"Artificial Intelligence: Examining Trends in Innovation and Competition"
Hearing Before the House Judiciary Committee
Subcommittee on the Administrative State, Regulatory Reform, and Antitrust
Wednesday, April 2, 2025

Response to Questions for the Record from Congressman Lou Correa for Joseph V. Coniglio,
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Information Technology and Innovation Foundation
Thursday, May 1, 2025

The Administration continues to announce sweeping tariffs on countries that supply essential materials and products that are fundamental to the Artificial Intelligence (AI) industry. For example, much of the hardware and electrical equipment for data centers, steel, aluminum, and key components come from other nations. Constructions costs will also soar. As other countries respond, American businesses that sell equipment used in data centers abroad will also suffer. These tariffs will disrupt the supply chain, cause market volatility, drive up costs, delay innovation, advancements, and implementation, harm American leadership in AI, and the U.S. economy generally. Would you agree that tariffs will impede the free market, competition, and the expansion and development of the U.S.-based AI industry?

About ITIF

ITIF is an independent 501(c)(3) nonprofit, nonpartisan research and educational institute that has been recognized repeatedly as the world's leading think tank for science and technology policy. ITIF focuses on a host of critical issues at the intersection of technological innovation and public policy—including economic issues related to innovation, productivity, and competitiveness; technology issues in the areas of information technology and data, broadband telecommunications, advanced manufacturing, life sciences, and clean energy; and overarching policy tools related to public investment, regulation, antitrust, taxes, and trade. ITIF's goal is to provide policymakers with high-quality information, analysis, and actionable recommendations they can trust. To that end, ITIF adheres to a high standard of research integrity with an internal code of ethics grounded in analytical rigor, original thinking, policy pragmatism, and editorial independence.

The Need for a New Pro-Innovation Trade Policy

ITIF has consistently championed free and fair trade as essential to fostering healthy market competition and innovation. Indeed, ITIF was supportive of the Biden administration's efforts to negotiate new digital trade rules in the Indo-Pacific Economic Framework (IPEF), affirming that the effort to "extend foundational trade principles such as non-discrimination to digital commerce and align IPEF's provisions with existing U.S. laws and trade agreements" as well as "improves the U.S. trade balance, spurs growth, and supports good jobs."[1] For similar reasons, ITIF was also critical of the Biden administration's actions to withdraw from key digital trade negotiations at the World Trade Organization (WTO), arguing that "policies like the global free flow of data and dissuading other countries from implementing data localization measures directly benefits U.S. trade interests."[2]

To be sure, ITIF has been clear that "Globalization 1.0 has failed" and that "it is past time to craft a new kind of globalization that advances U.S. interests in key industries and prevents China from becoming the dominant techno-economic power."[3] Indeed, ITIF has called for the development of "a new multilateral export control regime" to help America win in its global competition with China:

> "In advanced-technology industries such as AI and semiconductors, the United States should eschew the application of unilateral export controls. The next administration should seek to develop a more ambitious and effective plurilateral approach to promulgate export controls among like-minded nations that have indigenous semiconductor production capacity, such as Germany, Japan, South Korea, Taiwan, the Netherlands, and the United Kingdom. It also means embracing and advancing sector-specific agreements such as the Information Technology Agreement (ITA) I and II agreements, to eliminate tariffs on trade in information technology (IT) goods."[4]

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[1] Nigel Cory and Robert D. Atkinson, The Administration Should Disregard Progressives' Unfair Attacks on Its Digital Trade Agenda | ITIF (May 25, 2023).

[2] Nigel Cory, USTR Tai's Justification to Take a Time-out on Digital Trade Does Not Hold Up | ITIF (Dec. 13, 2023).

[3] Robert D. Atkinson and Stephen Ezell, Toward Globalization 2.0: A New Trade Policy Framework for Advanced-Industry Leadership and National Power | ITIF (Mar. 24, 2025).

[4] *Id.*

As such, ITIF has stated that it "stands ready to support the Trump administration in developing and implementing strategies that protect American innovation, strengthen economic security, and uphold fair, rules-based global trade."[5] At the same time, however, ITIF has expressed concerns with the Trump administration's trade policy so far:

> "The Trump administration's announcement of blanket tariffs misses the mark. Instead of using a tariff threat to address trade irritants with our allies in order to form an alliance to jointly confront China's mercantilist practices—the real threat to American economic and technological dominance—these tariffs indiscriminately hit allies and competitors alike. While they are sure to result in some increases in domestic manufacturing, foreign retaliation, as well as US tariffs on intermediate goods, will also mean fewer US exports. And the result will be strained, if not broken, partnerships at a time when America and the West should be laser-focused on countering predatory China's trade offensive."[6]

ITIF has written extensively on the costs that blanket tariff policies can have. For example, with respect to the 25 percent tariff on steel and aluminum, ITIF has explained that when "tariffs inflate the cost of these essential inputs, domestic manufacturers face mounting expenses and reduced competitiveness, hurting the very producers they intend to help."[7] Additionally, ITIF has modeled the impact of retaliatory tariffs on goods covered under the World Trade Organization's Information Technology Agreement (ITA) in three scenarios and concluded that "U.S. exports of goods covered under ITA would decline due to retaliation by $82 billion, $70 billion, or $56 billion, respectively. These losses represent 18 to 27 percent of total U.S. exports of ITA products, shrinking American technology firms competing in global markets, where they would likely lose more global sales than their foreign competitors."[8]

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[5] Stephen Ezell and Hilal Aka, Memo to the U.S. Trade Representative Regarding President Trump's America First Trade Policy | ITIF (March 20, 2025).

[6] Robert D. Atkinson and Rodrigo Balbontin, Liberation Day Tariffs Miss the Real Target: China | ITIF (April 4, 2025).

[7] Meghan Ostertag, Intermediate Goods: The Hidden Cost of Blanket Tariffs | ITIF (February 21, 2025).

[8] Rodrigo Balbontin, Retaliatory Tariffs Could Cut US ITA Exports by $56 Billion | ITIF (April 23, 2025).

The application of tariffs on semiconductors, a key part of the AI stack, would be similarly deleterious for U.S. competitiveness. As ITIF expects to detail in a forthcoming report, the United States imported approximately $61.9 billion worth of semiconductors in 2023, and at the beginning of 2024, the United States imposed an average tariff rate of 2.96 percent on semiconductor imports.[9] Now, the Trump administration has suggested it may impose tariffs of 25 percent or higher on imported semiconductors—an effective 22 percent increase in U.S. semiconductor tariffs.[10] According to ITIF's preliminary analysis, such an increase would produce a 0.24 percent downturn in U.S. economic growth in the first year and, if sustained over a decade, result in a cumulative 0.73 percent slowdown in U.S. economic growth.[11]

Semiconductors also constitute a core input into data centers, another irreplaceable part of America's digital infrastructure, especially for AI. Due to the burgeoning need for data centers—and, by extension, chips—reports project that the data center chip market will nearly quadruple by 2032, growing from $11.7 billion to $45.3 billion.[12] Hyperscale data centers are particularly important, handling the massive processing and storage demands of leading tech companies such as Google, Amazon, and Microsoft. As ITIF's forthcoming report explains, these data centers typically use 5,000 or more servers and deploy at least 340,000 semiconductors of various types.[13] And, as the report expects to conclude, high semiconductor tariffs would increase the price of operating these data centers and thus raise the costs of the activities they undertake, notably the training and inferencing tasks that lie at the heart of developing the cutting-edge large language models (LLMs) that are crucial to U.S. leadership in AI.

Thank you again for the opportunity to appear before the Subcommittee and provide this additional information.

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[9] Stephen Ezell, Trelysa Long, and Meghan Ostertag, "Short-Circuited: How Semiconductor Tariffs Would Harm the U.S. Economy and Digital Industry Leadership" (ITIF, forthcoming May 2025) [hereinafter Forthcoming Report].

[10] Jeff Cox, "Trump suggests 25% tariffs on autos, pharma and semiconductors that could go even higher," *CNBC*, (February 19, 2025).

[11] Forthcoming Report.

[12] "The Future of Data Centers and the Power of the Chip," *Green Revolution Cooling, Inc.* (August 30, 2023), https://www.grcooling.com/blog/the-future-of-data-centers-and-the-power-of-the-chip/.

[13] Forthcoming Report.