



EUROPEAN UNION
DELEGATION TO THE UNITED STATES OF AMERICA

The Head of Delegation

Washington, 19 April 2012

**Subject: Minutes of Trade Counselors Meeting with Robert D. Atkinson, ITIF –
18 April, 2012**

Summary:

Robert Atkinson, President of the Information Technology and Innovation Foundation (ITIF) made a presentation based on recent ITIF research highlighting the American manufacturing decline.

Detail:

The situation of Manufacturing in the United States and in the EU

Robert Atkinson highlighted the fact that American manufacturing jobs have decreased drastically during the last decade (about 33% loss as a share of total manufacturing jobs), even more than during the Great Depression. US manufacturing output actually fell by 11% during the last decade when GDP increased by 17%. Yet US government statistical data does not reflect this because of the way it accounts for manufacturing imports and output growth in the one sector where US output has been growing: the electronics industry.

Atkinson disagreed with those who believe such decline is inevitable: he noted that while manufacturing has also declined in some European countries in particular Spain, Italy and Great Britain, it was relatively stable or even growing in many others such as Austria, the Czech Republic and Germany. He also took exception with those who believe that manufacturing is either 'old economy' or not more significant for a country's competitiveness than any other sector - manufacturing is not the same as a 'massage parlor'.

Reasons explaining the decline in the United States

Wages or excessive regulations cannot be blamed for the decline of manufacturing in the US - otherwise a similar decline should have been witnessed in Germany for instance. It can be explained by several reasons, in particular: 1) corporate "short termism" with a focus on costs 2) uncompetitive corporate tax rate - the effective rate on manufacturers in the US is comparatively high 3) lack of engineering culture and skills: while the US is good at science-based innovation and entrepreneurship, it is lagging behind in engineering, where the EU does a better job 4) challenges faced from emerging economies' mercantilism.

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Challenges from China and other BRICS

Rob Atkinson is the Chair of the group of experts on innovation policy that has been convened by the White House to provide advice in the context of the EU-US innovation dialogue. Atkinson believes that China is making fundamental mistakes in its approach to innovation and endeavour to acquire technology from Western companies by all means with a view to 'leapfrog' Western technology. Problematic practices by China include forced technology transfers, discrimination of foreign companies, the use of mandatory Chinese standards as well as trade secret and cyber thefts. China does not play by or believe in the same rule book. Unfortunately, other BRICS (including more recently India) are increasingly following similar forms of 'innovation mercantilism'. What is at now stake is a "battle for the soul of the trading system". It is therefore necessary for the EU, US and Japan to work more together and adopt a much tougher stance. Companies in a similar sector should be granted anti-trust immunity if they collaborate to agree on which technology they are ready to share with China.

Questions and debate

When asked about prospects for a US manufacturing strategy within the ten next years, Atkinson noted various factors likely to prevent the development of an ambitious strategy: 1) the intellectual battle was still ongoing on this issue - many neoclassical economists were not in favour of government intervention. This could be perceived in recent comments that had criticised Obama's "obsession" with manufacturing. 2) the partisan battle 3) limited funding capacity in view of the US deficit. He expected some progress on lowering taxes for US manufacturers. He was also more optimistic about the US ability to develop a robust trade agenda, in view of the current administration decision to seek more resources for enforcement and the views expressed by Romney during the campaign.

Another question related to foreign direct investment from China. Robert Atkinson made a distinction between greenfield investment, which was positive for the US economy and Chinese acquisition of existing companies, that would not make a positive difference and may often be a vehicle to ship technology back to China.

Asked about the skills shortage in the US, Atkinson believed there was a need for more corporate investment in workers skills - the actual investment by US companies had been reducing over the years. The US strategy so far had been to 'import' skills from other countries, but this had its limits - it was becoming more difficult to hire Indian engineers who had more opportunities in India and elsewhere.

Finally, it was noted that Robert Atkinson and Stephen J. Ezell are working on a study about life sciences government investment, including a comparison with EU countries, and they welcomed contacts able to provide reliable data.