

## **Global Trade and Innovation Policy Alliance Statement of Principles**

Over the last 20 years, the global economy has become even more tightly integrated, bringing nations closer together, expanding cross-border trade, and creating new opportunities to boost growth and development, particularly by increasing innovation and productivity. However, greater integration has also spurred greater economic competition between nations. This, in turn, has led a growing number of countries to try to win that competition, not just by enacting robust innovation-based economic development policies, but also by implementing mercantilist policies that either compel foreign companies to operate locally or otherwise favor domestic firms at the expense of foreign ones. A key reason why nations increasingly embrace this “innovation mercantilism” is that they see expanding high-tech exports and reducing imports as a key to growth. They haven’t yet placed a policy of increasing productivity and innovation in all industries at the center of economic policymaking—as they must if they are to succeed in the long run. Globalization can generate lasting, worldwide prosperity, but only if all countries share a commitment to playing by the rules and fostering across-the-board, innovation-based growth strategies. Successfully addressing this is the great economic challenge of our times.

As such, we, the members of the **Global Trade and Innovation Policy Alliance**, encourage policymakers to embrace the following ten principles:

**Principle 1: Innovate, innovate, innovate.** It is time for a new approach to globalization and trade, one that is fundamentally grounded in the perspective that innovation—the creation of new or improvement of existing production processes, products, services, and business models—fundamentally drives economic expansion and sustainable development; that markets should drive trade; and that nations should respond to international economic competition by ratcheting up their game and putting in place policies designed to spur innovation and productivity across all industries and enterprises.

**Principle 2: Expand trade and investment.** Expanded trade and cross-border investment are key drivers of increased global innovation, which in turn play a central role in solving the pressing challenges of our day: increasing living standards, improving health, and protecting the environment. Expanding market-driven trade in goods, services, and data fosters innovation by exposing domestic firms to new knowledge and new competitors that entice them to respond by innovating faster. Expanding market-driven trade also gives companies access to larger markets to capture greater gains from their innovative activities, thereby supporting a virtuous cycle of further innovation.

**Principle 3: Leverage core strengths.** Market-based trade benefits all countries by allowing each to specialize in the products or services in which they have comparative or competitive advantages. Yet this does not

mean a slavish devotion to outmoded, 18th-century theories based on trade in “wine” and “cloth.” Nations can and should seek to boost comparative advantage—but by helping their enterprises boost productivity and innovation capacity, not by distorting trade. This does not mean countries should seek to specialize in every technology and industry; rather, they should specialize in markets where they can produce superior products and services, and then trade for the rest.

**Principle 4: Eliminate protectionist barriers.** Trade and investment decisions should be made on the basis of voluntary, competitively determined business considerations. Government policies designed to limit imports and investment, force foreign investment as a condition of market access, or discriminate against foreign firms distort global markets and are detrimental to global prosperity. In many cases, they are also detrimental to the prosperity of the nations that engage in them, in part because they either raise the prices or lower the quality of key capital goods inputs, including information and communications technologies (ICTs).

**Principle 5: Spur across-the-board productivity.** Instead of resorting to trade-distorting measures, countries achieve far more robust and sustainable growth when they embrace productivity and innovation-based economic development models. A foremost goal of these policies should be to boost productivity growth across the board in all industries—traded and non-traded alike—because the vast majority of economic growth for almost all nations comes not from changing their sectoral mix from lower- to higher-productivity industries, but from all industries, even low-productivity ones, boosting their productivity.

**Principle 6: Promote competition.** Competitive domestic marketplaces are among the strongest drivers of innovation and productivity growth. Countries foster competitive marketplaces in two ways: by opening their markets to foreign competition and by limiting regulatory protections and financial subsidies for domestic incumbents, including small businesses. All players should be able to compete on equal terms; no enterprises should be penalized for being more productive, innovative, or larger than others.

**Principle 7: Strengthen fundamentals.** Beyond open trade and competitive markets, success requires governments to get other key framework conditions right. These include the rule of law; a culture of entrepreneurial risk taking; effective protection of intellectual property; a competitive corporate tax code; flexible labor markets; zero tariffs and low taxes on capital goods, especially ICTs; and light-touch, performance-based regulations.

**Principle 8: Set national strategies.** The embrace of market-based trade should not come with an ideological bias against governments actively implementing policies to promote innovation and competitiveness. It is not enough to simply open markets to trade and investment, or to establish other key framework conditions. To maximize growth, governments need well-articulated, distinct strategies addressing competitiveness, innovation, and productivity. This can involve supporting key factor inputs such as robust physical and digital infrastructures, education and training, and research and development (R&D). But it also involves more active innovation policies, such as tax incentives for investments in R&D and new capital equipment; entrepreneurial support programs; technical assistance programs for small- and medium-size enterprises engaging in manufacturing; university technology transfer programs; and support for digital transformation (for example, e-government, broadband support, and digital literacy).

**Principle 9: Focus on creating the conditions for job growth, not on job growth per se.** Nations should put productivity and innovation growth first, along with investing in the education and skills that will equip citizens to better contribute to and benefit from a more innovative economy. If nations get these conditions right, including flexible labor markets and stable macro-economic policies, strong productivity growth will generate the strong job growth countries seek.

**Principle 10: Align global economic policy.** The first and central task of global economic policy and of global institutions—including the World Bank, the World Trade Organization, and the International Monetary Fund, among others—should be to encourage all nations to make boosting innovation and across-the-board productivity growth their top economic priority, while also discouraging innovation mercantilism.

In summary: A country's role in the global economy is to be an intense competitor, but one that advances, rather than detracts from, global innovation. Getting these principles right will not only maximize a nation's welfare, but also global welfare. This is a matter of enlightened self-interest: By maximizing innovation globally, we improve standards of living in more-developed and less-developed countries alike, and we promote solutions to major global challenges, thereby propelling human progress.

Therefore, **WE, the undersigned organizations**, aware that policy needs to be based on evidence to be successful, embrace these core principles of the Global Trade and Innovation Policy Alliance and resolve to collaborate to advance a global agenda that encourages greater market-based global competition and trade liberalization, while at the same time championing a vital, constructive role for governments in accelerating growth and prosperity through innovation.

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