institutional re-design of the WTO. There are good reasons for such change – in the abstract. But they do not work in practice. There is no real alternative to a WTO that is member-driven and based on the principle that countries can say No. Likewise, the notion that the organisation could change by some countries signing away their right to say no to what other countries want to do separately in the WTO is also a cul de sac. Efforts that are based on changing the way the system works has to advance in other and more pragmatic ways. One strategy, far too often neglected in Geneva, is not to ask for the permission to do new things. You just do it.

D. Work on the leadership formula. Global trade liberalisation is not an exercise in global democracy. Whether we like it or not, power rules. The Secretariat and key members should get engaged in a discussion about a leadership formula for global trade negotiations (not the WTO as an institution) now that the U.S. has resigned from its cold-war leadership of trade. Few countries are central in that dialogue, but the U.S., China, and other larger emerging markets most certainly are necessary partners in a new leadership formula. The key country is China: it is difficult to imagine that new, broad negotiations can happen unless China begins to reform its economy and prepares itself for giving other countries better trading rights. China will also be critical to what course of action other emerging economies will choose. Will China is now a necessary leader in trade negotiations, other emerging markets need to figure out how they should distinguish themselves from other developing countries when it comes to how much new liberalisation they are prepared to take on in trade negotiations. Brazil and India could hide in a larger developing-country community in the Doha Round. If that is the strategy in future negotiations, the chances for success are not good. Finally, countries on the course of relative economic decline have to accept that the future bargain cannot be that market access is exchanged for an expansion of their regulatory dominion.

E. Adjust to the era of preferential trade agreements. The WTO has already expanded its work on bilateral and regional trade agreements. Much more can be done. The Secretariat should take greater liberties in examining negotiations and agreements, proposing specific courses of actions, and linking them back to the WTO. The idea is not new – it is about being a "docking station" or "clearing house" for trade agreements outside the WTO. The WTO would also stand to benefit if the dispute-settlement system was opened up to judge on disputes based on bilateral or non-WTO agreements that use WTO-similar structures in the their agreements.

F. Design a couple of pragmatic negotiation initiatives. A big part of the membership would be interested in getting engaged in selective and discreet negotiations that are associated with important trends in the real economy. They can concern a specific sector, a specific theme, or a particular trend emerging from the plethora of new bilateral trade agreements being negotiated. Better policies for Rules of Origin is one example. Some issues related to areas of particular political-economy concerns today could be examined: fiscal consolidation and data portability, to name just two examples. Sectors on the threshold of witnessing big trade expansions could help to harness new initiatives: trade in healthcare or educational services, for example. Combined with other trade parts of healthcare, there could be a fairly sizeable number of countries that want to do a deal on trade in healthcare. The important thing is that new initiatives are proposed – and that what is put on the table is not just recycled language from the Doha Round. Some new initiatives may never materialise into actual negotiations. But the point is that the WTO needs to reassert its authority and relevance as a place to deal with new or old trade barriers. To command such authority in the world's important political capitals, new ideas have to leave the shadows of the Doha Round.

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