

Challenges Await Roberto Azevedo at the World Trade Organization

SEAN GOFORTH

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At the outset of 2013 nine candidates vied for the top post at the World Trade Organization (WTO). By early May, the contest had boiled down to two Latin Americans. The United States and European Union (EU) backed the Mexican candidate, Herminio Blanco, who has a smart record of advancing rules-based trade regimes, as evidenced by his work in thrashing out the NAFTA. Yet it was the developing nations, throwing their weight behind Brazilian trade negotiator Roberto Azevedo, who ultimately carried the day. Thanks in part to the efforts of the Rousseff administration, Azevedo will succeed the outgoing Pascal Lamy as the sixth Director-General of the World Trade Organization in September.

Azevedo's main task will be to restart the Doha Round of global trade talks, which have been idle for five years. In that time, the organization has become more of a forum for settling trade disputes, and monitoring compliance with existing trade law, than an institutional force for driving deeper trade ties. And what little energy has been expended to liberalize trade in recent years has occurred outside of WTO channels; it is an undeniable truth that the proliferation of regional trade agreements (RTAs), such as Mercosur, and trans-regional free trade zones, such as the proposed Trans-Pacific Partnership, batten off the Doha agenda. Nil momentum for Doha, and the growth of regional schemes that are easier to negotiate

and offer more flexible terms than the WTO, threaten a silent death for the trade organization.

Azevedo clearly recognizes the need to straighten the WTO out from its current form. As word spread of Azevedo's selection, the Brazilian described his task in terms of triage. Speaking of the WTO as "a very sick patient", Azevedo said he was "ready to put on the gloves, the mask and start operating immediately, because the patient is almost terminal".¹ Leaving aside the medical metaphors for now, the problems confronting Azevedo are three-fold.

First, there is no clear way to breathe life into the Doha Round, largely because no world power appears willing to make the necessary concessions on agricultural tariffs in order to excite talks. In truth, the last spark on this front was almost a decade ago when then-US Trade Representative Robert Zoellick said his country stood ready to curb its agricultural subsidies, provided 1) the EU did the same and 2) that developing countries lower their trade barriers to US farm machinery. European trade delegations responded that US conditions meant the world's superpower wasn't serious about the talks. It would be nearer to the truth to say it was the Europeans in refusing

¹ John Heilprin, "Brazil's Robert Azevedo Chosen as Next WTO Director General" (*The Huffington Post*, 7 May 2013).



to revise the Common Agricultural Policy (CAP), a series of tariffs that keep foreign agricultural exports out of the EU market, who stood in the way of moving Doha forward. But regardless of which party deserved more of the blame, US and EU agricultural subsidies remain unlikely to be reduced anytime soon. For its part, the Obama administration has never treated free trade as anything more than a second-rate policy realm, as evidenced by Obama's selection of the untested Ron Kirk to serve as his top trade representative, and Obama's waffling before finally, in 2011, putting his weight behind US free trade agreements with South Korea, Panama and Colombia that had been pending since 2006. Meanwhile, Europe is more politically fractured than anytime since the Cold War, although the destruction in this case threatens economic, not nuclear, fallout. A dismantling of the CAP is nearly inconceivable.

Second, the delay in concluding the Doha Round shows that the WTO is neither integral to the resolution of global economic problems, nor essential to trade-related growth. At the outset of the global financial crisis in late 2008, many large developing countries enacted industry-specific tariffs. Russia enacted a levy on the imports of used cars, India jacked up tariffs on imported steel, and Indonesia restricted imports of clothing in order to "combat smuggling". In 2009, at least ten governments took measures to protect domestic carmakers.² WTO panels heard some of these cases and not others, but here the dog that didn't bark warrants the attention: there was no downward spiral of protectionism in which the world slumped into economic depression à la Smoot-Hawley. Most countries enacting protections did so to limited ends, and in nearly all cases the tariffs or trade barriers were removed by 2011.

At the same time, intra-regional trade has spiked, much of it under the cover of regional free trade agreements. In Southeast Asia, the Trans-Pacific Partnership, which links littoral Asian countries with a smattering of Pacific-rimmed American nations, grew from a pygmy to a behemoth from 2009 to 2011. Reason being, Japan, Mexico, the United States and Canada all initiated membership talks. In Latin America, over the past two years the Pacific Alliance has gained force and promises to integrate Mexico, Colombia, Peru and Chile into a tighter economic bloc. To these and other developments, the WTO played no role, except perhaps by signaling that Doha was a dead-end, which may have encouraged a self-reliance ethos among trade-oriented governments.

Finally, Azevedo's heritage may pose a problem to reviving Doha. By insider accounts, the Rousseff administration launched "an all-out diplomatic offensive" to win Azevedo the job.³ This evidently paid a dividend, as African

governments – many of them major beneficiaries of Brazilian foreign aid – lined up behind Azevedo. With one of their own in charge of the WTO, Brazil's claim for a permanent seat at the UN Security Council will be bolstered. Or so the thinking goes. But it's doubtful that Azevedo will prioritize Brazil's interests over that of other governments. In early May he told *Reuters*: "As director of the WTO, I will not be representing Brazil".⁴

Brazil has a strong record of opposing expansive free trade agreements. Lula helped thwart the Free Trade Area of the Americas, and he led a group of 22 governments in collapsing the 2003 Doha ministerial summit at Cancun. The opposition made sense, but Lula didn't really have an alternative vision for how Brazil's economy should grow, an inconvenient truth masked until recently by surging Chinese demand for Brazilian commodities. Now Brazil is stuck with average tariffs among the highest in the Americas and an economy that relies more on capricious global commodity prices than it did a decade ago. So, even if Azevedo is not beholden to the Brazilian government – and there's every reason to believe in his independence – there's also little reason to think that he will be able to coax the Rousseff administration into support of the WTO and Doha Round.

For all these reasons, Azevedo faces a daunting challenge. At root, the WTO's consensus-driven model of trade negotiation is hopelessly egalitarian, and, therefore, unfit for a world where major developing countries are eager to hone their own form of realpolitik. With 159 members and counting, each with the theoretical power to halt negotiations, the WTO can no longer serve as an effective forum for trade negotiations. While Robert Zoellick insists "doubling down on Doha" is the remedy, this presumes there's an underlying eagerness in world capitals for a new wave of globetrotting negotiation.⁵ That diplomatic expenditure is unlikely now or later in this decade, for the simple reason that, among global powers, all diplomatic hands will remain on deck to tackle the gnarly problems related to China's rise, the stamping out of hotbeds of Islamic terrorism, perhaps the early signs of human displacement from global warming, and the new North America-based realities of global energy supply.

Instead of Zoellick's approach, which amounts to more of the same, Azevedo should declare the Doha patient dead. (Alas, the medical metaphor is inescapable.) In so doing, he should remind the world of the WTO's guiding principle: the most-favored nation, whereby a member nation must extend trade advantages offered to one member to all. Doha is just one means of advancing that principle. Building on that, Azevedo should position the WTO as not

2 Paul Blustein, *Misadventures of the Most Favored Nations* (New York: Public Affairs, 2009), p. 9.

3 Juan de Onis, "Brazil's WTO Win" (*World Affairs Journal*, 9 May 2013).

4 Alonso Soto and Anthony Boodle, "Azevedo Looks to Resurrect WTO with Patient Diplomacy" (*Reuters*, 5 May 2013).

5 Robert Zoellick, "Time to 'Double Down' on Doha," (WTO, Press Release, 17 July 2011).



only a multilateral, but also a multi-layered organization, whereby RTAs could be ushered under the WTO umbrella. Although the WTO recognizes that this “gateway” already exists, in Geneva regional agreements are treated as an adjunct to the Doha agenda, and the WTO has diligently avoided presenting itself as, in effect, a mere monitor of trade organizations. But doing so would re-cast the WTO as the ultimate arbiter of trade liberalization by providing the ultimate “Good Housekeeping” seal of approval for RTAs that hope to attract serious entrants. In such fashion, the WTO would gain a post-Doha flexibility suited to the economic splaying of power already underway. By bringing RTAs more fully under the purview of the WTO, the organization can better diagnose where the national and regional frictions exist – and enact remedies – for a new era of trade liberalization.

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