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Strategic Techno-Economic Agreements: Trade deals in a geopolitically convoluted era

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This essay contains extracts of a forthcoming Information Technology and Innovation Foundation (ITIF) report, titled "From Free Trade to Strategic Techno-Economic Agreements."

Introduction

The rise of China changed the trajectory of US-led globalization, and now the global trade system is drifting into the unknown.

Trade is not neutral. It has always reflected national interests, and what comes next in the global trade architecture should reflect the geopolitical moment. The post-Second World War globalization first took shape among Western-bloc countries during the Cold War and sharply accelerated after the fall of the Soviet regime. Those two phases were, to a great extent, models tailored for geopolitical purposes — first to compete with the Soviet Union, later to reflect the United States' "unipolar moment." The rise of China changed this trajectory, and now the global trade system is drifting into the unknown. This article proposes and explains a feasible way of thinking about trade deals during the 21st-century Great Power competition: incorporating the notion of strategic techno-economic agreements.

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Trade and geopolitics go hand in hand

No country alone can counterweigh a juggernaut like China, with its tremendous market size and manufacturing capacity.

The US-China strategic competition is quintessentially a race for techno-economic dominance. This is substantially different than the Cold War period. The Soviet Union was a geopolitical and military rival of Western democracies. Still, it was not a significant market, a supplier of intermediate goods, or a serious competitor in trade and foreign direct investment. This is in part because the Soviet bloc largely closed itself off from postwar US-led globalization and chose to run its economy on hardline principles that proved ultimately its undoing. China is challenging the United States and allies across all these fronts.

To be sure, the United States is not fully equipped to compete with China. No country alone can counterweigh a juggernaut with its tremendous market size and manufacturing capacity. Democracies should seek to build an economic bloc to do so, as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was initially intended. The risk of not doing so is deepening de-industrialization and dependencies on China as the "world's factory."

It is clear that the Trump administration challenges the current alliance architecture. It has imposed tariffs on friends and foes alike — some even higher than those on China. It has ignored, dismantled, and destabilized even the most longstanding of its international commitments. Yet, two things are certain. First, there are voices within the Trump coalition recognizing the need for a collective, allied approach to Great Power competition. Second, America's political cycles fluctuate; China's subversion, variously subtle and overt, of the global trade system stems from a fundamental goal of global dominance in advanced-technology industries.

Chinese foreign and trade policies have been as cautious as the Trump administration's have not. The quiescence belies a history of deploying economic coercion by way of its enormous market. Many US allies have come to recognize the scope of the challenge posed by China's mercantilism. In the early 2020s, when Australia pushed to phase out Huawei from its 5G telecommunications systems and began questioning China's official narrative on the origin of the COVID-19 pandemic, China used its trade leverage in an attempt to cow Australian policy. China's strategy was to impose substantial costs across the economy by implementing import bans and high tariffs on many of Australia's key export sectors. A more detailed repository is a recent book, *China's Weaponization of Trade*, which reports over 600 cases of "China's economic bullying." Many European Union (EU) and UK officials have expressed concerns about Chinese-subsidized industries flooding their markets and displacing their manufacturing capabilities. For the so-called Global South, where China has lavished infrastructure building, dependencies on the Chinese market risk premature de-industrialization, narrowing their economic growth opportunities as exporters of commodities and labor-intensive services.

The existing approach to expanding globalization fails the reality test.

Why free trade agreements fall short

Treating all economic sectors equally for trade priorities omits the supply chain dependencies, the embedded knowledge within production systems, the rising value of services within traded merchandise, and ultimately the intertwined relationship between manufacturing and geopolitics and defense capabilities.

A global trade architecture that aims to progressively reduce trade barriers — an idea the authors generally support — functions as a prisoner's dilemma. Trade barrier reductions work if all countries are on board with this project; China, while it has opened its economy compared to before its World Trade Organization (WTO) accession, has selectively limited market access in strategic sectors. The WTO opened the door for China to join the organization, but they failed to realize that the WTO, as it is structured, could not keep up with or adapt to systemic lacunae created by the entry of non-market economies that grow to the extent that China's has. Indeed, China has failed to fully meet numerous WTO commitments on issues such as industrial subsidies, the protection of foreign intellectual property (IP), the requirement to enter into joint ventures and transfer technology, and the provision of market access to service industries.

Another problem is the general idea that all economic sectors are equal. A now-famous quote reflecting the core idea built during the post-Cold War era is "potato chips, computer chips — what's the difference?" attributed to Michael Boskin, chair of the White House Council of Economic Advisors in 1992, when asked if the United States should have an explicit semiconductor policy. Free trade agreements were built under that approach. A basic condition for having WTO-compliant free trade agreements is that these deals need to cover "substantially all trade."

This is particularly problematic when the largest economy, China, does not fully adhere to WTO commitments and is consolidating its position as the "factory of the world." Treating all economic sectors equally for trade priorities omits the supply chain dependencies, the embedded knowledge within production systems, the rising value of services within traded merchandise, and ultimately the intertwined relationship between manufacturing and geopolitics and defense capabilities. This is now becoming evident in light of events during the 2020s. The pandemic and subsequent supply chain disruptions, the deployment of technological and tech-reliant chokepoints, and Russia's ability to sustain its invasion of Ukraine with various forms of support from China.

America no longer sees free trade as a viable trade policy. The United States began to reject free trade on a bipartisan basis from the 2010s, yet without a long-term, positive strategy, especially to keep China from taking over advanced production globally. In 2016, Congress and both presidential candidates — Donald Trump and Hillary Clinton — rejected the idea of the United States joining the Trans-Pacific Partnership (TPP), an economic bloc in the Asia-Pacific region designed by the US to exclude China. Since then, the United States has pivoted to more protectionist policies, first gradually through targeted tariffs during the first Trump administration and their retention and selective expansion during the Biden administration, and later more radically, with drastically higher tariffs on nearly all countries during the second Trump administration.

There are many reasons for America's radical departure from its previous push for free trade. First, US trade policy was largely blind to the harm that foreign countries might inflict on strategic industries, particularly in advanced

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manufacturing. Both companies and US policymakers supported offshoring to relocate production to lower-cost jurisdictions, under the assumption that this process would ultimately benefit US interests. In some cases, it did; in others, it did not.

Second, the United States failed to transition to specializing in high-value goods and services to offset potential losses from multinationals' offshoring production outside the country. This failure stemmed from both the supply side, i.e., the performance of the policy in delivering its intended purpose as well as related US investments in its own education system and workforce development — and the demand side of the job market, as countries where production was offshored advanced up the value chain faster than anticipated, ultimately competing with the United States.

Third, while the post-Cold War period was marked by significant reductions in tariffs, other economies were enacting "behind-the-border" barriers, broadly termed non-tariff barriers. The WTO's Doha Round in 2001, the last and abortive round of trade negotiations among the WTO members, envisioned a global system with reduced barriers to trade but it has failed to keep that promise.

Finally, and arguably most importantly, China's accession to the WTO in 2001 and subsequent failure to fulfill its accession commitments upended the global trade system. The WTO system was not structured to address a large economy directly antithetical to its fundamental principles of market-oriented policies.

In this context, we propose an alternative to free trade agreements that acknowledges geopolitical priorities while keeping zero-for-zero tariff reductions and the reduction of trade barriers as feasible goals.

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Strategic Techno-Economic Agreements as an alternative to FTAs

STEAs should be built on two pillars: advancing the competitiveness of partners' strategic industries and countering Chinese trade irritants.

Strategic Techno-Economic Agreements (STEAs) should be a unified, binding set of provisions that secure America's and its partners' global leadership in advanced-technology industries. STEAs go beyond trade facilitation — which is one of their components — and should encompass specific chapters covering the development of what our work in ITIF defines as "national power industries": advanced, traded-sector industries that form the foundation of military strength, economic resilience, and strategic independence, and the protection of proprietary technologies from access by rivals. A STEA would be:

- **Strategic**, because of its objective of strengthening US international alliances in ways that would degrade strategic advantages held by adversaries.

- **Techno-Economic**, due to its focus on advanced, traded-sector industries that form the foundation of military strength, economic resilience, and strategic independence.

- **Agreements**, since they are well-defined, binding long-term commitments. While diplomatic language is often flexible, there exists a broad consensus that agreements are binding commitments with specific obligations, whereas other mechanisms, such as partnerships, are more broadly defined and non-binding forms of cooperation. As the US Mission to the United Nations notes, "Most states reserve the term 'agreement' for legally binding instruments and refrain from referring to non-binding instruments as 'agreements.' They do so specifically so that the term 'agreement' may be used to distinguish legally binding instruments from non-binding instruments."

The concept of "agreement" is also pragmatic. In diplomacy, 'agreements' and 'treaties' have the same practical binding effect. However, the US Constitution governs treaties, requiring two-thirds of the Senate to approve them. On the other hand, international agreements are not defined in the US Constitution, and they require a simple majority in both houses to be approved.

STEAs should be built on two pillars, each supporting the others. The pillars focus on advancing the competitiveness of partners' strategic industries and countering Chinese trade irritants. These components should be understood as the minimum basis for such agreements.

Pillar 1: Advance allies' economic development of strategic industries

Access to the US consumer market is arguably one of the most significant levers the United States can use in trade policy.

The development of strategic industries should be understood in a broader context, including competitiveness, technological advancements in these industries, and expansive defensive capabilities. This is a more comprehensive way to understand competitiveness than in traditional trade agreements, and should include commitments to joint technology development.

Preferred market access

Parties should agree to implement zero-for-zero tariffs if they comply with all the other components and provisions of the agreement.

Access to the US consumer market is arguably one of the most significant levers the United States can use in trade policy. Despite the erratic rollout of the tariffs and the government's failure to identify China as the real target for correcting trade imbalances, the current restructuring of the trade system gives the United States unique negotiating power hinges on whether it can credibly offer market access, which it is failing to do. If there is genuine intent and interest in providing market access to allies by lowering tariffs to zero under certain conditions, those conditions can create an environment in which the strategic industries of the STEA economic bloc can thrive. This is the core of the STEA's proposal — a set of minimum conditions that allies and like-minded countries should follow to achieve the strategic dual goal. In exchange, US trade partners will both strengthen their capabilities to address Chinese mercantilism and gain access to the US market under a zero-for-zero tariff scheme.

Digital economy integration

The STEA should be the world's template for digital trade rules, with modern, binding provisions that enable digital market integration, foster a competitive environment, and improve the user experience. The key provisions that are present in the US-Mexico-Canada (USMCA) digital trade chapter and in the e-commerce chapter of CPTPP could be the basis, including permanent binding provisions on the moratorium on customs duties on electronic transmissions and digital products. A digital product is the content or item, while electronic transmission refers to its delivery method. Other provisions in the USMCA and CPTPP that can serve as a template include non-discriminatory treatment for digital products; a ban on data localization; free cross-border transfer of personal information for business purposes subject to privacy protections and public policy exceptions; and a prohibition on the transfer of source code as a condition for market access.

STEA should then go beyond these. First, it should contain a binding provision banning digital service taxes (DST), as they have proven to be distortive, discriminatory against a narrow set of companies and sectors, and unfairly punish the same transactions depending on the platform on which they are made. Second, the digital economy chapter of the STEA should avoid broad carve-outs that allow a de facto circumvention of the digital rules described above, for example, by heavily narrowing or avoiding public procurement exceptions.

The idea of prioritizing a like-minded international alliance in strategic sectors is neither new nor necessarily Western.

Collaboration in advanced technology industries

China's panoply of support measures for its advanced industries is so extensive that it will be hard for any particular country's industries to respond effectively. What is required is much more cooperation among allies. This shared collaboration will entail joint initiatives to articulate and streamline technology partnerships for strategic industries, such as quantum, semiconductors, nuclear fusion, and biotechnology, and to align aid and development funding for third parties to gain market share in these sectors.

The idea of prioritizing a like-minded international alliance in strategic sectors is neither new nor necessarily Western. They refer to control over critical sectors that dominate any epoch's economic activity, be it heavy manufacturing and mining in the early years of Leninist Russia or the more modern ones in technology and data.

High-skilled talent movement

Parties should agree to facilitate visas for highly qualified students and professionals, particularly those with science, technology, engineering, and mathematics (STEM) degrees and/or working in strategic, advanced-technology industries. This would require the US to reverse increasingly higher impediments to H-1B visas — employer-sponsored visas for foreign professionals in "specialty occupations" — and for future administrations to change the nation's thinking on and approach to immigration policy radically.

Defense production

Parties should commit to cooperating in dual-use and defense technology research and manufacturing. STEA members need a strong dual-use defense industrial base. The network of US alliances provides a strong base for military-to-military cooperation. However, defense spending and production requirements have, so far, been left out of trade negotiations.

Joint antitrust interpretation

Parties should agree to incorporate international competitiveness considerations into their antitrust frameworks. Antitrust enforcement functions under a consumer welfare standard that has proven flexible enough to address different competitive harms but lacks formal mechanisms to consider international competitiveness implications.

Non-market economies clause

No party should sign binding commitments with non-market economies, such as China, without prior agreement of the other parties. The USMCA has a similar clause, and the US government is currently adding similar provisions in its trade negotiations — for example, it has signed such clauses with Cambodia, Guatemala, Malaysia, and Taiwan. This provision would not exclude STEA partners from maintaining trade and economic relations with China, but it would provide a means to deter China from indirectly entering the economic bloc's supply chain in strategic technologies and weaken the other provisions of this agreement.

Pillar 2: Limiting the outreach of China's non-market system

The EU's Anti-Coercion Instrument serves as a retaliatory instrument, primarily addressing a specific type of unfair practice: economic coercion.

Promoting allied advanced-technology industries — summarized in Pillar 1 — is necessary but not sufficient. Western companies would continue to compete with a hand tied behind their backs if there are no collective agreements establishing an effective, comprehensive battery of policies to constrain how Chinese companies compete in local markets.

Immediate reciprocity

Parties should have a reciprocal approach to addressing the extensive non-tariff barriers (NTBs) and other technical barriers to trade (TBTs) that China has erected to impede US (and allied) companies' ability to compete in China. This means mirroring the restrictions that China imposes on Chinese companies in its market. For example, if China threatened to place a country's firms on its "Unreliable Entity List," the participating nations could agree to limit imports from Chinese firms that compete with the listed company. In addition, STEA parties should agree to adopt a policy of strict reciprocity regarding products and services that Chinese companies freely sell in overseas markets but that foreign companies are precluded from selling, or are heavily regulated in selling in China, such as search engines and some social media apps. Such restrictions or limitations should retain legal effect only so long as the Chinese policy remains in effect.

Fully integrated investment screening

Parties should implement shared mechanisms to prevent the inflow of Chinese investment connected to the Chinese military or investments that make strategic industries' supply chains vulnerable. For example, all signatories should commit to minimum investment screening procedures and have similar rules for approval for Chinese joint ventures.

Full export control alignment

Parties should be fully aligned on banning the export of or restricting the use of certain critical technologies outside the economic bloc. Export controls represent a vital tool for limiting rivals' access to cutting-edge technologies. So far, the main approach has been unilateral export controls by the United States, with ex post negotiations with allies such as Japan and the Netherlands following. This creates incentives for countries to seek strategic advantage for their companies — ultimately benefiting China.

Joint investigations on unfair trade practices

Parties should jointly conduct investigations to identify and combat unfair foreign trade practices by China. Some jurisdictions currently have instruments to address foreign unfair trade practices. The United States has the now-famous Section 301 of the Trade Act of 1974, a tool that allows the executive to initiate investigations into a range of unfair trade practices. The EU's Anti-Coercion Instrument also serves as a retaliatory instrument, primarily addressing a specific type of unfair practice: economic coercion.

China remains the world's most significant practitioner of IP theft, content piracy, and the export of counterfeit goods, according to the Office of the US Trade Representative.

Yet, precisely because of the scale of the Chinese economy and the breadth of its productive capacity, unilateral measures are necessary but not sufficient. In the face of unilateral retaliation, China simply redirects its trade and floods other markets. This is why signatory parties to the STEA should implement a legal framework that enables joint investigations, as Chinese non-market practices affect all third countries.

Joint fund to reverse Chinese technology adoption

Parties should seek to establish a joint fund to offset the switching costs of phasing out Chinese technologies. This approach should be an extension of what the US government did with the "rip and replace program," an incentive scheme that reimburses the replacement costs of removing Huawei and ZTE equipment from US telecommunications providers. To operationalize this fund, for example, signatories could allocate initial capital to the joint fund in proportion to their economies' sizes and fiscal capabilities. For countries that might be fiscally constrained, the fund's initial capital investment could be provided by borrowing from the US Treasury, for example, through the US International Development Finance Corporation (DFC).

Coordinated import ban on fraudulent goods

Parties should take measures to prevent companies with a sustained record of IP infringements from entering their markets. This would mean, in practice, banning imports from IP-infringing companies in all countries that are signatories to the STEA. It is clear that the current approach — countries banning specific products, without cross-border coordination — is insufficient. China remains the world's most significant practitioner of IP theft, content piracy, and the export of counterfeit goods, according to the Office of the US Trade Representative.

Sharing commercial counterintelligence

Counterintelligence within a STEA economic bloc should, among other tasks, help companies gain more complete information about the environment in which they operate so they can more effectively reduce information loss to competitors. These companies are currently competing against rivals that benefit from their home country's counterintelligence efforts. Western advanced-technology companies are often targeted by foreign intelligence services seeking to obtain valuable knowledge and other IP surreptitiously. To accomplish all this, the signatories of STEA should agree to establish a mechanism for interagency coordination on counterintelligence outreach programs.

How to make the Strategic Techno-Economic Agreement feasible

The United States' reputation among some allies has been heavily damaged and self-inflicted to the point that there are now political disincentives to partnering with the United States.

As the United States is engaged in trade negotiations with many countries, the first steps toward building a durable economic bloc among like-minded democracies are to demonstrate commitment and implement reforms that enable the more significant policies within the components of the STEA. For the United States, this would entail recalibrating its trade policy to center on the techno-economic competition with China. This means reversing or changing some policies and approaches that treat allies and trade partners in the same category as China. An illustrative example of the type of policies that should be reversed or narrowed to separate allies from China is the February 2026 announcement of a Section 301 investigation into structural excess capacity and production in the manufacturing sectors of 16 economies, including China, the EU, Japan, Mexico, South Korea, and Taiwan.

For other trade partners, the first steps should be to acknowledge trade irritants with the United States and to take measures to address them. For example, US trade partners should eliminate or significantly reduce non-tariff barriers that are considered discriminatory against US companies, such as DSTs. The United States' reputation among some allies has been heavily damaged and self-inflicted to the point that there are now political disincentives to partnering with the United States. It will require a durable political will to reestablish the value of a partnership with the US and for international allies to embark on this venture — not an easy task.

To recalibrate its trade policy to center on the techno-economic competition with China, the US should reverse some policies that treat allies in the same category as China.

Conclusion

A truly pragmatic and sustainable trade alliance will only be feasible if it addresses the root causes of the failure of the once-existing free-trade era.

The second half of the 2020s serves as an opportunity for designing and shaping trade alliances among democracies driven by the recognition that techno-economic power lies at the heart of restoring free market practices now threatened by the ascendancy of coercive mercantilism. The global trade system will not be the same as it was before April 2025, when the United States imposed unilateral tariffs on most countries, including friends and foes alike. However, the system had already started to come apart well before then. A truly pragmatic and sustainable trade alliance will only be feasible if it addresses the root causes of the failure of the once-existing free-trade era.

The idea of a STEA is a realistic, yet challenging, proposal. Not all US allies have yet shown the willingness to recognize China as a fundamental threat to global strategic freedoms and to their own economies. For the United States, it would require changing its messaging to once- and potential allies and abandoning the hubristic notion that America alone can deal with China — a rival unlike any other it has faced in its 250 years as a constitutional democracy.

For a Strategic Techno-Economic Agreement to work, the US would need to abandon the hubristic notion that America alone can deal with China.

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Rodrigo Balbontin is an associate director covering trade, IP, and digital technology governance at the ITIF. Rodrigo has extensive experience in policy design and research at the intersection of economic growth and innovation policy topics, such as science, technology and innovation governance, digital economy and trade agreements, and internet governance. Rodrigo is often a guest lecturer on Southeast Asia's digital domain at the US Department of State Foreign Service Institute.

Prior to joining ITIF, Rodrigo served as associate director of digital economy, policy, and innovation at The Asia Foundation. Prior to that, Rodrigo worked as an innovation policy consultant at the World Bank. As a consultant, he also served at the Food and Agriculture Organization, the Ministry of Finance of Peru, and the Foundation for Agricultural Innovation in Chile. He earlier served at the Directorate of Budget at the Ministry of Finance of Chile, where he was involved in the design of the Chilean National Innovation System reform, and as an intern at the Science and Technology Policy Division at the Organisation for Economic Co-operation and Development.

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Ezell came to ITIF from Peer Insight, an innovation research and consulting firm he cofounded in 2003 to study the practice of innovation in service industries. At Peer Insight, Ezell led the Global Service Innovation Consortium, published multiple research papers on service innovation, and researched national service innovation policies being implemented by governments worldwide.

Prior to forming Peer Insight, Ezell worked in the New Service Development group at the NASDAQ Stock Market, where he spearheaded the creation of the NASDAQ Market Intelligence Desk and the NASDAQ Corporate Services Network, services for NASDAQ-listed corporations. Previously, Ezell cofounded two successful innovation ventures, the high-tech services firm Brivo Systems and Lynx Capital, a boutique investment bank.

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