



## Thinking big on trade policy

By Simon Lester – November 27<sup>th</sup>, 2012

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Recently, Congressman Kevin Brady (R-Texas), the chairman of the House Ways and Means trade subcommittee, called on the Obama Administration to “go big” on trade policy: “We need to go big. We need to go smart. But above all we need to go on trade.” Big is good on trade policy, and arguably we have been going small for too long. Unfortunately, Brady's actual proposals are quite small, and underline the decline in ambition in U.S. trade policy, and the consequent damage to the cause of free trade.

Congressman Brady's "big" agenda focuses on negotiations for trade agreements with the following regions or nations: the Asia Pacific, the EU, some unidentified Latin American countries, Egypt, Turkey, and Georgia. The trade agreements that would be pursued would presumably mirror the existing U.S. model for these agreements.

Negotiating trade agreements with certain countries, but not others, is not really "free" trade. Rather, it is "preferential" or "discriminatory" trade. That's not to say there is no value in negotiating free trade between certain countries or within a region. But it is inherently "small" in the context of the goal of pursuing free trade. If we want to "go big" on trade policy, we should think about trade liberalization at a global level, through the WTO.

The obvious objection will be that the WTO's trade negotiations have long been stalled, and there is no hope of success there. But why exactly have they failed? There is disagreement on this point, but I believe that, in part, the reason is that U.S. trade policy has been so small. Instead of making "big" free trade proposals, U.S. trade policy has been focused on advocating for the special interests of U.S. businesses, and pursuing mercantilist goals such as doubling U.S. exports. As long as this mindset persists, little progress will be made. When U.S. trade policy is mostly about ever stronger intellectual property protection and preserving the ability to protect our markets from foreign competition, the rest of the world is unlikely to take our calls for expanded trade seriously.

So what might "going big" look like? For starters, the U.S. could commit itself to multilateral trade liberalization with a serious proposal to lower U.S. trade barriers. Government subsidies offer a rich source of potential trade liberalization. For example, one of the biggest complaints our trading partners have relates to subsidies to U.S. agricultural producers. If the U.S. would offer up significant cuts in these subsidies, the rest of the world would take notice and might be persuaded that the U.S. is actually serious about free trade.

Another subsidies-related area where the U.S. might lead is export financing. There is a special regime in place that allows governments to provide subsidized loans for purchases of exports. But with most major economies providing these loans, it is not clear how any particular country "wins," and the programs seem like favors for big corporations. The U.S. could take the lead in reforming the system by proposing reductions in the amount of lending, or even complete elimination of such financing, and getting rid of agencies like the Export-Import Bank.

Trade in services also offers a number of sectors where trade liberalization would offer great benefits. Let me note two sectors in particular: education and healthcare. For years, trade in these sectors was difficult, due to distance and heavy regulation. But the distance problem has been reduced considerably in the Internet era, and possibilities for cross-border trade have expanded. Online learning is taking off in education; and there are few technical barriers to trading health insurance across nations. Liberalization through multilateral trade agreement commitments could help promote trade in these areas.

We have been thinking small on trade for far too many years. Small agreements between only a few countries; limited proposals to actually free up trade in these agreements; and using the agreements to make alliances with friendly countries, thus making free trade seem secondary. All of this has been bad for the cause of free trade. To "go big" on trade policy, we need to discard the current trade template, and push forward with a trade policy that has real free trade as its focus, with the U.S. leading the way.