Trade

Why do startups care?

Startups have flourished with the growth of digital trade, as online services facilitate transactions and communications across borders. However, tariffs and regulatory burdens impose barriers to entry for startups. In addition, trade-related conflicts inject uncertainty into the economy and inhibit startups' ability to grow. Trade policy should seek to lower these barriers, increase market access, and promote stability to ensure startups are well positioned to prosper.

Key Takeaways:

- Trade policy should seek to lower tariffs, reduce regulatory burdens, increase market access, and promote stability to ensure that startups are well positioned to prosper.
- Trade negotiators should not compromise on the United States' intermediary liability framework, nor allow barriers to digital trade. Exporting American laws and promoting digital trade will increase the growth, innovation, and international competitiveness of American startups.

Where are we now?

USMCA: The United States-Mexico-Canada Agreement (USMCA) entered into effect on July 1st, 2020, replacing the North American Free Trade Agreement (NAFTA). Canada and Mexico are the two largest trading partners for American startups. The USMCA includes a balanced intellectual property framework, de minimis increases and a novel digital trade chapter. Startups are expected to benefit from USMCA, which stands to increase innovation, and become the gold standard for future free trade agreements.

Digital Services Taxes: Though the Organization for Economic Cooperation and Development (OECD) is currently engaged in developing a digital services taxation (DST) regime, other countries are independently discussing and passing their own DSTs that would disproportionately impact U.S. companies. While DSTs are largely geared at high-revenue tech companies, these taxes could lead to a downturn in startup activity, due to additional costs imposed on small businesses.

Future Trade Agreements: As the U.S. explores new trade agreements, negotiators could consider using the USMCA's digital trade provisions as a starting point. Digital privacy regulation may be a sticking point in future agreements, but the U.S. should only agree to a balanced privacy regime unencumbered by onerous requirements that will squash startups and reduce competition.

COVID-19 & Globalization: The COVID-19 pandemic which has exacted a devastating human cost, has also interrupted trade and strained international relations. Policymakers should resist the urge to pull back from global connectivity. Trade barriers should be kept low and access to markets maintained so that startups are well-positioned to succeed and power us out of the current economic crisis.

China: The Trump administration has sought to remedy what it sees as China's unfair trade practices—forced technology transfer, cyberattacks, intellectual property theft—through the use of tariffs. Though the administration reached a "phase one" deal with China this year, it has since fizzled. Tariffs are poor negotiating tools as they dampen startup activity and job creation, chill innovation, increase costs, and will make American startups less competitive abroad. While the cessation of such malign behavior by the Chinese will benefit American innovation, using tariffs serves to harm the constituency that the administration desires to protect.