

TRADE AND GLOBALIZATION

Winning the Race 2012 is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage.

Context and Policy Divide

Globalization is a vision whose promise has not lived up to reality. In the promise, the United States specializes in the products and services in which it has comparative advantage, creating new value, new industries, and higher incomes, while other nations, especially developing ones, gain by importing from and exporting to the United States. In the reality, the global trading system is rife with “innovation mercantilists”—nations that see the rules-based trading system as only a framework to justify their own protectionist and negative-sum actions and who distort global trade. To restore the promise of globalization and ensure it works for the U.S. economy, the next administration needs to lead a fight to save the soul of the global trading system. This means not only putting the fight against foreign mercantilism at the center of U.S. foreign policy, but also leading the community of nations committed to free trade in a coalition against mercantilist practices.

As long as trade policy is a fight between free traders and protectionists, however, it will be difficult to make progress. Holders of the “Washington Economic Consensus,” which transcends party identification, believe in free trade, even if it is one sided (e.g., free trade on our side, protectionism from our competitors) and believe that whatever we lose from ceding one industry after another to other countries, we gain from an array of lower-priced goods and services. Moreover, they worry that robust enforcement of trade rules will ignite a trade war and instead are confident markets ultimately punish countries that break the rules. The opposing side, populated by many on the left, holds that in the face of rampant global protectionism our only choice is to switch, not fight. We should adopt the same measures as the mercantilists, goes the thinking. The next administration must put aside these obsolete and polarizing assumptions and recognize the most important step it can take is to lead nations committed to free trade in a coalition to expand trade and roll back mercantilist practices, thereby saving the global trading system.

Innovation Race Principles

- **Market-based trade begets innovation.** Too many nations are looking to export-led, mercantilist practices to grow their economies: export with abandon and limit imports by any means. Not only do these practices hurt U.S. companies, workers, and communities, they retard innovation and productivity worldwide. Raising the bar for rules-based competition will not only provide a badly needed boost to the U.S. economy, it will result in a more prosperous and dynamic global economy.
- **Recognize the full extent of innovation mercantilism.** No nation is without “trade sin.” Many, such as the United States, the Commonwealth nations, and much of Europe are occasional “sinners.” But for many other nations, trade is about exporting (not trading) and the way to gain competitive advantage is through a host of systemic, unfair trade practices, particularly ones that discriminate against foreign companies in innovation-based, high-value added industries. Viewing the global trading system as it is (chock full of mercantilists with illegal subsidies, manipulated currencies, domestic production requirements and other market barriers, rampant intellectual property theft, and forced technology transfer), and not as we wish it to be, is the first step to restoring its integrity.
- **Enough is enough with China.** Instead of becoming a more responsible stakeholder in the global trading system 12 years ago, China has arguably become ever more blatant in its determination to marginalize or eliminate foreign competition – or at least it has become shrewder at skirting widely accepted trade rule. Now, too many other nations are deciding it’s better to adopt this Beijing Consensus. Standing firm against Chinese mercantilism will benefit all countries, not just the United States.

Policy Recommendations

- ✓ **Put trade enforcement at the center of U.S. trade and foreign policy:** This means significantly increasing the resources of USTR, the International Trade Administration, and Customs and Border Protection. The Administration must redefine the success of trade policy away from just the number of agreements signed (although this remains important) to overall results achieved, especially in terms of seeing real, concrete reductions in mercantilist practices. To assess this progress, the next administration should charge USTR with the development of a “super 301” report that annually ranks foreign nations on the full extent of their mercantilist practices. The administration should then work to make sure those nations refusing to make progress get slapped with real penalties. The next administration should also request funding for an Office of Globalization Strategy within



USTR and charge it with thinking systemically about the design of U.S. trade policy in the context of globalization to ensure renewed U.S. competitiveness and developing a national trade strategy focused on key strategic industries critical to the future of the U.S. economy.

- ✓ **Work to expand and create key sectoral trade agreements such as the Information Technology Agreement:** Expanding the product coverage scope of the Information Technology Agreement (ITA) could boost U.S. exports by \$2.8 billion and create some 60,000 jobs. In addition, the administration should lead a global clean technology agreement, modeled after the ITA.
- ✓ **Complete a gold-standard Trans-Pacific Partnership (TPP):** The United States is negotiating a trade pact that includes 11 Asia-Pacific region countries—Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. While the TPP is the right approach, the effort will only be worthwhile if the United States concludes a gold-standard trade agreement that includes strong intellectual property protection, market access, and enforcement provisions and holds the countries that sign on to genuinely embrace free trade principles.
- ✓ **Build a new free trade coalition:** The next administration should detail its Vice President to lead an effort to build a coalition with the Europeans, Canadians, Australians, Japanese, and whoever else will come aboard to lay out a renewed vision for globalization grounded in the perspective that markets should drive global trade and investment, that countries should not seek sustained trade surpluses, that currency prices should be set by the market (or at least not manipulated for competitive advantage); and that fair international competition and “good” innovation policies that leave all countries better off. This new alliance of free-trading nations needs to get progressively tougher with systemic mercantilists. Countries that insist on pursuing mercantilist strategies would not be welcomed into this new arrangement. The United States could start this with efforts to establish a TAP, a Trans-Atlantic Partnership: a new trade agreement with Europe and perhaps the Commonwealth nations.

Related ITIF Resources

The Good, the Bad and the Ugly of Innovation Policy

Enough is Enough: Confronting Chinese Innovation Mercantilism



The Global Innovation Policy Index

Boosting Exports, Jobs, and Economic Growth by Expanding the ITA

Ensuring the Trans-Pacific Partnership Becomes a Gold-Standard Trade Agreement



The United States is losing the race for global innovation advantage and the jobs and income that come with it. Many other nations are putting in place superior tax, talent, technology and trade policies and reaping the rewards of higher growth, more robust job creation, and faster income growth. It's not too late for the United States to regain its lead but the federal government will need to act boldly and with resolve to design and implement strategies that include cutting business taxes and boosting public investment. *Winning the Race 2012* is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage. For more actionable policy ideas, visit ITIF's *Policymakers Toolbox* at www.itif.org/policymakers-toolbox.

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