

# Ensuring Access to Digital Markets

AOL Time Warner

# What is Digital Trade?

## □ E-Commerce Transactions

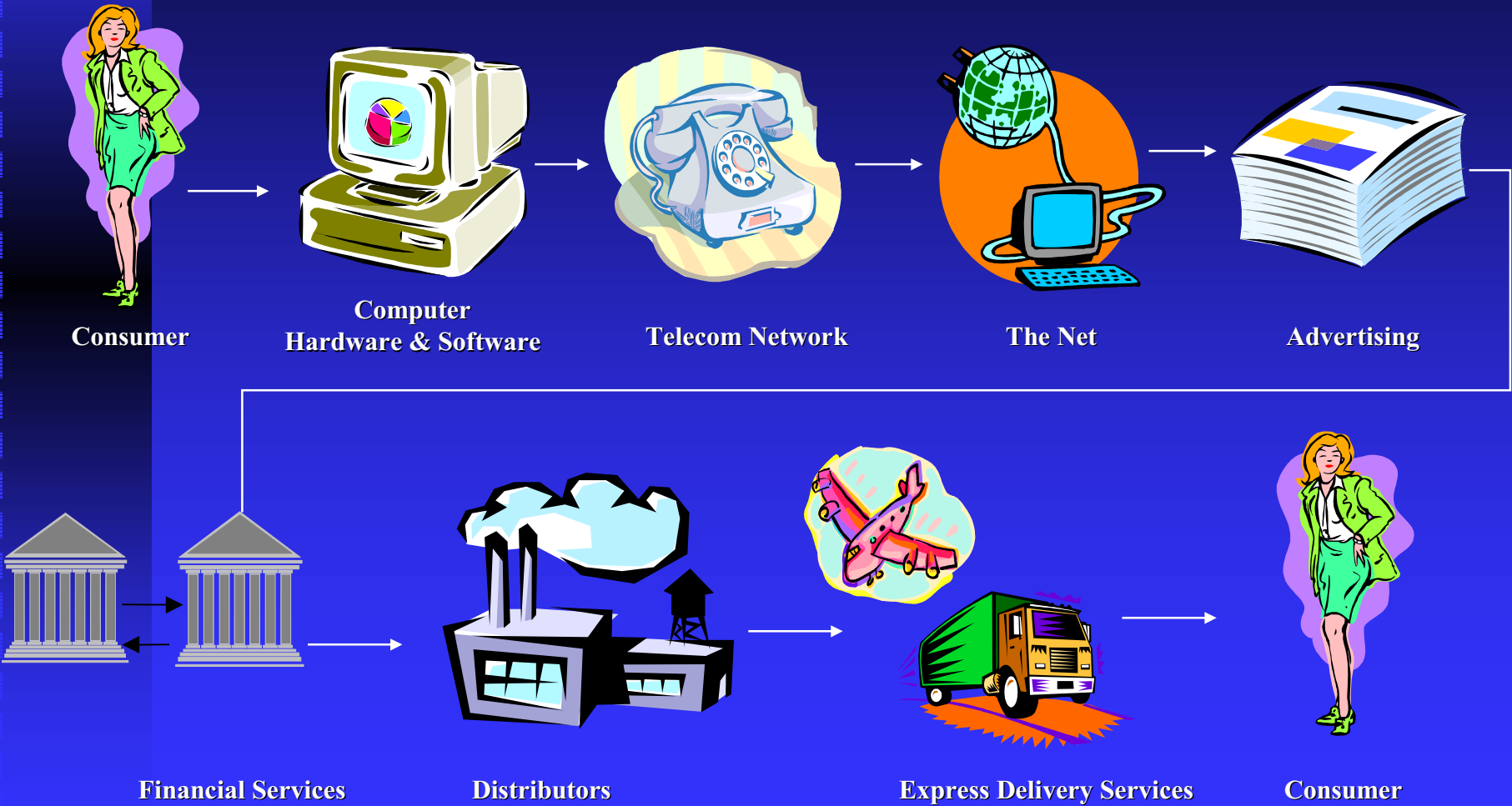
- Traditional products sold via the internet
- Online goods and services sold and delivered via the internet

# What is Digital Trade (2)

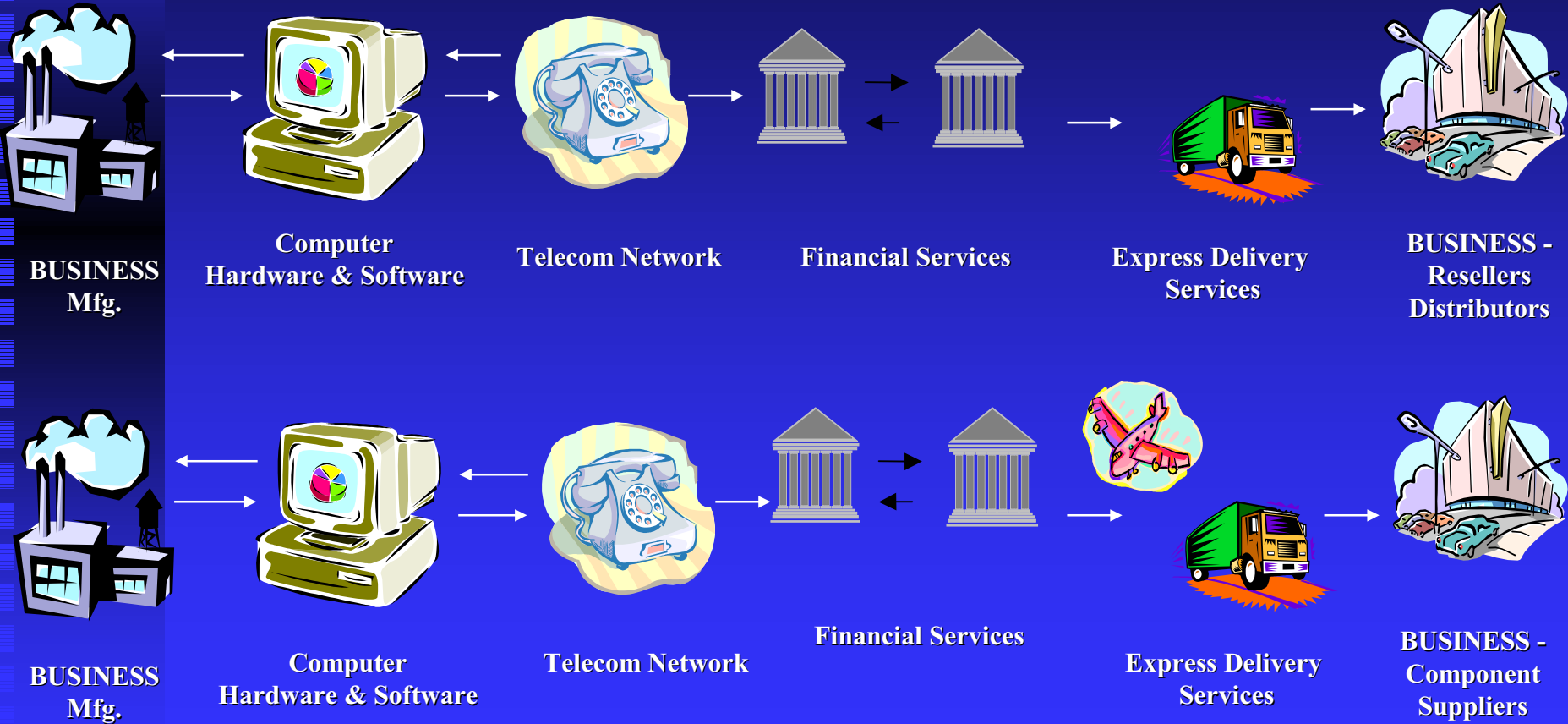
## □ E-business Relationships

- International supply chain
- Outsourcing arrangements
- Business partnerships and JV's enabled by digital networks

# The B-C Value Chain



# The B-B Value Chain



# The Benefits of Digital Trade

- ❑ Productivity gains
- ❑ Exponential growth of online products (software, music)
- ❑ Outsourcing and back office operations
- ❑ Opportunities for regional/ rural development
- ❑ Parallel social benefits (e-learning, telemedicine, gov't services)

# Policy Issues

- **Encouraging Internet Access**
  - **Lowering costs (IT tariffs, competition in telecomm services, interconnection policies and fees)**
  - **Education and outreach programs (schools, community access)**
  - **Facilitate adoption by SME's**

# Policy Issues

- ❑ **Encourage E-Economy**
  - **Protect IPR**
  - **Attract investment**
  - **Build consumer confidence**  
(security, privacy – industry standards)
  - **Open borders through international trade**



# Guiding Principles for Digital Trade

- ❑ **Current disciplines and obligations should apply to e-commerce**
- ❑ **Electronically delivered goods and services should receive no less favourable treatment than like products delivered physically**
- ❑ **Standstill on trade related measures that impact e-commerce**
- ❑ **Any necessary regulations should be transparent, non-discriminatory and be as least trade restricting as possible**

# Key Components of Digital Trade

## □ Goods

- Computer hardware
- Computer software
- Communications equipment

## □ Services

- Telecommunications
- Computer and related services
- Financial services
- Online advertising
- Distribution
- Express delivery

## □ Intellectual property

# Some Ideas to Advance Digital Trade

## □ IT Tariffs

- Expand ITA coverage

## □ Services

- Apply national treatment across the value chain

## □ IP Protection

- TRIPS / sign WIPO Treaties

## **Digital Trade Policy: Ensuring Access to Digital Markets**

### **Trade Liberalization in a Networked Global Economy**

Three powerful and related trends are fundamentally reshaping the global economy: 1) the exponential growth in Internet connectivity, 2) the convergence of content, interactivity, computer applications and communications networks, and 3) the increasing use of electronic commerce as a channel for conducting international business. Today, more than 300 million people around the world are online; by 2005, one billion people will be connected to the Internet, more than 75 percent of them outside North America. This technological transformation is creating a networked global economy that is just beginning to demonstrate that e-commerce and the Internet can be powerful engines for economic growth, wealth creation and societal benefit.

Recent economic data bear this out. Digital trade is becoming a more important part of global GDP. For example, between 1999 and 2003 the market for electronically distributed software is projected to grow from \$0.5 billion to approximately \$15 billion (IDC). Online music revenues are expected to grow from \$850 million today to \$4.3 billion by 2004. (Forrester Research) The growth of online videos is expected to grow exponentially as well if there is sufficient rollout of broadband communications platforms. (Jupiter Communications) And business-to-business e-commerce is expected to grow from \$403 billion in 2000 to over \$7 trillion in 2004 (Gartner Group).

Digital trade presents a new opportunity to advance the goal of expanded international trade in a converging, digital environment. The Internet and electronic commerce can greatly facilitate trade, providing a new means for conducting global commerce and delivering digital goods and services to all parts of the world. Trade negotiators must now ensure that new technologies, new business models, and new products are available to consumers, businesses, and governments around the world so these users can benefit from increased productivity, competition, and choice. Existing trade agreements provide a good foundation for this work but need to be expanded to address the new realities of an increasingly converged, digital networked global economy. Trade negotiators must also endeavor to protect against the creation of new trade barriers in a sector that has flourished with little or no regulation.

### **Digital Trade**

Digital trade encompasses cross-border e-commerce transactions, global e-business relationships, and the specific goods, services, and intellectual property protections that act as enablers for these transactions and relationships. A successful digital trade policy must address all of these areas. Digital trade includes:

#### *E-Commerce Transactions*

- Goods and services that can be ordered and delivered electronically.
- Goods and services that can be ordered electronically but are delivered physically.

### *E-Business Relationships*

- Integrated international supply chains facilitated by global networks.
- Outsourcing arrangements that utilize global networks.
- Business partnerships, joint ventures, and “virtual corporations” enabled by these networks.

### *E-Commerce Enablers*

- Goods – Information technology (including computer hardware, software, and communications equipment) is critical to building and expanding the networks over which all digital trade is conducted, so free trade in IT products is essential to promoting digital trade.
- Services – Many services are needed to enable an e-commerce transaction, including telecommunication services, computer and related services, financial services, advertising services, distribution services, and express delivery services. Collectively, these services are often referred to as the “e-commerce value chain.” Liberalization across this value chain is essential for ensuring seamless, cost effective and timely business-to-business and business-to-consumer transactions.
- Intellectual Property – If individuals and companies are to provide their digital goods and services over the Internet, then they must be assured that their intellectual property will be protected in this new online environment.

### **Digital Trade Benefits All Countries**

In the United States, the new economy has had a significant impact on overall U.S. GDP and the U.S. balance of trade. Nearly two-thirds of productivity gains can be traced to high-tech investments made over the past five years. Specifically, information technology contributed over one-third of economic growth since 1995, and IT exports amounted to more than one-quarter of total U.S. exports in 1999.

Already there is evidence that the development of emerging economies is being reshaped and energized by online trade. The traditional model of infrastructure investment and international trade is being complemented by electronic commerce. This is leading to a dramatic expansion of opportunities for economic development, driven by businesses creating new markets for innovative products and services being made available electronically throughout the world. In particular, evidence shows that businesses in every region of the world can, by means of electronic commerce, dramatically reduce costs of entry, maximize efficiency, and vastly expand distribution to previously inaccessible markets.

### **An Agenda for Digital Trade Policy**

To promote the growth of digital trade and to ensure that electronic commerce benefits from trade liberalization, AOL Time Warner proposes the following digital trade agenda. This agenda should be pursued through all available trade agreements, i.e., bilateral, regional, and multilateral agreements.

## Guiding Principles for Digital Trade

- Current WTO obligations, rules, disciplines and commitments, namely the GATT, GATS and TRIPS agreements, should apply to e-commerce.
- Electronically delivered goods and services should receive no less favorable treatment under trade rules and commitments than like products delivered in physical form, and their classification should ensure the most liberal treatment possible.
- Governments should refrain from enacting trade-related measures that impede e-commerce.
- When legitimate policy objectives require domestic regulations that affect e-commerce, ensure that such regulations are transparent, nondiscriminatory, and employ the least-trade-restrictive means available.

## Information Technology Tariffs and Non-Tariff Measures

Tariffs and non-tariff measures applied to information technology products should be eliminated or phased out. Tariff and non-tariff measures act as a counterproductive tax or burden that raises the cost of the very technology needed to be competitive in the digital economy.

Countries that have not done so should sign and immediately implement the Information Technology Agreement (ITA). In the context of the ITA, governments and business must continually update the definition of what constitutes an “IT product” to keep pace with technological developments. Non-tariff measures, in particular redundant testing and certification procedures, should be eliminated where they exist.

## Services Commitments

Trade in services negotiations, whether in the WTO or other venues, offer an excellent opportunity to promote digital trade. Increased liberalization of trade in services will play an important role in the promotion of digital trade in several ways:

*E-Commerce Value Chain:* Improved market access and national treatment commitments in the group of services sectors that are necessary to initiate and complete an e-commerce transaction will expand digital trade opportunities. Two particular elements of the value chain deserve special mention:

- *Telecommunication Services:* Telecommunication services provide the network infrastructure that is a fundamental prerequisite for digital trade. Competition in the provision of these services is critical to the growth of digital trade. Full basic telecommunications commitments, including implementation of the pro-competitive Reference Paper principles, as well as full value-added services commitments and protections against anti-competitive behavior by incumbent telecommunications companies in the value added services market are important objectives. On the other hand, competitive value-added services, including Internet services, should not be subjected to regulation created for monopoly basic telecommunications markets.

- *Evolving IT Services:* The Internet provides a new means for delivering information technology services; and technologies and business models are evolving much too rapidly for trade classification discussions to keep pace. Trade negotiators should seek ways to ensure that broadly defined or interpreted market access commitments will enable cross-border trade in evolving IT services. It is also important that unregulated IT services not be viewed as a subset of regulated telecommunication services.
- *Distribution of Content Online:* Greater market access for digitized software, music and videos will go a long way toward helping to reduce piracy rates. Without market access for legitimate products, our company faces difficult hurdles in protecting its intellectual property. Market access for digitized products will also be an important first step in promoting trade and cultural diversity, since we have and will continue to succeed in tailoring the global reach of the Internet to local interests and culture.

*Electronically Delivered Services:* In addition to liberalizing services that enable e-commerce transactions, trade negotiators should seek improved market access and national treatment commitments for a broad range of services that can be delivered electronically.

### **Intellectual Property Protection and Market Access**

Intellectual property rights in goods and services traded on the Internet should be afforded strong protection in accordance with the WTO TRIPS Agreement and the WIPO Treaties. Without such legal protection, content creators and service providers will be less likely to realize the tremendous benefits of -digital trade.

Greater market access for digitized software, music and videos will go a long way toward helping to reduce piracy rates. Without market access for legitimate products, our companies face difficult hurdles in protecting their intellectual property. Market access for digitized products will also be an important first step in promoting trade and cultural diversity, since today's successful business models have been ones that tailor the global reach of the Internet to very local interests and tastes.

### **Trade Facilitation - Modernizing Customs in a Digital Age:**

Streamlining customs procedures through the electronic filing of required documentation and electronic approval notifications would significantly expedite not only the distribution of physical goods purchased offline but also on-line. Greater transparency in the customs processes around the world is also essential and will speed customs clearances significantly.

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