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*The pros and cons of how LBTs like offsets
impact the global innovation economy*

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The Information Technology and Innovation Foundation (ITIF) is a Washington, D.C.-based think tank at the cutting edge of designing innovation policies and exploring how innovation will create new opportunities to boost economic growth and improve quality of life. ITIF focuses on:

- Innovation “verticals”: energy, life sciences, telecom, manufacturing, and Internet and IT transformation
- Innovation “horizontal”: trade, tax, talent, and tech policy
- “Innovation economics” as an alternative to mainstream economics

■ Today's Presentation

1

Contextualizing Economic Development Strategies

2

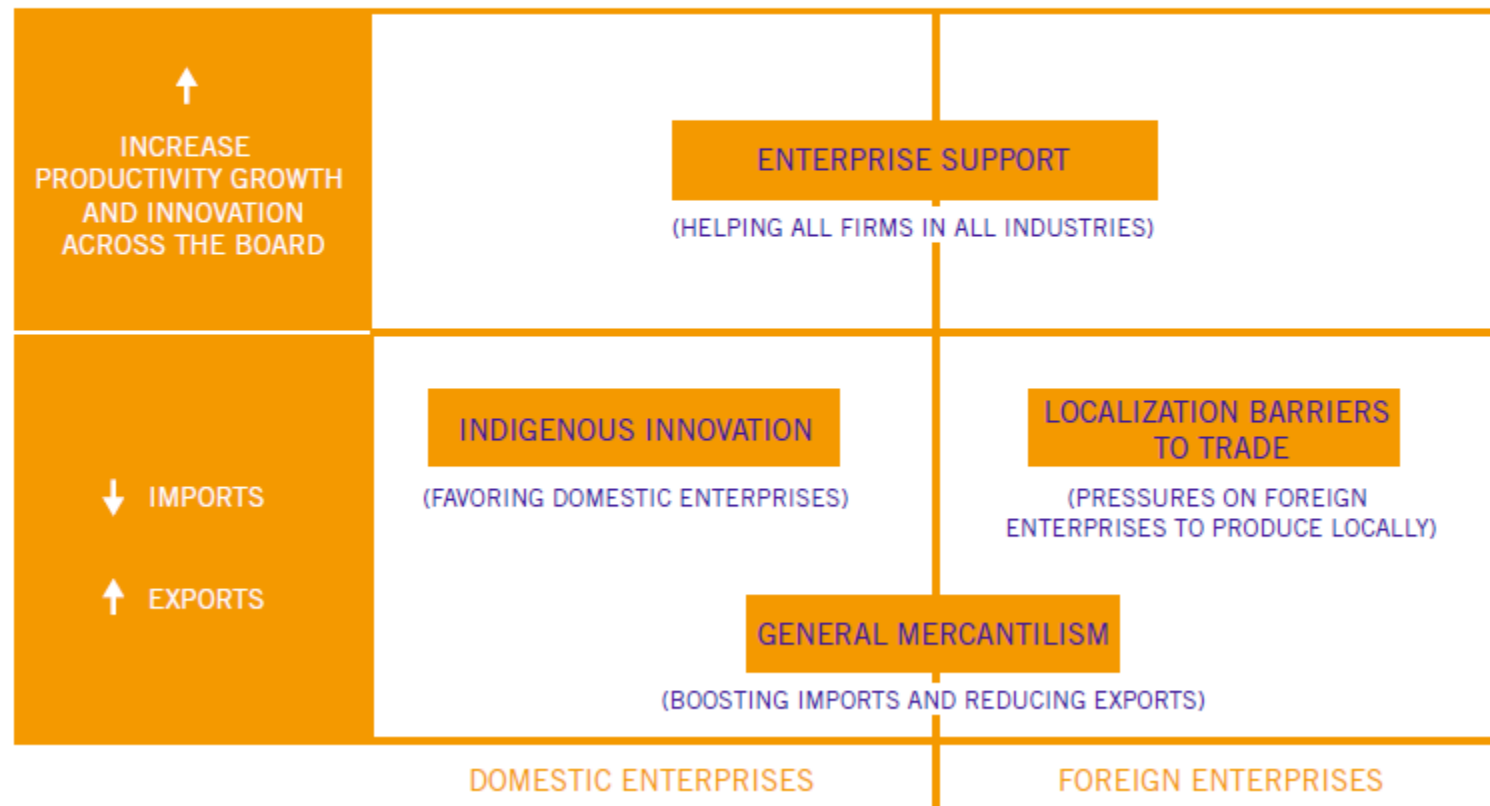
The Impact of LBTs

3

How to Address Continued LBT Use

■ Contextualizing Countries' Economic Development Strategies

A MATRIX FOR UNDERSTANDING GLOBAL ECONOMIC DEVELOPMENT POLICIES



■ Localization Barriers to Trade (LBTs)

- Pressure foreign enterprises to localize economic activity in order to compete in a country's marketplace.
- Force foreign enterprises to produce locally what they would otherwise produce elsewhere and export. Include:
 - Prescriptive offsets;
 - Local content requirements;
 - Forced local production or intellectual property/tech transfer as a condition of market access.

■ Today's Presentation

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The Impact of LBTs

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How to Address Continued LBT Use

■ The Impact of LBTs

LBTs, like prescriptive offsets, can benefit the countries receiving them and their domestic enterprises:

- Modernize the country's industrial production base.
- Foster knowledge transfer and skills development.
- Create jobs and improve current account position.

■ The Impact of LBTs

But while LBTs, like offsets, can deliver near-term gains, they come with costs and can harm several parties:

1. The foreign enterprises affected by them.
2. The nations on the receiving end of them.
3. The global innovation economy.
4. The countries that require them.

■ The Impact of LBTs

1. The foreign enterprises affected by them.

- Raise firms' production costs.
- Lead to reduced ability to invest in R&D/innovation.

■ The Impact of LBTs

2. The nations on the receiving end of them.

- For an **enterprise's home nation**, may lead to facility closures, cutbacks, or diminished expansions, costing jobs and growth.
- But they also hurt other **third-party nations**, who lose the opportunity to compete.

■ The Impact of LBTs

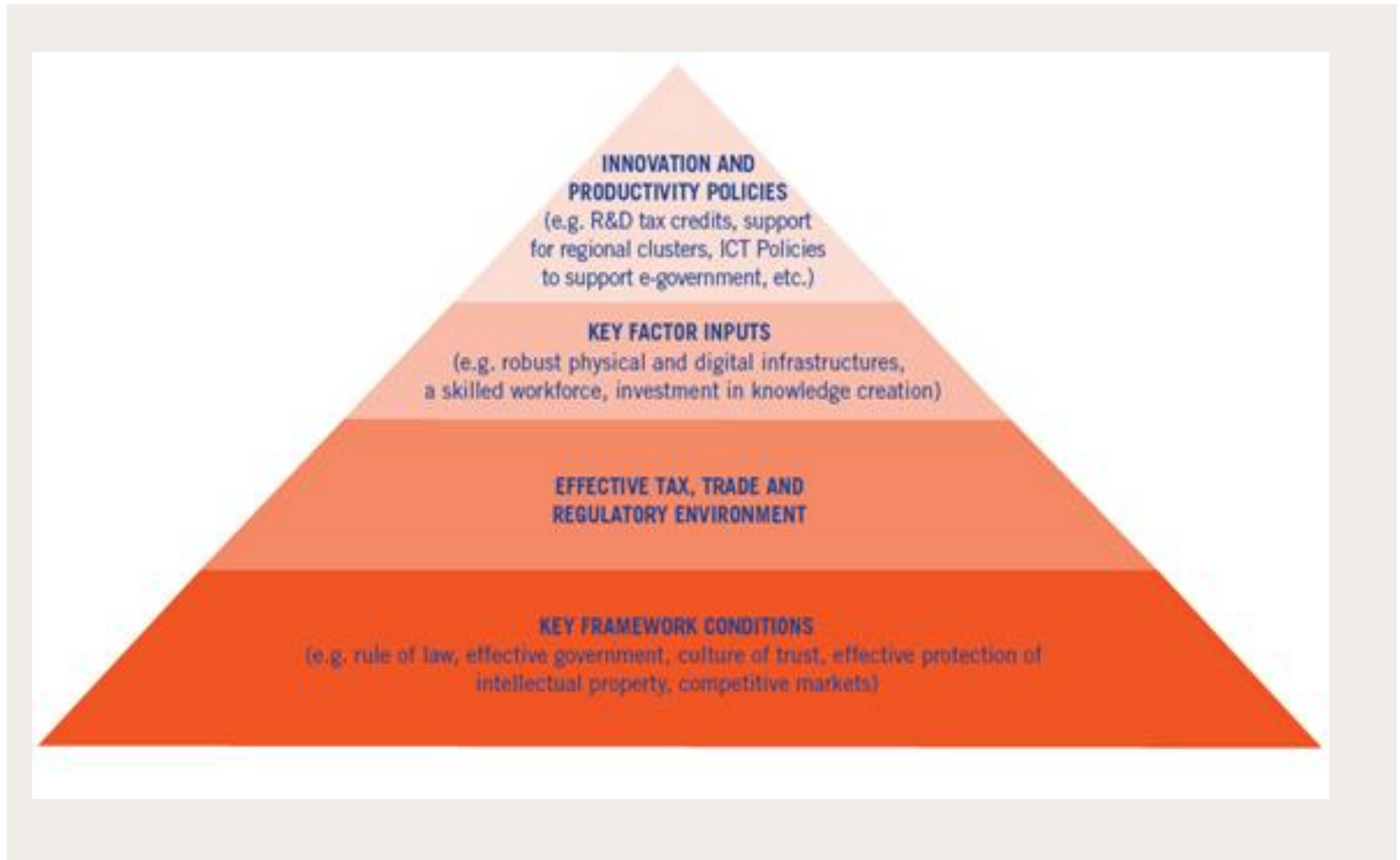
3. The global innovation economy, and innovative industries in particular.
 - Fail to increase the global stock of innovation.
 - Can disrupt the process of innovation in innovative industries.

■ The Impact of LBTs

4. The countries that implement them.

- Inflict economic inefficiencies.
- Can cause reputational harm.
- Engender a slippery slope.
 - Countries would find similar policies enacted by the U.S. or EU intolerable.
- They are a second-best option to winning on merits.
 - Distract countries from putting in place the right types of policies to grow their economies.

■ The Economic Growth Pyramid



■ Today's Presentation

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Contextualizing Economic Development Strategies

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The Impact of LBTs

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How to Address Continued LBT Use

■ How to Address Countries' Continued Use of LBTs

1. Ensure that trade partners meet the trade commitments they have signed up to.
2. Complete high-standard free trade agreements that prohibit the use of prescriptive offsets.
3. Policymakers to need to work with enterprises to *attract* FDI to their countries, not to *mandate* it.

Thank You

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