



What Next for U.S. Trade Policy?

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The Trade Debate Poles



Protectionists: The loss of any job to trade is to be avoided.

Pro-innovation globalists: The loss of high-wage, high value-added, innovation-based jobs can be a threat.

Laissez faire free traders: The loss of any economic activity, even the most advanced R&D is good.

The Rationales



Protectionists: Economic policy should maximize worker welfare. Trade leads to job loss. Therefore, trade should be limited.

Pro-innovation globalists: Economic policy should maximize innovation and productivity. Trade does that when it leads to greater specialization in high wage, high value-added jobs. (Computer chips are different than potato chips.) But sometimes trade doesn't when we lose high wage, high value added jobs.

Laissez faire free traders: Economic policy should maximize consumer welfare. Trade helps consumers by maximizing "allocation efficiency." Therefore all trade is always good.

The Policy Positions

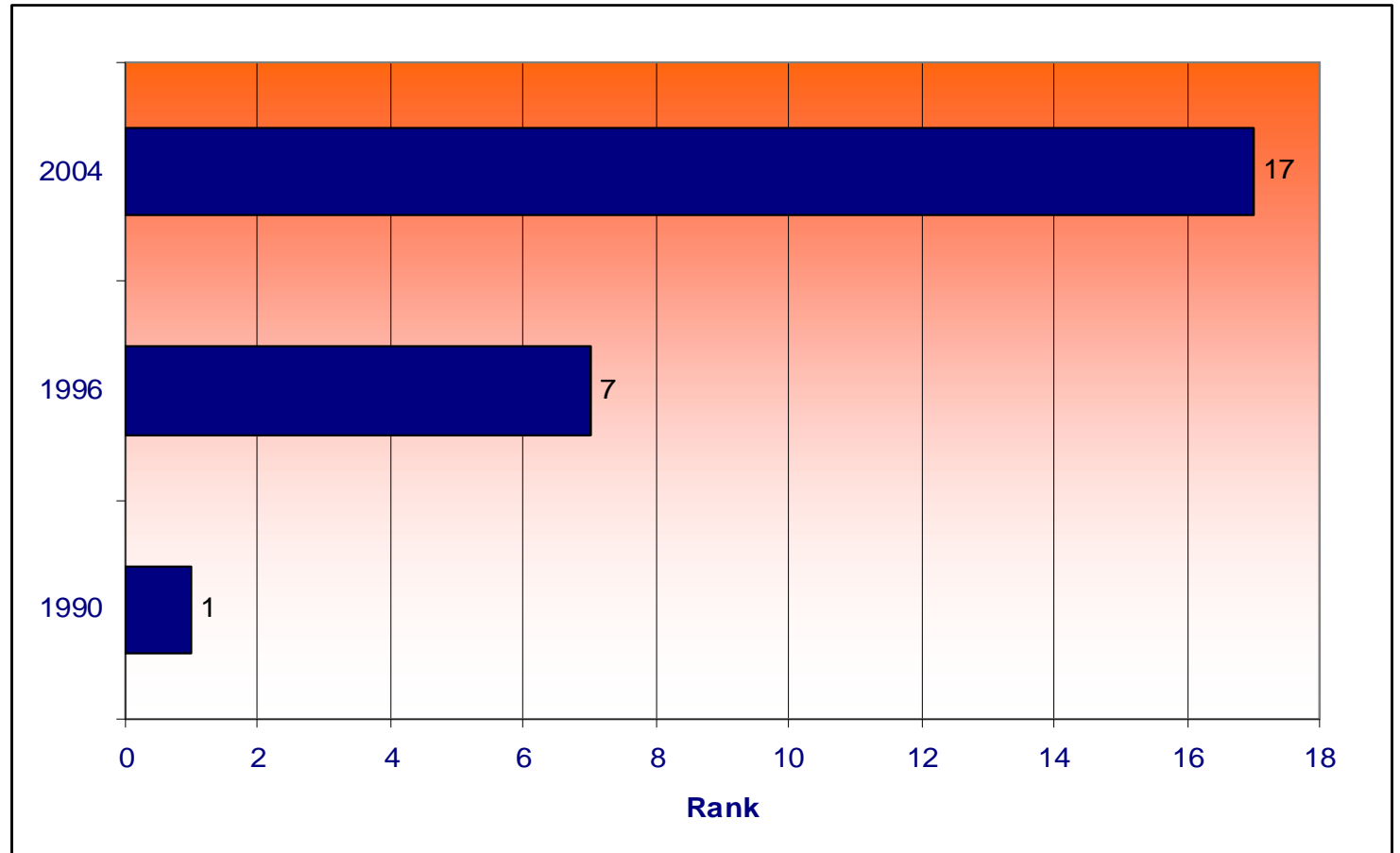


Protectionists: Policies to restrict trade (e.g., limits on offshoring).

Pro-innovation globalists: Rigorously enforced, two-sided trade agreements, robust national competitiveness and innovation policies, assistance to those hurt by trade.

Laissez faire free traders: Abolition of trade barriers (even if one-sided). Since trade is simply about churn, policies should, according to moderates and liberals, help those hurt by trade.

U.S. Rank in Tax Generosity Among OECD Nations Has Fallen



Combating the New Mercantilism

Many nations have erected a host of unfair and protectionist policies focused on systematically disadvantaging U.S. technology companies in global competition, including:

- 1) Raising the relative price of U.S. products and services by applying tariffs, taxes, subsidies, and excessive antitrust enforcement;
- 2) Acquiring U.S. products and services without paying for them through digital theft and forcing U.S. companies to give up their intellectual property; and/or
- 3) Blocking or limiting access to markets through standards, government procurement, data privacy and other policies.

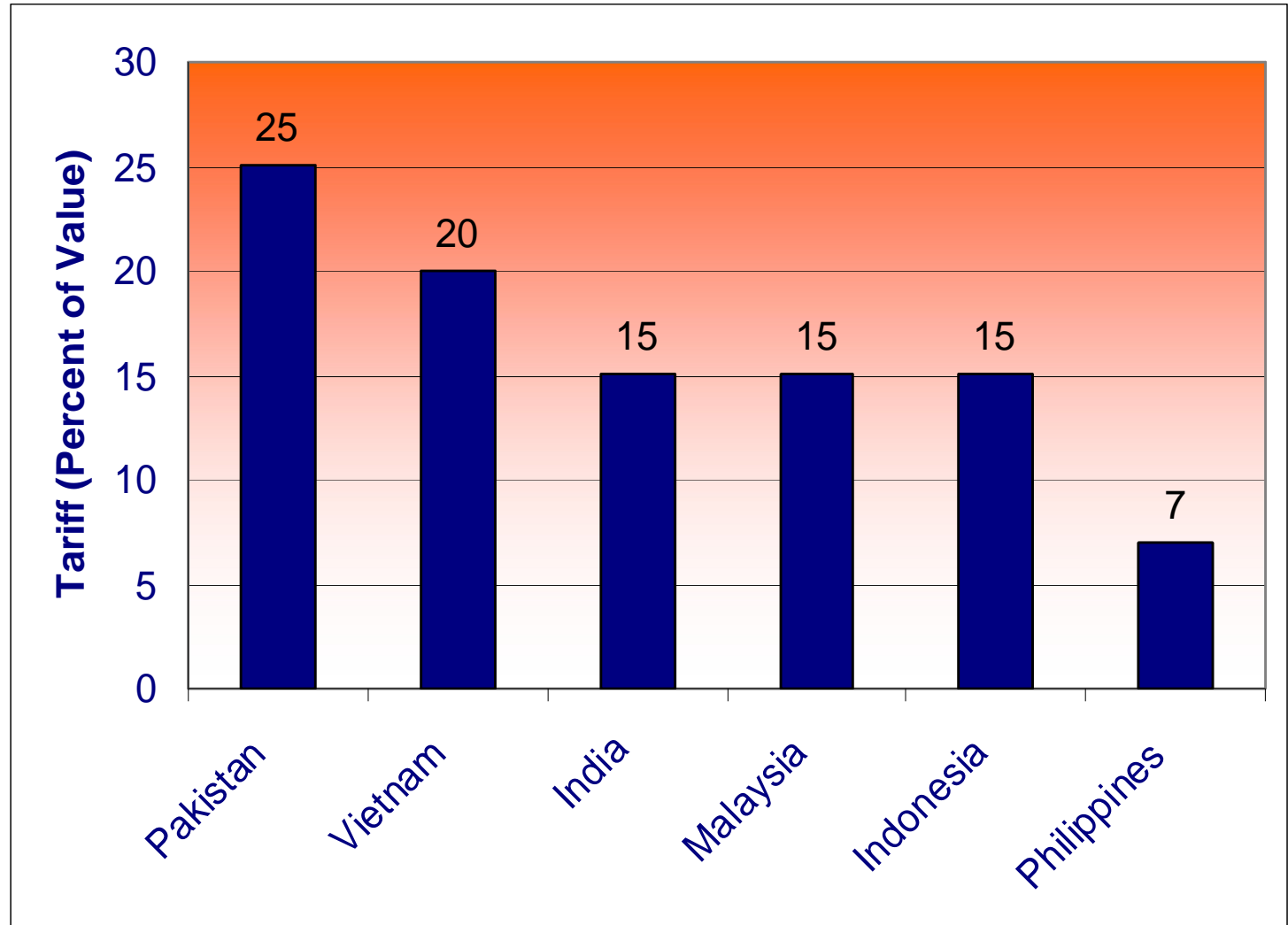
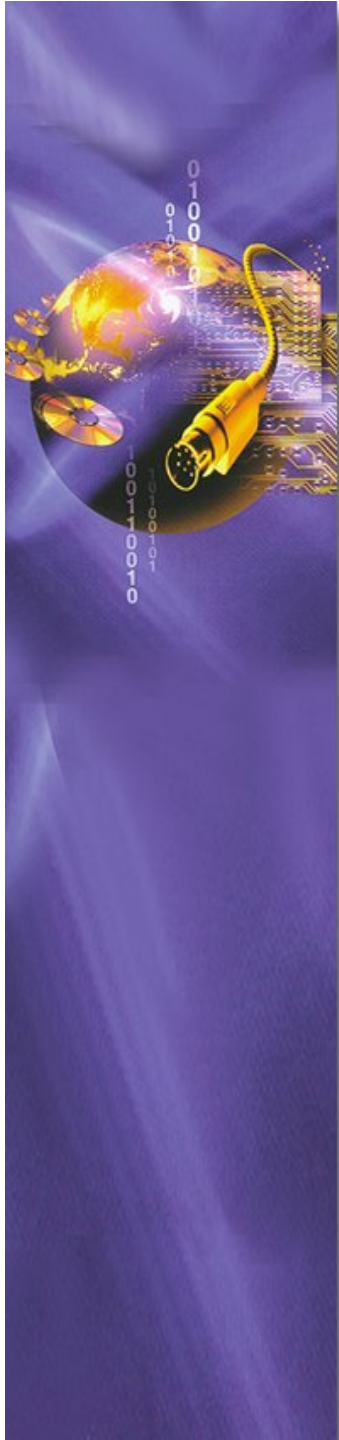


Shifting the Cost Equation

- High tariffs
- Product reclassification (e.g. EU)
- Higher taxes on foreign producers (e.g., India and China)
- Aggressive anti-trust enforcement and fines (e.g., EU and Korea)
- Subsidies (EU, Japan, Korea, China)



IT Tariffs (Highest Tariff Applied to an ITA-Covered Good)

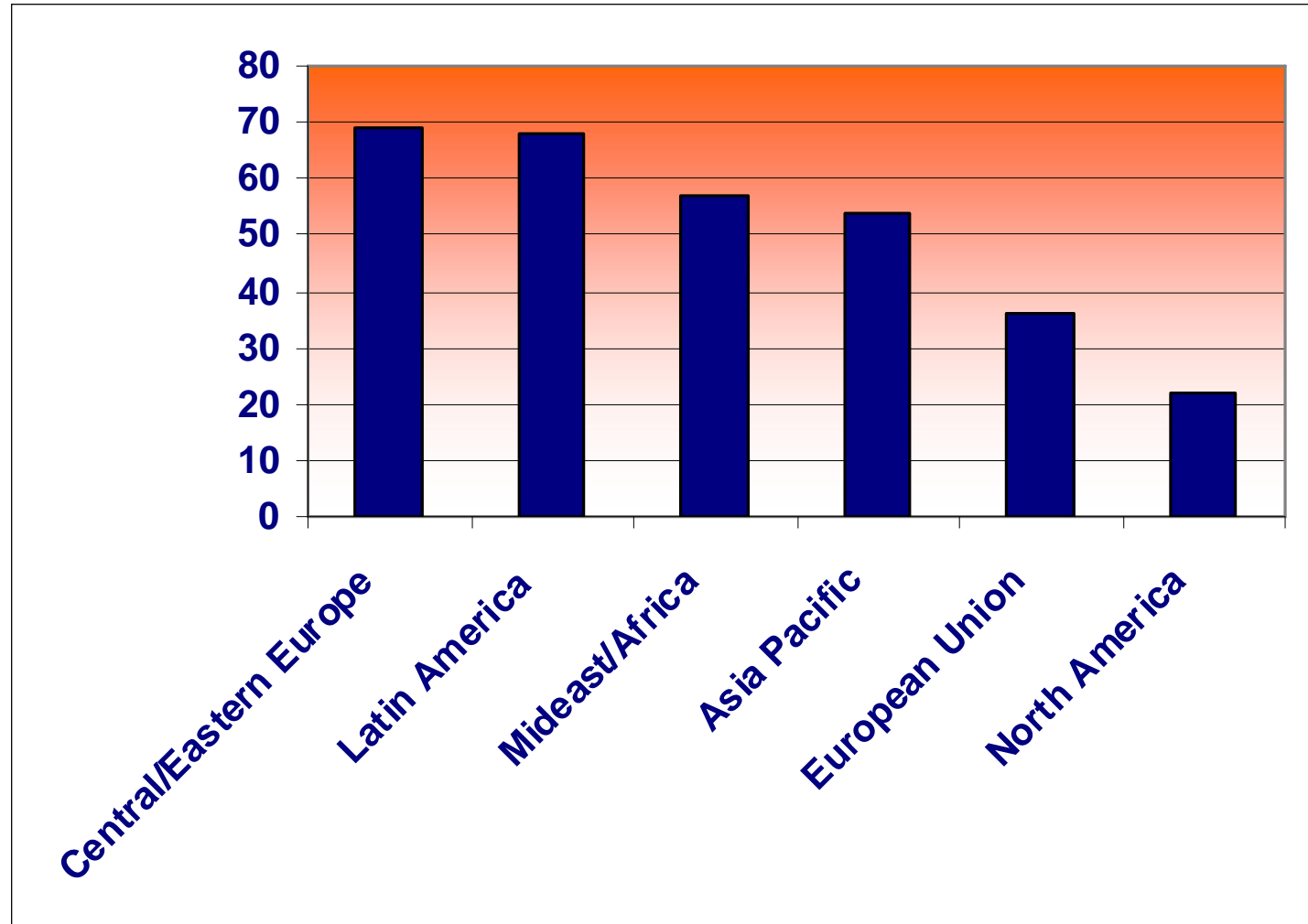
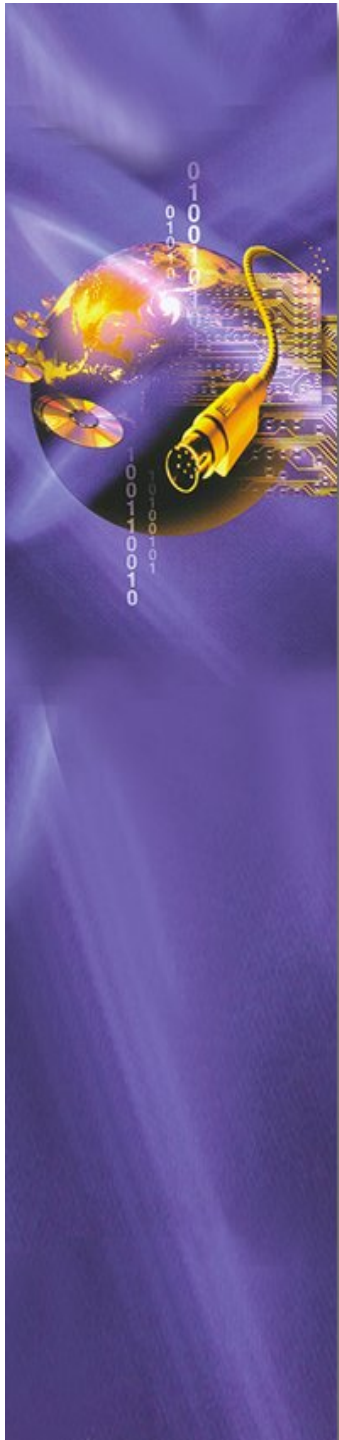




Taking Technology Without Paying

- Content Theft (everywhere)

2005 Percent of Pirated Computer Software by Region



Taking Technology Without Paying

- Content Theft (everywhere)
- Intellectual Property Theft and Forced Transfer (certifications, “joint” ventures)





Blocking or Limiting U.S. Access

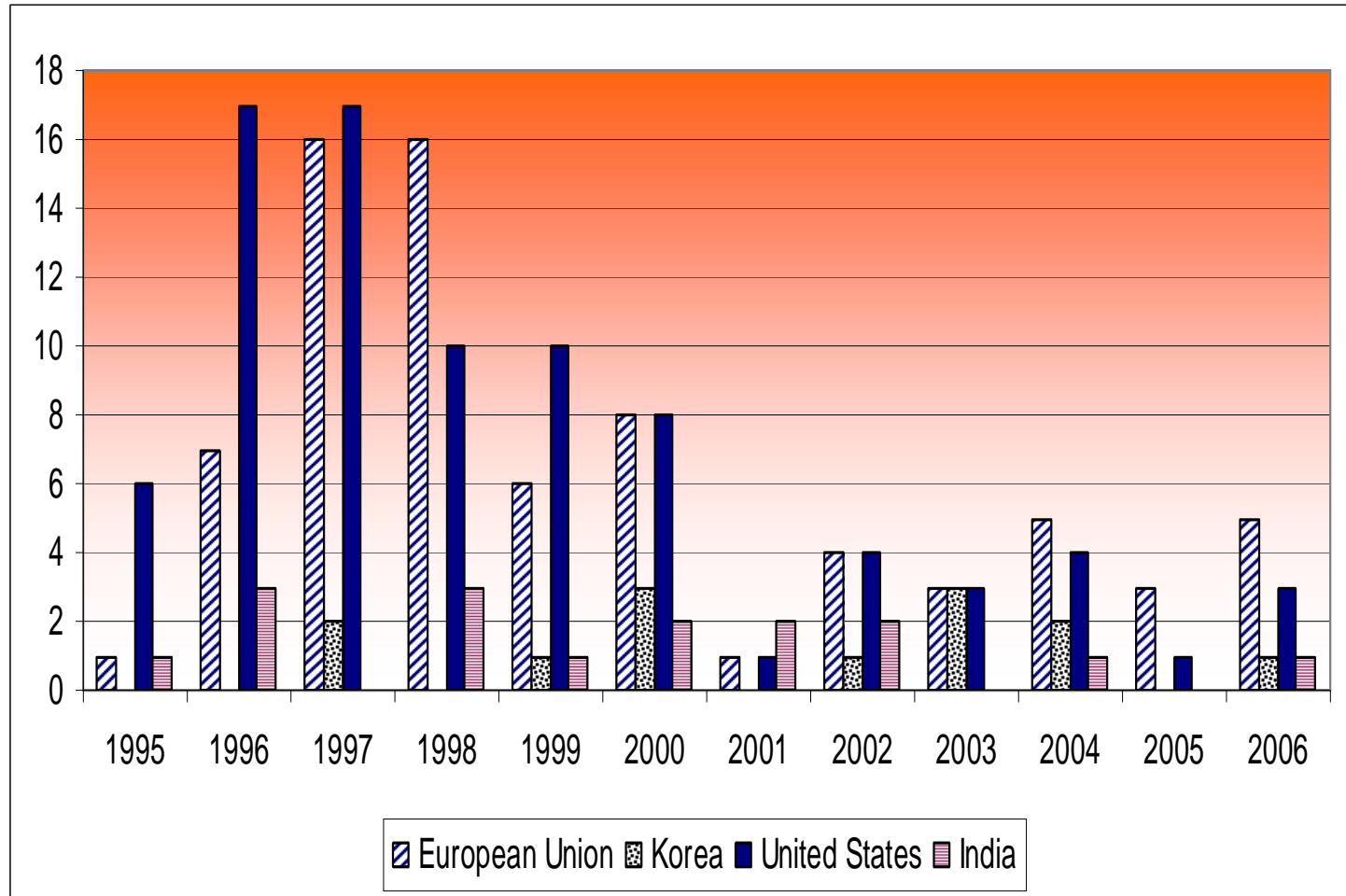
- Standards
- Procurement
- Regulation



What Can Congress Do?

- 1) Give USTR the resources to increase for enforcement of bilateral and international trade agreements.
- 2) Let companies take a 20 percent tax credit for expenditures related to bringing WTO cases.

WTO Complaints Brought by the EU, Union, Korea, India, and the U.S.



What Can Congress Do?

- 1) Give USTR the resources to increase for enforcement of bilateral and international trade agreements.
- 2) Let companies take a 20 percent tax credit for expenditures related to bringing WTO cases.
- 3) Expand funding for initiatives to educate the rest of the world on the importance of innovation, IT usage, intellectual property protection, and market-based trade.
- 4) Conduct hearings into the many and systematic strategies countries are using to challenge America's competitive advantage in IT.



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