ITIF | INFORMATION TECHNOLOGY & INNOVATION FOUNDATION

Memo

To: Secretary Howard Lutnick, U.S. Department of Commerce

From: Stephen Ezell, Vice President, Global Innovation Policy, ITIF
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Date: March 20, 2025

Re: President Trump's America First Trade Policy

OVERVIEW

We are writing to provide analysis and recommendations as you respond to President Trump's January 20 "America First Trade Policy" to address unfair and unbalanced trade practices that threaten U.S. economic competitiveness.[1] The Information Technology and Innovation Foundation (ITIF) is an independent 501(c)(3) nonprofit, nonpartisan research and educational institute that is recognized as the leading think tank for science and technology policy. As part of our focus, ITIF has extensive expertise in global trade policy and innovation-driven economic growth.

Regarding the President's January 20 memorandum on America First Trade Policy, ITIF has developed a Trade Imbalance Index, which evaluates 48 major economies across 11 key indicators to identify the countries whose trade practices inflict the greatest harm on U.S. industries.[2] Our analysis highlights how mercantilist policies—including market access restrictions, intellectual property violations, digital trade barriers, and discriminatory regulations—systematically disadvantage American businesses and workers.

This memo addresses specific issues enumerated in the President's January 20 memo. It outlines targeted policy responses to those challenges, including strategic enforcement actions, reciprocal tariff measures, expanded trade agreements, and stronger digital trade protections. We emphasize a data-driven approach to addressing trade distortions while maintaining open and fair global markets.

ITIF stands ready to support the administration in advancing a trade strategy that strengthens U.S. technological leadership, protects innovation, and ensures a level playing field for strategically important American industries.

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[1] The White House, "America First Trade Policy," January 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/.

[2] Stephen Ezell, Trelysa Long and Robert D. Atkinson, "The Trade Imbalance Index: Where the Trump Administration Should Take Action to Address Trade Distortions" (ITIF, March 2025), https://itif.org/publications/2025/03/10/the-trade-imbalance-index-where-the-trump-administration-should-take-action/.

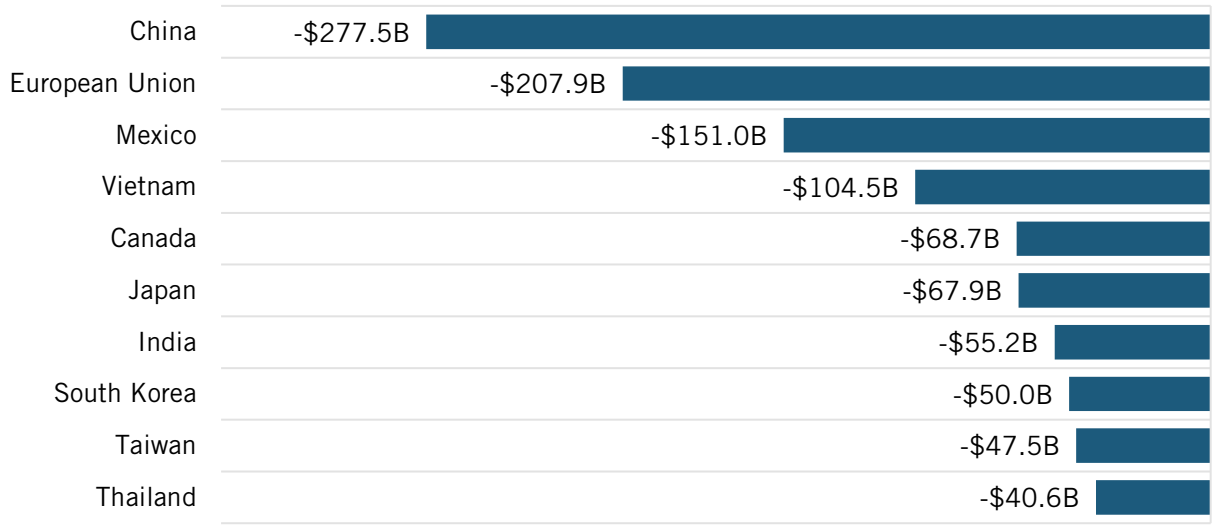
SECTION 2(A): TRADE IMBALANCE

ITIF's aforementioned Trade Imbalance Index evaluates 48 major economies based on 11 key indicators, highlighting the nations that systematically distort trade to the detriment of U.S. industries.

By analyzing trade balances, tariff and non-tariff barriers, regulatory policies, intellectual property violations, and digital market restrictions, ITIF has pinpointed the countries that warrant the greatest policy attention. The study emphasizes that rather than imposing tariffs across the board to advance its agenda, the administration should focus its countermeasures on nations that engage in mercantilist policies, restrict market access for American firms, and fail to uphold fair competition.

Figure 1 shows the nations that had the highest bilateral trade surpluses with the United States as of 2023.

Figure 1: U.S. bilateral trade deficits in goods and information services, 2023

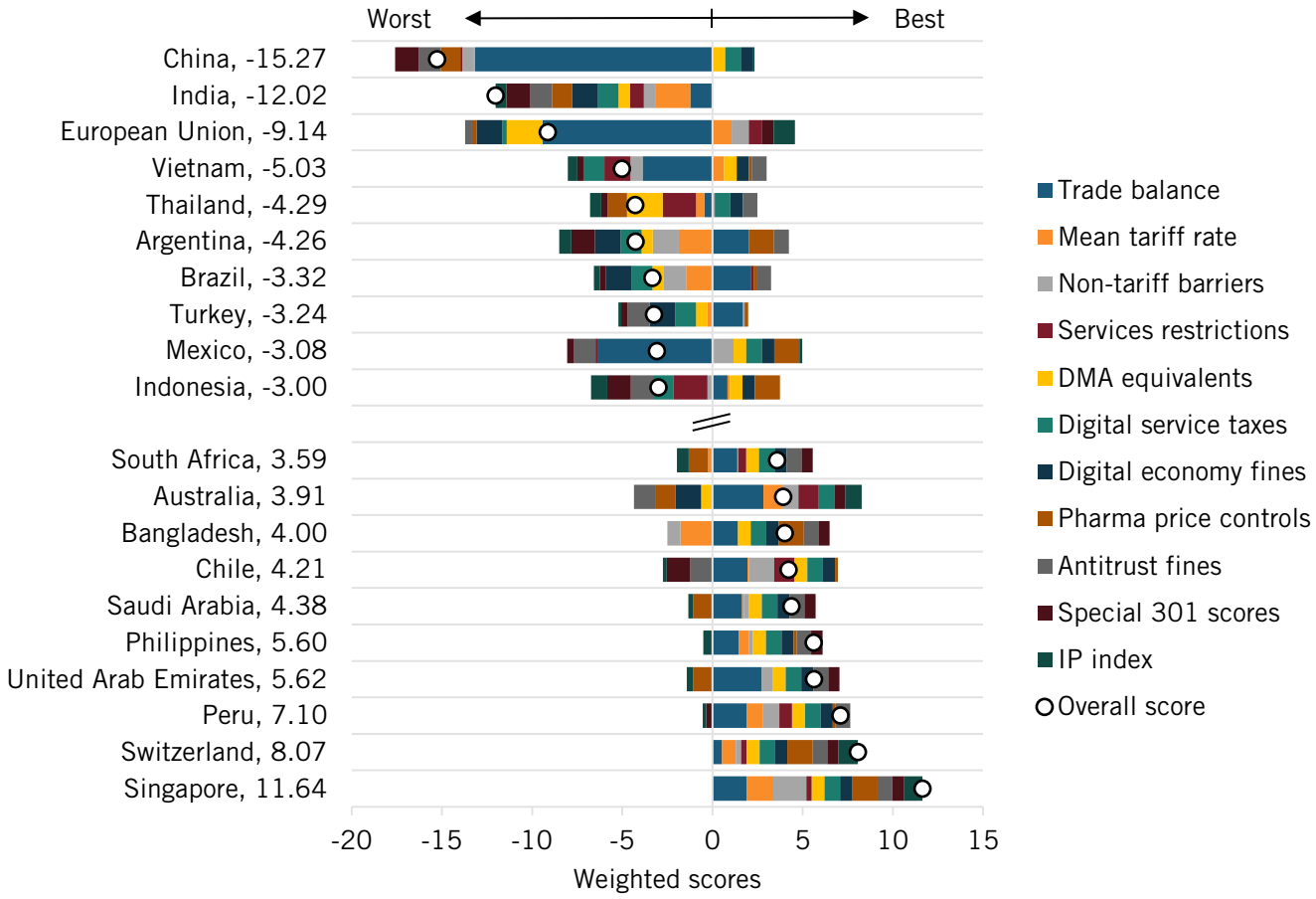


However, we believe that America's bilateral trade balance with a given country is not necessarily the most important factor in determining whether the Trump administration should prioritize that nation for a trade response. Ultimately, more important than bilateral trade balances are the underlying factors affecting U.S. trade with a given country. So, even if a country runs a trade deficit with the United States, there may be reason for the Trump administration to confront it if the country employs a significant number or degree of unfair trading practices.

Weighing these considerations, figure 2 shows China, India, and the European Union rank as the trading partners that require the most attention, followed by Vietnam, Thailand, Argentina, Brazil, Turkey, Mexico, and Indonesia.

At the other end of the spectrum, Singapore, Switzerland, and Peru can be considered to be the nations with which the United States has the most positive bilateral trading relationship. They are followed by the United Arab Emirates, the Philippines, Saudi Arabia, Chile, Bangladesh, Australia, and South Africa.

Figure 2: Overall scores in ITIF's Trade Imbalance Index[3]



Recommendations

Targeted Tariffs

Adopt a targeted, reciprocal approach to tariffs rather than implementing universal, blanket tariffs: This means that tariffs should be imposed selectively on trading partners that engage in unfair trade practices rather than applying broad-based duties across entire sectors or technologies. This will ensure that tariff measures are precisely tailored to offset specific trade distortions rather than cause widespread economic harm.

Additionally, when partner nations take steps to address U.S. concerns—for example, by enhancing border enforcement—the tariff threats (or application) should be removed, reinforcing a system of reciprocal tariff relations, especially when those tariff levels have already been negotiated in good faith by free trade agreement (FTA) partners, such as Canada and Mexico.

Ultimately, the goal is to foster an environment where both tariffs and behind-the-border trade restrictions are mutually balanced, ideally leading to zero tariffs among trading partners, thereby promoting fair and equitable trade relationships that benefit all parties involved.

[3] Ibid.

Mirror Taxes on Extraterritorial Digital Taxes

Impose mirror taxes on countries that levy extraterritorial digital taxes on U.S. firms: Instead of simply accepting these discriminatory taxes, the United States should counterbalance them by taxing the global revenues of those foreign companies in a similar manner. This approach ensures that the tax burden is shared more equitably and helps protect U.S. businesses from competitive disadvantages.

Furthermore, these mirror taxes should be structured to expire once international tax rules are agreed upon or when foreign digital taxes are repealed, promoting a fair and reciprocal digital trading environment. Ultimately, the goal should be to thoroughly eliminate these types of digital services taxes, not their continued imposition.

Expand Trade Agreements

Expand existing trade agreements to cover more sectors and eliminate more tariffs, thereby creating a more balanced and innovation-friendly trading environment. This could involve broadening the scope of the Information Technology Agreement (ITA) to include a wider array of information and communications technology products and more countries. It could also include an expansion of the "zero-for-zero initiative" removing tariffs among participating nations on pharmaceutical products (i.e., expanding the Pharmaceutical Goods Agreement).

One could even conceptualize creating an "Innovation Technology Agreement" that rolls up the ITA, Pharmaceutical Goods Agreement, and proposed Environmental Goods Agreement, thus eliminating tariffs on a wide variety of high-tech goods and their components across participating nations.

By doing so, the United States can help ensure that trade relations are reciprocal and that tariffs do not distort market competition, ultimately fostering a more level playing field for domestic industries and better supporting global innovation.

Further, the United States should aggressively pursue new FTAs with willing and ready like-minded nations, such as the United Kingdom, India, and Kenya.

Fair Pricing for Innovative Medicines

Ensure that other nations pay their fair share for innovative medicines: This measure aims to prevent price controls that enable foreign buyers to pay significantly less than U.S. consumers for innovative medicines, which in turn undermines the profitability of and incentives for pursuing breakthrough U.S. biopharmaceutical innovation.

By advocating for fair pricing at international negotiations—or, if necessary, filing a World Trade Organization (WTO) case on the grounds that such controls violate intellectual property rights and enable parallel trading—the United States can help create a level playing field.

This approach would support continued investment in research and development while ensuring that the benefits of innovation are not eroded by discriminatory pricing policies abroad.

China-Specific Trade Remedies

Develop China-specific trade remedies to counteract the wide range of unfair practices that China employs: This includes charging USTR with preparing a comprehensive "China Bill of

Particulars" report that documents that nation's extensive catalog of mercantilist policies, such as massive industrial subsidies, forced technology transfers, and intellectual property theft.

By pinpointing these specific issues, the United States can tailor its countermeasures—whether through targeted tariffs, sanctions, or other legal mechanisms—to address the distortions caused by China's practices directly.

Ultimately, these measures aim to protect U.S. industries, promote fair competition, and encourage China to adopt market-based policies that benefit all trading partners.

Digital Trade Enforcement

Enhance digital trade enforcement by revising existing legal frameworks to better address digital trade barriers: This would involve amending Section 301 of the Trade Act of 1974 to explicitly target discriminatory digital regulations—such as the EU's Digital Markets Act—that impose unfair restrictions on U.S. tech companies.

The objective is to ensure that retaliatory measures, including tariffs, taxes, or other restrictions, can be swiftly applied to foreign digital service providers whose practices disrupt American enterprises' fair market access.

By enforcing robust digital trade rules, the United States can protect its domestic digital economy and promote a balanced, competitive global digital market.

Conditional U.S. Foreign Aid

Make U.S. foreign aid conditional on recipient countries refraining from engaging in digital protectionism, intellectual property theft, or other unfair trade practices undermining U.S. techno-economic interests: By tying aid to compliance with these principles, U.S. policymakers can ensure taxpayer dollars do not inadvertently support regimes or policies distorting global markets.

This approach would leverage American financial influence—through institutions such as the InterAmerican Development Bank or the World Bank—to promote reforms that foster fair, competitive, and innovation-driven trade practices, thereby protecting domestic industries while advancing broader geopolitical and economic objectives.

SECTION 3(E). RECIPROCAL INTELLECTUAL PROPERTY RIGHTS WITH PRC

China has long employed an unbalanced technology licensing regime with the United States and other foreign trade partners. For instance, under Chinese contract law and technology import-export regulations (or TIER), foreign licensors in China were long obligated to offer an indemnity against third-party infringement to the Chinese licensee.[4] Another provision in TIER mandated that in technology-import contracts, improvements belong to the party making the improvements, which typically is the Chinese licensee.

To address this issue, the United States (through Congressional legislation if necessary) should enact a regime whereby if Chinese entities seek licenses in the United States, then the Chinese

[4] Stephen Ezell, "Re: Docket No. USTR-2017-0016 Initiation of Section 301 Investigation," testimony to the Office of the United States Trade Representative, October 25, 2017, https://www2.itif.org/2017-china-transfer-ip-innovation.pdf.

enterprise must license on the same (or better) terms by which foreigners are required to license into China.

Another way to protect and retain U.S. comparative advantage in advanced-technology industries would entail passing legislation requiring notification to the U.S. government on a confidential basis of technology licenses to China and of transactions in China in which the Chinese government or Chinese government-affiliated entities are involved.

SECTION 4(A). INDUSTRIAL BASE AND IMPORTS THAT THREATEN NATIONAL SECURITY

The President's January 20 memorandum directed a review of the U.S. industrial and manufacturing base to "assess whether it is necessary to initiate investigations to adjust imports." ITIF recommends the following actions to ensure that these reviews are constructive and can help identify genuine vulnerabilities in critical supply chains and national security concerns.

Recommendations

Focus on Genuine National Security Threats, not Economic Protectionism

Section 232 investigations should be reserved for legitimate national security concerns rather than being used as a backdoor mechanism for broad economic protectionism. Commerce would benefit from establishing clear, evidence-based criteria that distinguish between actual security threats and normal commercial competition.

Recognize the Integrated Nature of Global Supply Chains

Any review should acknowledge that intermediate goods account for approximately 51 percent of U.S. imports and are essential inputs for domestic manufacturing. Applying tariffs on these inputs—particularly in advanced industries—often harms downstream U.S. manufacturers more than it helps upstream producers. The 2018 steel and aluminum tariffs demonstrated this dynamic, with costs to downstream industries far outweighing benefits to metals producers.

Differentiate Between Allies and Strategic Competitors

The review should distinguish between imports from allies that share American values and security interests versus those from nations engaged in systematic unfair trade practices. Blanket tariffs that fail to make this distinction undermine the ability to build coalitions to address the most serious challenges to fair trade, particularly those posed by China's innovation mercantilism.

Consider Alternative Policy Approaches

Rather than defaulting to tariffs, the review could consider a broader range of policy solutions, including:

- targeted investment in domestic production capabilities for truly critical components;
- R&D funding to maintain technological leadership;
- coordinated approaches with allies to counter unfair trade practices; and
- export control agreements that protect sensitive technologies.

Conduct Comprehensive Economic Impact Analysis

Any recommendation for import adjustments should include rigorous economic impact assessments that account for effects on:

- downstream industries that rely on these imports;
- U.S. export competitiveness;
- long-term innovation capabilities;
- consumer costs; and
- overall economic growth.