The Nine-Day Misadventure of the Most Favored Nations
How the WTO's Doha Round Negotiations Went Awry in July 2008

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To those who know him, Pascal Lamy is one of the least likely men on Earth to lose his composure in a room full of people. The 61 year-old Lamy, who is Director-General of the World Trade Organization, is cerebral and almost ascetic in his self-discipline; he runs marathons and sustains himself during periods of stress by eating nothing but bananas and brown bread. A top graduate of France's elite National School of Administration, he rose to a senior position in the civil service of the European Commission, where he was nicknamed "the Exocet" for his focus on policy and the icy manner in which he enforced his boss's will on other bureaucrats. He served a term as the European Union's trade commissioner before winning election to head the WTO in 2005.

But on the afternoon of July 29, Lamy was coming to grips with an enormous personal disappointment as he met with three dozen trade ministers from WTO member countries in the organization's Geneva headquarters. It was the ninth day of a ministerial meeting, the longest by far in the trade body's history, which Lamy had convened in hopes of achieving a breakthrough in the Doha Round of global trade talks. Grueling negotiations among a core group of seven powerful members had failed to produce an agreement, and as Lamy presented this news he choked up, stunning the ministers and his subordinates, who had never seen him display such emotion.

"The round has broken down," Lamy said, according to notes of the meeting. Unable to continue, the Director-General halted to take a sip of water as his sadness permeated the room. Steadying himself, he said that differences on one issue in particular were apparently "irreconcilable," and he urged the ministers to "please refrain from the blame game."

Sometimes, the true implications of an event only start to come into focus well afterwards. So it is for last July's collapse in the Doha talks. At the time, the news evoked many shrugs, even from trade experts—and understandably so, because it was hardly the first setback for the round, which has dragged on for seven years. Memories of the July debacle faded quickly, as upheaval in financial markets seized the world's attention. Now that the bottom has fallen out of the global economy, who cares anymore that the WTO's member nations couldn't strike an agreement four months ago?

But the financial crisis has greatly magnified the import of that failure. As the turmoil starts to weaken the "real" economies of many countries, the WTO's July meeting can be seen, in retrospect, as a potentially calamitous stumble for economic globalization.

The specter of widespread protectionism, which seemed almost laughably remote in recent years, suddenly looms as a much more serious threat. Up to now, it has been easy to dismiss worries that the world might descend into trade wars like those of the 1930s, when America's Smoot-Hawley tariff triggered a disastrous cycle of retaliation and counter-retaliation. Those fears look a lot less far-fetched now that recessionary forces are spreading to every major region of the world. The resultant rise in unemployment and bankruptcy is bound to generate intense pressure on politicians to raise trade barriers. In the United States, such pressures will be all the greater because the plunge in many foreign currencies—from the Korean won to the Brazilian real to the South African rand—will make imported products much cheaper.

The groundswell of revulsion against unfettered capitalism so far has been aimed at the system governing flows of money; it is unlikely to spare the system governing the international flow of goods and services. The recent Group of 20 summit pledged to refrain from enacting protectionist measures, but initial signs underscore the flimsiness of that commitment. No sooner had the leaders left Washington than Russia announced it was going ahead with plans to raise substantial duties on imports, especially foreign cars.

By turning down the deal that was under consideration in July, WTO members passed up the opportunity for a meaningful insurance policy against protectionism. The package of measures, though hardly the bonanza for global growth that its boosters often claimed, could have prevented countries from erecting significantly higher tariffs. Meanwhile, the precipitous change in the economic climate has dimmed prospects for a Doha accord anytime soon, because as economies slump, political resistance will stiffen against the dismantling of trade barriers and subsidies. For the long-run health of the multilateral trading system, the ultimate safekeeper of open world markets, the implications are ominous.

This article provides an in-depth account of the July meeting, based on interviews with top-ranking participants from major countries, WTO officials, and other attendees, a number of whom furnished extensive notes that they took of the most important sessions. It is a tale that shows multilateralism both at its most high-minded and at its most dysfunctional—the low points including a tantrum by Japan's trade minister and an F-word-laden outburst aimed at Lamy by Susan Schwab, the U.S. Trade Representative. More importantly, it sheds new light on what went wrong in Geneva—and how far wrong things went.

Exploring these events is crucial, partly to hold officials and their governments properly accountable for their roles, but also to assess the prospects for reviving the Doha Round. Like penitents seeking redemption, the G-20 summiteers instructed their trade ministers to return to the negotiating table with the aim of completing a detailed blueprint for the Doha Round this year, and Lamy may summon ministers to Geneva again in mid-December. This decision came after a number of leaders, among them President Bush, expressed their eagerness to try again at achieving what the July meeting couldn't, even before the end of Bush's term. Their optimism is based on a version of events that gained wide currency after July, namely that negotiators came tantalizingly close to striking a deal on the main elements of the round, and that their failure was attributable almost entirely to discord over one technical matter, which involved poor countries' rights to raise emergency tariffs when their farmers are deluged by imports.

Unfortunately, from the interviews with insiders, a very different picture emerges—that of a meeting that fell far short of the consensus required by WTO rules for an accord. It is true that at one stage, hope soared that WTO members might converge around a compromise sketched out by Lamy. But despite initial support for the package from Schwab, powerful U.S. farm and industrial groups were profoundly dissatisfied with it, as were leading members of Congress. The U.S. team, anxious to ascribe fault to others, accused China of "walking away" from the deal after having first accepted it—but the Americans were the ones who could most accurately be described as abandoning it. Opposition from India, meanwhile, was if anything even more vehement than previous accounts have suggested.

All this bodes very poorly for completing the Doha Round in its present form. Beyond the foregone benefits, the round's travails pose significant risks to the WTO itself.

For all its flaws, the WTO is a crucial lynchpin of stability in the global economy. It is the current embodiment of the multilateral trading system that was established after World War II to prevent a reversion to the thirties. The WTO's rules keep a lid on the import barriers of its 153 member countries, and members take their trade disputes to WTO tribunals for adjudication rather than engaging in tit-for-tat retaliation. That keeps trade wars from erupting, just as any rule-of-law system helps contain tendencies toward the law of the jungle. In addition, the WTO is the guardian of the "most favored nation" principle, under which member nations pledge to treat each other's products on a nondiscriminatory basis—a valuable bulwark against trade blocs of the sort that, during the thirties, stoked rivalries among the great powers.

The WTO's centrality to the global trading system is already under some doubt, thanks to the proliferation in recent years of bilateral and regional trade agreements. More than 400 of these are currently in force, ranging from the big and well-known such as NAFTA, to the small and ridiculous such as the Singapore-Jordan free trade agreement. Governments are increasingly tempted to think of these pacts as reasonable substitutes for multilateralism, especially as disillusionment deepens with the WTO's ability to foster new deals. Although the WTO is not about to disintegrate overnight, the danger is that its authority will erode to the point that member nations will start to flout their commitments and ignore the rulings of WTO tribunals. That would greatly increase the threat of trade wars and a breakdown in the system that has helped keep trade blocs and protectionism at bay.

The policymakers who gathered in Geneva in July were well-versed in long-term worries about the trading system; indeed, many voiced them. Such weighty concerns, however, will only take trade ministers so far when they have vital domestic political interests at stake.

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Riding on a Geneva bus late in the evening of Thursday, July 24, I pricked up my ears when I heard a middle-aged man who was wearing WTO credentials speaking despondently into his mobile phone.

"It's all going to collapse by the weekend," he lamented in a clipped British accept, seemingly oblivious to his fellow passengers. "I'm totally exhausted. We were up until 5 a.m. last night and then we went at it all day today. There just doesn't seem to be any chance it's going to come together."

Taking pity on the fellow, I decided not to tell him that he had been overheard by a journalist. In any case, his bleak assessment did not come as a surprise to me. At that point, about 70 trade ministers from WTO member countries had spent four days at the organization's headquarters, a large converted villa on the shores of Lake Geneva, and by the accounts of several insiders with whom I had spoken, it had been an exercise in futility. The first set of meetings, among 35 ministers representing major powers and groups of allied nations, had produced little but reiteration of longstanding positions. By the third day, Lamy had moved the action to a more manageable "G-7"—ministers from the United States, European Union, Brazil, India, China, Japan and Australia—on the sensible theory that this group, representing the WTO's most influential members, would have to agree on a deal before the wider membership would have any hope of doing so. Once the G-7 had converged on a plan, Lamy vowed, the terms would have to be submitted to the full membership. But the G-7's discussions, too, were deadlocked.

Even before the meeting started, the Doha talks were suffering from criticism that they had lost much of their initial ambition and, after seven years, were out of step with changes that have swept the global economy.

The idea was to launch a "development round" when WTO members gathered in Doha, Qatar two months after the September 11 attacks. Inspired by high-flown rhetoric about how low-income countries could benefit from the reform of international trade rules, delegates at that meeting pledged themselves to what was officially dubbed the Doha Development Agenda. It envisioned the negotiation of a grand pact that, enthusiasts said, would substantially reduce global poverty and, in the process, help address underlying causes of terrorism. Farm subsidies were to be slashed, because by encouraging overproduction they generate gluts of crops that impoverish peasants in the developing world. Trade barriers would fall, especially those keeping farmers and workers in low-income nations from getting fair access to rich-country markets.

Alas, the WTO's consensus rule means that all 153 member nations—including the rich ones—must "win" more than they "lose," and interest groups that fear losing big have exerted heavy influence over their governments. So the negotiations have moved, in fits and starts, toward a watered-down deal that, despite a number of beneficial elements, cannot be credibly claimed to work wonders for the poor. One of the most embarrassing deficiencies surfaced as worldwide food prices began to soar in 2007 and countries slapped bans on grain exports. The Doha negotiators essentially ignored that crisis, which poses a completely different set of problems for the trading system and for the poor than the low prices that prevailed when the round started.

By the time trade ministers got to Geneva in July, they had a good idea about many details of the potential deal, because their senior deputies had been slogging away for months in Geneva on a series of draft texts that spelled out formulae for how trade barriers and farm subsidies would be cut. Although these negotiators had left some of the most contentious issues for ministers to resolve, the broad implications of their plan were fairly clear: Farm subsidies would be capped, and some of the European Union's most objectionable payments to farmers would be phased out by 2013. Tariffs on both agricultural and manufactured goods would fall, with the highest ones being cut the most—specifically, cuts would range between 50% and 73% in the case of rich countries' duties on imports of farm goods, with two-thirds as big a reduction for similar duties imposed by developing countries. Drastic though these market-opening measures might seem, they would be heavily diluted by numerous exceptions aimed at allowing governments to shelter certain "sensitive" and "special" products from the effect of the cuts. The very poorest nations would be exempt from cuts altogether. And the reductions would apply only to "bound" tariffs—the ceilings that governments commit themselves to respect—rather than on the duties they are imposing now, which are often a good bit lower. (Brazil, India and Indonesia, for instance, have bound rates that average more than 30% for industrial goods, while the duties they currently impose range between 6.7% and 12.5%.)

In sum, current trade barriers wouldn't decline by much. What great difference, then, would the round make? Here's where the anti-protectionism insurance comes in—with the reductions in bound rates that the deal would entail. Bound rates matter because under WTO rules, countries can't violate them (except in unusual circumstances) without suffering economic penalties. So the lower they are, the more constrained countries are from going protectionist in the future. According to research by Patrick Messerlin, a French economics professor, a Doha accord would have a particularly large restraining effect in big emerging countries, which in the absence of a pact have the right to increase their tariffs on manufactured goods from a current average of 8% to as high as 28%, and on farm products from 19% to 66%.

Whatever the virtues and defects of the prospective deal, the lack of progress during the first four days of the July 2008 meeting was a source of immense frustration to many attendees who had dared to hope this gathering would be different from others in recent years. Ministerial get-togethers in the summer months of 2006 and 2007 had ended in disarray and mutual recrimination. This time, the optimists thought, the negotiations would benefit from a new factor— the looming end of Bush's presidency, and the obvious desire on the part of his aides to burnish the administration's legacy by obtaining agreement on the main elements of a Doha pact. American negotiators had made sure their counterparts understood that Washington would probably never again be so eager to cut a deal.

Practically the only positive sign in the meeting's early stages had come from the Americans, in a public announcement on July 22 by Schwab, a former Senate staffer and University of Maryland dean with honey-colored hair and steely eyes. She offered to cap U.S. farm subsidies at $15 billion a year, a lower ceiling than U.S. negotiators had ever accepted, provided other major players responded with meaningful concessions of their own. This move had generated only halfhearted applause, because even though the proposal would keep subsidies from ever again rising to the bloated levels of years past, when they had exceeded $20 billion, it still meant that Washington could raise its spending from current levels of roughly $8 billion. In any event, it did not prompt others to budge from their positions.

So even Lamy, who had led the way in pushing for a ministerial meeting on the theory that the building blocks of a deal were in place, was in a deep funk when he gathered his closest aides and advisors at their daily 8 a.m. meeting on Friday, July 25, the ministerial's fifth day. To the surprise of some of those in attendance who had grown accustomed to his upbeat exhortations, he sounded fatalistic, asking for suggestions about fundamental changes the WTO might adopt if the meeting ended in shambles.

"Our chances for success are maybe 15 percent," he told the group, an estimate based on private meetings, dubbed "confessionals," that he had held with the G-7 ministers to ask each of them separately how far they were willing to move.

One minister in particular, he knew, was going to be big trouble.

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"Kamal Nath!" bellowed a young man, pumping his fist skyward as he stood in a rutted dirt road, surrounded by a crowd consisting of weatherbeaten-faced laborers with long beards and turbans, old women in saris with bangles on their wrists, and little boys with skullcaps perched on their fathers' shoulders.

The responding roar from the crowd—"*Zindabad!*"—is Hindi for "long live." The chant was repeated, to the hypnotic beat of drums as a brightly-dressed troupe of teenagers danced ecstatically. "Kamal Nath! *Zindabad!* Kamal Nath! *Zindabad!*"

An open jeep bearing Nath, who is India's Commerce and Industry Minister, was inching its way through the streets of Jamal, a town in the impoverished central Indian district that he has represented in parliament for nearly 30 years. As the jeep wended its way past tin-roofed hovels and ramshackle shops, people thronged the vehicle with arms outstretched, seeking to thrust garlands of flowers over Nath's head, or touch his feet (a traditional gesture of respect), or hand him letters seeking favors—jobs for their sons, medical care for their parents, assistance in handling property disputes with their neighbors. So fervent was the adulation for Nath, who was wearing a white *kurta* (the pajama-like trousers and shirt favored by many Indian politicians), that two barefoot old ladies, hobbling in the mud on walking sticks, nearly got pushed into the jeep's path. Everywhere he went that day—and he managed to make appearances in six towns and villages, by flying around in a helicopter—he got similarly enthusiastic receptions from crowds numbering in the thousands.

Nath would appear to have almost nothing in common with the masses in his district, 1.1 million of whom live on less than $1 a day.

To get there from Delhi, I traveled with him on his personal jet, a Hawker 850 with five plush leather seats and a couch; the chopper in which we helihopped around also belongs to him. The scion of a wealthy family, he is an alumnus of India's toniest boarding school, where he became a chum of Sanjay Gandhi, the late younger son of then-Prime Minister Indira Gandhi. His fellow trade ministers know him as a wisecracking, frequently-inattentive participant in meetings; while others talk, his eyes dart, his leg jiggles, and his hands slip every couple of minutes into his pockets for his cell phone or BlackBerry, with which he fiddles incessantly.

Yet he has a keen grasp of what the common Indian wants—as evinced by the energy he devotes to procuring jobs and public-works projects for his constituents. And as a major power-broker in the ruling Congress party, he played a key role in the party's strategy of directing its appeal to the nation's vast rural population. This approach helped restore a Congress-led coalition to power in 2004, when the party accused the then-ruling coalition of neglecting villages amid the high-tech boom. Ever since then, Nath has worked hard to make sure that Congress positions itself as firmly as possible as the friend of Indian farmers.

It is here—his determination to show solidarity with India's farmers—that Nath comes into direct conflict with his U.S. counterparts in the Doha talks.

U.S. trade negotiators have long insisted that, if Washington is to give up its farm subsidies, other countries—especially big, fast-growing developing nations like India—must lower their barriers for agricultural products. Only then will groups representing American growers of wheat, soybeans and other crops be willing to support a deal, and only then will the powerful congressmen and senators from farm states provide the votes that a pact would need to pass Congress. This will be in the interests of the developing world anyway, U.S. officials argue; more open markets for farm goods translates into better global opportunities for agrarian countries and lower food prices for the poor.

In rejecting U.S. demands, Nath has ceaselessly dwelled on the plight of India's rural populace, which he almost invariably (and hyperbolically) describes as consisting of "650 million subsistence farmers," and he also likes to remind his colleagues that for Indian farmers who fall heavily into debt, suicide is an all-too-common escape. Imagine how much worse it would be, he maintains, if cheap imports led to a loss of income for poor growers of rice and other staple crops. His argument, though supported by allies in some other countries with highly-protected farm sectors including Indonesia and the Philippines, draws ridicule from many agricultural economists, notably those at the World Bank. The woes of Indian agriculture, after all, stem primarily from the tiny size of most farmers' landholdings, the primitive rural infrastructure, and the lack of a decent financial system, which allows unscrupulous moneylenders to thrive. Experts are virtually unanimous in agreeing that India's future depends on moving farmers off the land and into more productive manufacturing and service sectors.

But given the fragility of life in India's countryside—where the poor vote in astonishingly high percentages—politicians like Nath are unsurprisingly loath to adopt policies that would appear to go against farmers' interests. So ever since becoming minister in 2004, Nath has single-mindedly focused on securing two loopholes in Doha negotiators' plans for liberalizing farm trade. The first would allow developing countries to choose a number of "special products"—staple foods, especially those grown by farmers at the edge of subsistence—that would be shielded from the tariff-cutting buzzsaw. The second would authorize countries to protect themselves against sudden surges of imports that threaten poor farmers, by invoking a "special safeguard mechanism"—that is, an emergency boost in tariffs. In a nutshell, Nath insists that these loopholes must be big and easy to use—the diametric opposite of Washington's position. And in the first rounds of discussions among the G-7 in July, he was showing almost no sign of flexibility on these issues; on the contrary, American officials contended that the Indians were taking a harder line than before.

Small wonder, therefore, that when a glum Lamy convened his inner circle on that Friday morning in July, he had concluded that only a daring stroke would raise the odds of success above his 15% estimate. Although the Director-Generalship confers little formal power, Lamy was ready to offer his own proposal—a huge gamble, because when such steps flop, the Director-General's credibility takes a big hit, reducing his ability to wield influence in the future. As he explained later, "The image is like that of a midwife. The baby isn't coming, and the mother is screaming. At some point, you have to do a Caesarian. I thought it was the only way."

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"Green Room" is the name used in WTO parlance to describe meetings of a select few ministers who gather at the Director-General's request to hammer out a deal that the rest of the member countries can either accept or reject. The term originated from the color of the tacky wallpaper and matching chairs ("goat-vomit green," one former WTO official calls it) that once graced the conference room next to the Director-General's office, where such meetings frequently took place in decades past. Today that room is elegantly appointed with wood paneling, modern art paintings and a polished oval wood table, but it still serves its old purpose, and there Nath, Schwab and the other ministers from the G-7 convened at 12:30 p.m. on Friday, July 25. Nath was wearing a *galabandh,* a closed-neck black suit; the others were in western business attire. As they were painfully aware, ministers from a number of other countries who weren't invited into this inner sanctum were miffed at the exclusiveness of the arrangement. The ministerial was then in its fifth day, and some of the outsiders were fuming over being made to sit around in Geneva with little to do.

One-page sheets of paper were distributed to each of the seven. "This," Lamy told them, "is the moment of truth."

The paper was one he had drawn up that morning. In the hours after his morose performance at his 8 a.m. staff meeting, he had huddled with several people who knew the negotiating positions of member countries in excruciating detail—chief among them Crawford Falconer, New Zealand's ambassador to the WTO, who had chaired the negotiations on agriculture; Canadian ambassador Donald Stephenson, who chaired the talks on manufactured goods; and Australia's Bruce Gosper, who chaired the WTO's General Council, its main decision-making body. They had produced a set of proposals that represented their best guess of where a compromise might be found, the idea being that it would stand or fall as a package, with a "balance of pain" distributing the gains and losses as fairly as possible among the main participants. It was written in the sparest trade jargon imaginable. There was no title; the first line read: "US OTDS 70% cut."

The ministers and their top aides went into separate meeting rooms nearby to discuss the paper privately, and when they reconvened a little less than an hour later, each of them vented about points they didn't like. Peter Mandelson, the European Union trade commissioner, griped that the figures would engender too paltry a reduction in barriers to manufactured goods in developing countries. Others, including China's Chen Deming and Brazil's Celso Amorim, complained that the proposed cap on U.S. farm subsidies was too high, though at $14.5 billion it was a bit lower than Washington's latest offer. Chen was also deeply concerned about the wording concerning proposals for negotiations aimed slashing tariffs in specific sectors, such as chemicals and gemstones; he couldn't figure out whether the language required Beijing's involvement, which he said would be an unacceptable breach of a prior understanding that such talks would be purely voluntary. Still, there were signs that the paper was headed toward grudging acceptance by a majority of the seven, especially when Amorim, the gray-bearded, 66 year-old elder statesman of the group, said, "As a package, I can swallow it."

Then came the bomb, from Nath. Everyone knew that his Prime Minister, the scholarly economist Manmohan Singh, had spoken on the phone the day before with Bush, and some participants thought India's position might soften as a result. But Nath's response to Lamy's paper—"I reject everything," he declared—showed how misguided those expectations had been.

"I cannot put the livelihoods of hundreds of millions of people at risk," Nath said. "If the [Indian] government wants this, they'll have to find a new minister."

Putting on his jacket, he rose to leave and headed for the door, prompting Lamy to practically leap out of his chair after him. "Kamal, please stay and listen to the others," the Director-General said, pointing out that the other ministers had been patiently awaiting Nath's engagement with them for some time. (Nath had come late to the ministerial, having been stuck in New Delhi for a critical vote in Parliament that threatened to bring down the government.) In response to similar pleas from the others, Nath returned to his seat, saying he was doing so "out of respect for my friend Pascal," but he said he would have nothing to add. "My silence will be my contribution," he concluded, and for the most part he sat impassively for the next couple of hours, showing his disregard for the proceedings by concentrating on his BlackBerry and excusing himself several times from the room to get food and meet with outsiders.

His negativity drew an incredulous response from Schwab. "We're the ones going backwards. You've won!" she said, noting that under the "special products" provisions of Lamy's proposal, India and other developing countries would be allowed to exempt 5% of their agricultural tariff lines from any cuts whatsoever—a number very close to New Delhi's demand. (Although 5% may not sound like much, for most low-income nations the bulk of their importation of farm products takes place in just a few goods.)

But other aspects of the paper were the focus of Nath's ire—chief among them a line that read, "SSM for above bound rate trigger is 140% of base imports."

SSM is the acronym for the special safeguard mechanism. It is based on an idea that has long been an integral part of the trading rules for manufactured goods—that countries sometimes need to raise trade barriers for at least a while when a flood of imports threatens their industries, so that they have time to adjust. (The controversial duties that Bush imposed on imported steel in

2002 were safeguard tariffs of this type.) Rich nations had gotten a special safeguard for their farm sectors some years ago; now developing countries were insisting that their agriculture should have similar rights. Suppose, for example, that foreign apples suddenly begin pouring into India's market, and Indian apple growers are facing bankruptcy. An SSM would enable New Delhi to raise its tariff on apples above the present level, which is 50%, for a limited period.

The problem was not that the SSM had been eliminated entirely from Lamy's paper; even Schwab and her allies (the main one was Simon Crean of Australia, which is another big agricultural exporter) were willing to concede that the mechanism should exist. Rather, the issue was what type of constraints ought to limit its use, to ensure that it did not create new forms of protectionism. Taking again the apples example, India's 50% tariff on apples is equal to its bound rate, so raising the duty above that level would constitute the breaking of a commitment made by India in a previous global trade pact. A country would be allowed to take such a step, according to Lamy's paper, only when imports are truly surging—which the paper defined as a 40% increase over recent levels. This, Lamy knew, was the bare minimum that would be acceptable to the Americans and Australians, who argued that without a highly restrictive rule, the SSM could be used to block trade that was growing normally.

But the paper's attempt at compromise on this issue was much too restrictive for Nath's taste. He was certain that he, and the Congress party, would be pounded back home for agreeing to something that would be denounced as a sellout of the farmers. Under Lamy's proposal, he argued, the SSM "cannot be operationalized," because India's ability to monitor its imports of individual products is so haphazard that by the time the government detected a 40% import surge farmers would already be committing suicide *en masse.*

As Nath's rejectionist stance became clear, the big question racing through the minds of participants in the G-7 meeting was: What will Schwab do? She could let the meeting break down, and insist that if Nath wasn't going to accept Lamy's paper, he should be allowed—forced, even—to walk out so that India would take the blame for blowing up the round. Or, she could announce that the United States was accepting the paper and hope that eventually a deal might emerge as pressure was brought to bear on the Indians. The latter course was risky, because it violated basic negotiating strategy; India would presumably "pocket" the concessions it had already received in the paper and demand more as the price of agreement.

In a striking testament to the intensity of the Bush administration's yen for a deal, Schwab told the G-7: "As a package, I can do this." At the same time, she added some crucial caveats—"potential dealbreakers," she called them—because she knew that U.S. farmers and manufacturers would probably regard the Lamy paper, by itself, as insufficient in liberalizing foreign markets. In particular, China would have to agree to open up certain markets for farm and industrial goods, she said. But on the whole, she championed the Lamy paper as the only way forward, and she echoed Brazil's Amorim in warning that it must remain intact as it underwent consideration by the wider group of ministers.

"Pull one thread and it all unravels," she said. "We should be close enough on the basis of this paper to close this."

While all this was going on, gallows humor was the order of the day in the press room downstairs, where reporters from around the world were swapping bets about when the meeting would be officially declared a bust. Their ennui was suddenly shattered in mid-afternoon, when WTO spokesman Keith Rockwell came in to report on the G-7 meeting. The scene was like a roomful of family members who have been awaiting word that their comatose relative has died, only to learn that the patient is conscious, alert, sitting up and sipping a bowl of soup.

"There are some very encouraging signs of progress," Rockwell said. "There is a spirit of cooperation and they decided it's time to bring this to a wider group." Later that evening, after the bigger group of 35 ministers had been briefed on the Lamy paper, Rockwell announced that it had received "overwhelming support" (though not from India, he acknowledged). (CK) And Schwab emerged from the meeting to tell reporters that, despite resistance from "a handful of large emerging markets" that threatened the round, "a clear majority of countries—both developed and developing—were able to endorse this package as a path forward to a potential successful outcome."

All this was true as far as it went. But the happy talk masked the tenuousness of the deal—including the Americans' own problems with it.

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At 10 a.m. the next morning, a Saturday, representatives of American business and farm groups gathered in the lobby of the President Wilson, one of Geneva's premier hotels, together with a handful of congressional staffers. They sat in a large circle around a table while tourists, many of them wealthy Arab women in headscarves and burkas, strolled nearby and sat sipping tea. (Geneva's temperate summer weather is a big draw with Middle Easterners.) Among them were leaders and lobbyists from organizations whose support for trade agreements had always been enthusiastic and, at times, essential for passage in Congress—notably Bob Stallman, president of the American Farm Bureau, and Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers. Although these private-sector representatives had not been allowed to enter the WTO headquarters building without going through a bothersome appointment procedure each time, they had stayed in very close touch with the U.S. negotiating team, thanks to email, text messages, and frequent briefings at the hotel where the U.S. delegation was quartered. They had received copies of the Lamy paper at a briefing on Friday evening, a few hours after its presentation to the G-7.

They didn't like what they saw. "The best thing that could happen now," one farm lobbyist told the others, "would be for the thing to blow up."

Agriculture groups felt that the deal on the table simply wouldn't provide enough new market access for U.S. farm exports to compensate for the reduction in the cap on U.S. subsidies. They understood that the full impact of a final Doha accord would not be clear until WTO member countries had filled in the details of their tariff cuts for individual products, which would take at least six months. Still, the handwriting seemed to be on the wall: Although U.S. exporters would gain additional sales in high-income markets such as the European Union for beef, pork and some other products, they wouldn't gain much, if at all, in the world's emerging markets, because the loopholes granted to developing countries were too large.

The Farm Bureau's Stallman lamented how U.S. hopes for market access in agriculture "have been continually whittled away" as the Doha talks have proceeded. The draft texts produced shortly before the meeting, he said, didn't promise enough, and "it's worse now" under the terms of the Lamy paper. Whereas in the past U.S. negotiators had vowed never to cross certain "red lines," the Lamy text entailed just such an outcome, Stallman noted. In particular, it allowed developing countries to exempt a substantial number of their tariff lines from any cuts whatsoever, and it allowed them to use the SSM to raise tariffs above bound rates. Other representatives of commodity groups, especially the cotton and rice growers, were even more negative.

Agriculture was not the only problem; the NAM's Vargo was almost equally downbeat. Vargo estimated that under the formulas the trade ministers were considering, current tariffs for industrial products would fall by an average of only about one-tenth in big markets like Brazil—and that would take about nine years to materialize. To make the deal attractive for U.S. exporters of manufactured goods, Schwab and her team had been pressing hard for the inclusion of sectoral negotiations—that is, talks leading to very low tariffs in specific sectors, with chemicals and machinery being the main items of interest. But developing countries had been stiffly resisting that idea, and it was far from clear from the language in the Lamy paper that big developing countries—China, in particular—would participate in the sectorals Washington wanted. "If there's no China on the list [of sectoral participants], there's no point," Vargo told the others meeting at the President Wilson. "We cannot support" the Lamy paper in that case.

"It was really sobering to hear the ag and NAM people say, 'Hmmm, this isn't worth the trouble,'" recalls one congressional staffer who attended the meeting. "How would you get that passed in Congress?"

Pressure was now mounting from key lawmakers and their staffs to let the deal die. At a meeting with members of Schwab's team later that Saturday, Hayden Milberg, an aide to Sen. Saxby Chambliss (R-Ga.), the ranking member of the Senate Agriculture Committee, made the case bluntly: Since nobody in the private sector seems to like the deal outlined in the Lamy paper, it wouldn't pass Congress, so would it be better for Schwab to walk away from the table here in Geneva, or accept a deal that would face defeat on Capitol Hill? Wouldn't a negative vote in Congress be highly damaging for the WTO as an institution? A similar message was conveyed by phone the next day to Schwab directly, by Sen. Max Baucus (D-Mont.), chairman of the Senate Finance Committee, which has jurisdiction over trade legislation. (A Baucus spokesman said the senator would not discuss the content of the conversation.)

Schwab's answer to these objections: Be patient. In meetings over the weekend with the private sector and conversations with the Hill, she noted the caveats she had raised in the G-7 meeting about "potential deal-breakers," and she assured them that she was determined to get satisfaction from other nations on those issues before signing off on anything.

In fact, her subordinates were already hard at work trying to fix the deal, hoping to extract promises from the country whose market they cared about most. This country was not India; it was another Asian giant.

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China's mission to the WTO is conveniently located just down the road from the WTO's headquarters, in a recently-built, modern structure. There, on the Saturday and Sunday immediately following the tabling of Lamy's paper, Chinese officials met their U.S. counterparts including Joseph Glauber, the chief U.S. agriculture negotiator, and Peter Allgeier, Schwab's deputy who is the U.S. ambassador to the WTO.

Tops on the list of American concerns: cotton. Specifically, the U.S. negotiators wanted China to effectively promise to buy more of the fluffy white stuff from American growers.

Reforming the rules of the global cotton trade has been perhaps the most emotional issue in the Doha Round. Antipoverty activists have targeted Washington's lavish cotton subsidies as one of the most egregious examples of unjust trade, in which the losers rank among the least fortunate people on Earth—the cotton-growing farmers in West African countries such as Mali and Burkina Faso. Some years ago U.S. negotiators bowed to an international outcry and agreed that in a final Doha deal, payments to cotton growers would be cut more, and faster, than other farm programs, though the precise amounts were yet to be determined. But the National Cotton Council remains a formidable power on Capitol Hill, and U.S. trade negotiators would love to at least defuse its political opposition to a Doha pact by securing some benefits for U.S. growers in the form of increased export opportunities. That was where China comes in—because with its vast clothing industry it is the world's largest importer of cotton by far.

Accordingly, U.S. negotiators hoped to persuade Beijing to keep cotton off its list of "special" products that would be shielded from deep tariff cuts. By substantially reducing the 40% duty it imposes on most of the cotton it imports, China would presumably buy a lot more U.S. cotton than it does now—and the benefits for the world's poor would also be significant, the Americans argued, because the move would also increase demand for African cotton.

No dice, the Americans were told; China too has a political problem with cotton—namely, 10 million cotton farmers, mostly very poor, mostly in the far western Xinjiang province, a restive area dominated by Muslims. So Beijing would have to exercise its right to choose cotton as one of its special products.

The Chinese also rejected American requests to promise that other crops, including wheat and corn, would be kept off Beijing's list of specials. And they were adamant that they would not participate in the "voluntary" sectoral negotiations for chemicals and machinery that the Americans wanted. China's chemical and machinery industries had already endured steep tariff cuts a few years ago, as part of the price of admission when the country joined the WTO in 2001, and Beijing had promised those industries that their barriers would not be lowered again. "We cannot go back now and say, 'we will make further tariff cuts,'" the Chinese said, according to one participant in the meeting.

Strike one, strike two, strike three: The U.S. team had failed in its weekend effort to improve the Lamy package by securing concessions from the Chinese. Now any hope of generating enthusiasm among the U.S. farm and industry groups was gone. U.S. negotiators believed that in time, they could have proven to the farm lobbyists that the deal still contained ample benefits for American agriculture, but they knew it would be a tough sell.

In an interview, Schwab played down the lobbyists' influence. "We welcome the advice of the private sector, but you have to use your own judgment," she said. "The value of the package had to go beyond individual U.S. constituencies."

She was using three criteria to evaluate the deal, she said, based on a discussion she had held beforehand with Bush. The first was the impact on economic growth and development; the second was the benefits for U.S. exporters; the third was the effect on containing economic isolationism in the United States and other nations. The big problem, according to Schwab, was that the deal on the table didn't adequately boost growth and development because it would add little to existing trade flows—and might even raise new barriers.

Negotiators from other countries have drawn more cynical conclusions about the U.S. stance. Whatever the reason, this much is clear: Up until the weekend of July 26-27, Washington had acted as if it was eager to cut a deal. From then on, during the remaining days of the ministerial, its behavior would change.

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In fairness to Akira Amari, the Japanese trade minister, it must be said that his patience had been sorely tried before his rage boiled over in the middle of the night of Monday, July 28.

Amari, who was expecting a meeting of the G-7 to begin, had been kept cooling his heels outside of the Director-General's office for several hours while some of the other ministers—Schwab, the EU's Mandelson, Brazil's Amorim and Australia's Crean—were engaged in intensive discussions with Lamy. Furious over his inability to get a straight answer to his questions about the meeting schedule even though it was past midnight, Amari leapt up when Lamy emerged from his office and, banging his briefcase for emphasis, began screaming in Japanese, as his interpreter did her utmost to convey not only his words but his wrath. Waving her arms and contorting her face at the startled Director-General, the interpreter bellowed, "Mr. Lamy, I am a minister in the Japanese government with a very large portfolio, and it is intolerable that I have been made to wait this long!" The racket prompted curious people to poke their heads out of nearby doors; some could barely conceal their mirth over the interpreter's histrionics.

As that episode suggests, sleeplessness was taking a toll, and the scramble to find a compromise was turning disorderly, as the meeting—now in its eighth day—staggered on. A number of ministers who weren't in the G-7 had already headed home, leaving their ambassadors to represent them in case a deal materialized. Among participants who remained, their irritation was in some cases compounded by the necessity of switching hotels; most had booked their lodging in the expectation that the meeting would last five days. Still, Lamy was desperately trying to stitch something together, with help from Mandelson and Amorim, whose legacies in Brussels and Brasilia also depended significantly on whether the Doha Round would be concluded during their tenures in office.

The main focus was to strike some deal on the SSM, on the theory that until that issue was settled, a consensus could not possibly be reached on other matters. Disagreements remained on a number of other key subjects, notably the reduction in developing-country barriers on manufactured products. Argentine officials, in particular, were objecting vociferously to the terms that the Lamy paper proposed on that issue, asserting that their nation's clothing and auto industries would be hurt; South Africa and Venezuela were also holding out. On still other tough issues, such as cotton subsidies, substantive negotiations had barely taken place. While recognizing that these problems and others would be difficult to surmount, Lamy saw no choice but to direct the G-7's efforts into breaking the SSM logjam.

But the U.S. team's attitude had soured following the failure of their weekend effort to pry concessions from the Chinese, and Schwab took a decidedly jaundiced view of various SSM proposals as they were floated. One danger—which she was plainly anxious to avoid—was that the rest of the G-7 might unite behind a plan that was still seriously flawed from the U.S. standpoint; then Washington could be fingered as the main culprit for the breakdown in the talks.

"I'm not getting f***ing trapped into this, Pascal!" Schwab snarled at Lamy at one point, according to people who witnessed the exchange.

One idea, put forward on Monday, July 28 by some of Lamy's aides, would have created an SSM that developing countries could use to raise tariffs provided they could show that imports were causing "demonstrable harm" to their poor farmers. A panel of neutral experts would be empowered to review the action and declare it illegal if the evidence suggested that the "demonstrable harm" test had not been met. Although the Indians said they could go along with this approach, Schwab's team strongly advised her to bat it down. "It's a total open door for abuse," she told Lamy in a private meeting. "It's a mechanism to disrupt trade." Accordingly, the idea never made it to the stage of being incorporated into the Director-General's paper.

In a move that some insiders saw as a clear sign that the U.S. team had gone from a deal-making mode to blame-avoidance, American officials began blasting away not only at India but at China for undermining the talks. David Shark, the deputy in the U.S. mission to the WTO, delivered an unusually harsh statement in the General Council chamber on Monday morning asserting that the two countries "have thrown the entire Doha Round into the gravest jeopardy of its nearly seven year life," because India had "immediately rejected the [Lamy] package," and China had "walked away from it."

This was spin of the most self-serving variety. Although the description of India's actions was fair enough, the accusation against the Chinese—suggesting that they were reneging on their word—was a low blow, repeated over and over by U.S. officials to the press. "China wanted a seat at the big kids' table," the New York *Times* quoted one anonymous member of the U.S. delegation as saying. "They got it, they agreed to the text, and now they are trying to walk that text back." It was true, to be sure, that the Chinese were refusing to participate in sectoral negotiations in chemicals and machinery, but their minister had made his position clear on that issue when Lamy tabled his paper. The claim that the Chinese "walked away" is disputed by nearly all neutral participants with whom I have spoken. If anything, the United States was the G-7 member that could most justly be condemned for agreeing to the Lamy paper and then "walking away" from it by insisting on Chinese concessions as part of the deal.

By Tuesday, July 29, the only sign of hope for the meeting was a box of cigars carried around by Jean-Luc Demarty, the EU's chief agriculture negotiator, who was promising to pass out the stogies when a deal was finally struck. Demarty had been deputized to take one more stab at drafting an SSM compromise, and he did his best, using a complex two-tier structure, to find an approach that would meet the competing needs of the Americans, Australians, Indians and Chinese. But they all rejected it, and when Lamy implored them to try it again using different numbers, Schwab wouldn't.

"It's over," she told Lamy. "How do you want me to handle this so that there will be a soft landing?"

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The complete termination of global trade talks is unthinkable. Nothing of the sort has happened since the thirties. Previous trade rounds had very dark moments; the Uruguay Round, which was finalized in 1994, took eight years. One way or another, the Doha Round will get done eventually.

Those sentiments are articles of faith among many trade experts and Geneva veterans who have seen countless trade ministers and Directors-General come and go, and whose experience has taught them that in the end, the self-interest of the world's nations in preserving the multilateral trading system always prevails. Probably they are right. But the risk that they may be proven wrong this time looks uncomfortably high as the global economy spirals downward.

In its current incarnation, the Doha Round is stuck in the mud—that much should be clear from the account above of the July meeting. And its problems are multiplying as markets tick lower. Remember, U.S. farm groups were unenthusiastic in July about the terms under which they would be giving up subsidies; they will be even more desperate to cling to generous subsidy programs now, because the expected falloff in global demand is sending crop prices into a nosedive.

As for the effort to cobble together a deal in the waning weeks of the Bush administration, it smacks so much of legacy-burnishing by a discredited president that even staunch free-traders are questioning the wisdom of the exercise.

It would be one thing if the meeting contemplated for December could fully conclude the Doha Round and lock in a reduction of bound tariffs. Not so; even if WTO members miraculously agree in December on a deal of the sort that was envisioned in July, many months of negotiations would still be required to translate the tariff-cutting formulas into specific duties for specific products, and to resolve other contentious issues that are part of the round but which have been put aside for the very end (antidumping rules and fisheries subsidies are prominent examples). Even then, the pact wouldn't be effective unless, and until, Congress approved it.

A foretaste of the difficulties came in a letter sent to Bush on December 2 by the leaders of both parties on the House and Senate committees responsible for trade matters, including Senator Baucus. The lawmakers derided the deal currently on the table, saying it "would provide little if any new market access for U.S. goods," and they expressed "strong doubts that a ministerial meeting at this time" would make sense. The congressional letter came on the heels of a similar letter from the heads of major U.S. agriculture and industry associations. The implicit message to other WTO member nations is loud, clear and disquieting: You may think that the Obama administration will come under irresistible pressure at home to embrace a Doha deal inherited from the Bush team. And you may think that the new president will feel compelled to spend months putting some finishing touches on that pact and ramming it through Congress. But that is a very shaky assumption.

To the long list of daunting challenges facing Team Obama, therefore, injecting new life into the multilateral trading system must be added. A host of ideas are floating around for how to do so. All have big drawbacks.

The most ambitious is to dramatically broaden the Doha Round negotiating agenda so that in addition to the measures already on the table, the WTO would develop rules on issues that have arisen since 2001. These include the food crisis, the energy crisis, the unfair manipulation of currencies, and climate change. (The need for new rules on climate change stems from moves by the U.S. and E.U. toward imposing tariffs based on the carbon content of imports, which may conflict with current rules.) Critics of this idea counter that it's absurd to burden the round with even more tough issues when WTO members can't agree on the ones already confronting them.

Still other experts favor abandoning the idea of big rounds in which all WTO members must agree to one grand bargain, and turning instead to smaller, more doable deals—one possibility being an agreement to eliminate duties on goods from the world's poorest countries. But that approach means giving up the vast opportunities for horse-trading afforded by traditional, multi-issue rounds. In previous rounds, for example, the United States secured international protections for patents and copyrights by giving developing countries greater access to America's lucrative clothing markets.

This much is certain: Nothing will happen without U.S. leadership, and a lot is riding on whether the instincts for multilateralism that Obama clearly holds in foreign policy will carry over into trade. When the new president starts defining his trade policy, he can help shore up sagging faith in multilateralism by declaring his fealty to the system, and vowing that Washington will devote its energy to WTO Doha talks, rather than to striking new bilaterals as the Bush administration did.

Whether any of this will keep protectionist forces in check as the world sinks into recession is anyone's guess. It would have helped if the WTO's July meeting had turned out differently. In that context, it is worth pondering some words of regret, uttered on the evening of the meeting's collapse, by Brazil's Amorim, one of the ministers who was most anguished by the outcome.

"Of course, we heard from several people that we should preserve what we have obtained," Amorim told reporters in the lobby of the WTO's headquarters. "And I agree with that, but you know, it's not in our power; life goes on. You have the food crisis. You'll have other crises. Other preoccupations will look larger than they have been today."

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