

**INTERNATIONAL TRADE AND E-COMMERCE:
FRAMEWORK FOR THE FUTURE**

**AN ADDRESS BEFORE THE
NATIONAL LAW CENTER FOR INTER-AMERICAN FREE TRADE
ORGANIZATION OF AMERICAN STATES
BUSINESS SOFTWARE ALLIANCE**

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Good afternoon.

Thank you for inviting me to speak to this distinguished group. I come before you today as a U.S. Congressman dressed in shoes that come from Brazil, a tie from El Salvador, pants stitched in Haiti, and a shirt from Ecuador. I arrived here in a taxi that may have been assembled in Canada. At my house, I arranged some Colombian flowers before I left, and had a Honduran banana and Mexican coffee for breakfast. I almost arrived late because I was responding to all my e-mails, many of them from overseas addresses. *Como cambian los tiempos*—how times change.

I think the Organization of American States is a particularly opportune location to discuss international trade and e-commerce. It was actually in 1994 in Buenos Aires, Argentina, that Vice President Gore, who we know to be the inventor of the Internet, first called for the establishment of a global information infrastructure to support e-commerce worldwide.

By coincidence, 1994 was the same year the North American Free Trade Agreement became a reality and the year thirty-four democratically elected governments of Latin America first agreed to build the Free Trade Area of the Americas. While the timing and location of the Vice President's pronouncement may have been coincidence, the significance should not be overlooked. 1994 was a year of new beginnings for the Western Hemisphere—new beginnings based upon trust among nations, partnership among business, and new understanding among the people of this hemisphere. Nothing epitomizes these core principles like the development of e-commerce. E-commerce is a technology still in its infancy, but it can only flourish if nations work in tandem with business to develop a technological marketplace accessible by all people. That is why the work you have been doing these past two days is so important. Here, you are helping to lay the framework for the future of electronic commerce in our hemisphere. I am delighted to be able to participate in this historic gathering.

Before talking about electronic commerce, I want to take a few moments to talk to you more generally about international trade. I want to talk to you about the need to craft a new trade message, one that will resonate with the American people, one that will capture their imagination. I hope those of you from other

parts of the hemisphere will bear with me today as I discuss the state of international trade in this country. As we approach the opening of the World Trade Organization meeting in Seattle this November, the international trade regime, and the role the United States will play in it, is under attack with increasing intensity.

Like most of you here today, I've been fighting trade battles for a longtime. In fact, we've been in the trenches together for many of them—from the days when NAFTA was little more than a vision, through the Uruguay Round and creation of the WTO, to our most recent battle over renewal of Normal Trade Relations status for China. If there is one thing I can unequivocally tell you from my experience—it isn't getting easier.

The opponents of trade have always had the power of simplistic rhetoric, as opposed to supportable arguments, on their side. We all know the Pat Buchanans, Ross Perots, and Richard Gephardt who rail daily against free trade. They remind me of "The Know Nothing Party" of the 1850s, afraid of anything foreign. Today's "Know Nothings" talk about a great sucking sound, pulling American jobs south of the border. They can always point to specific instances where jobs have moved to Mexico or to Asia. They accuse proponents of free trade of caring only about big business, of disregarding the fate and welfare of the common man in exchange for profit. They prey on the economic insecurities everyone experiences from time to time.

Thus, when people hear the words "free trade" a whole panoply of fears are unleashed. When we talk about a new trade agreement, many Americans visualize factories being closed and jobs being shipped to third world countries. Others see new international bureaucracies being created, bureaucracies that will enact new, sovereignty-limiting regulations, to govern our lives. Still others see a flood of inferior, even unsafe, goods pouring into the country. Some even equate free trade with open immigration.

I do not want to belittle these fears. They are real. Unfortunately, many of our elected leaders are reluctant to acknowledge—or have too easily dismissed—these fears. There is no doubt—free trade is controversial. Many who support it, even those who raise compelling arguments in the halls of Congress, often become silent when they return to their districts.

Aware that free trade is controversial, they fear offending those who are opposed to it. American business, which benefits directly from open markets and free trade, does too little to extol its virtues. The vacuum of silence left behind is filled by the rhetoric of the protectionists, modern-day "Know Nothings."

Let me give you a specific example. I think that it is indisputable that the North American Free Trade Agreement has been a great success. Since 1994, trilateral trade has soared. Today, U.S. exports to Canada and Mexico support an estimated 2.6 million jobs. Perhaps most important, major economic reforms were institutionalized in Mexico after it launched the economic and political liberalization required by NAFTA. As a result, NAFTA served as a cushion for U.S. exporters, shielding them from political vagaries or shifts in the value of the

peso. In fact, this is exactly what NAFTA did in 1994 when a peso crisis recurred.

Yet, public opinion polls show that Americans view NAFTA unfavorably. The broad coalition that joined forces to ensure passage of this landmark agreement has all but vanished in the ensuing years. In the vacuum left behind are the voices of the lost and disenchanted. They may have lost the NAFTA battle, but they are determined not to lose the war to enshrine protectionism.

Since 1994, the opponents of NAFTA have attacked the agreement relentlessly. Throughout their battle they wielded the powerful weapons of antidote and fear. Look at any of the literature propounded by NAFTA's opponents—you will find it filled with stories of tainted strawberries, closed factories, unsafe trucks, border pollution, and illegal drugs. Thus, to the average American, NAFTA is not about the big picture. It's about a hundred antidotes—each one building upon the other to create a vision of fear and economic anxiety; fear of economic deprivation, fear of lost sovereignty, [and] fear of increased immigration. The protectionists and isolationists pursue their case with stories of lost jobs and imports laced with illegal narcotics. They weave stories of corporate conspiracies to steal good American jobs through unfair competition. They talk about poverty, pollution, and human rights abuses.

These stories touch the heart strings of compassionate Americans. We see the exploited workers; we visualize the horrors of poverty. We see the rivers run brown with untreated wastewater. How could anyone support NAFTA after hearing stories like these?

My point is this—in the United States, a nation attuned to sound bites and slogans, it is hard to convey the benefits of free trade to the American people. But this is exactly what we must do. Free trade is much more than macroeconomic growth, rising GDP, and low inflation. It's about competition, productivity, and, most profoundly, choice. Consider this paragraph from the 1998 Annual Report from the Federal Reserve Bank of Dallas:

[S]ince the early 1970s, there's been an explosion of choice in the marketplace—the assortment of new vehicle models has risen from 140 to 260, soft drinks from 20 to more than 87, TV channels from 5 to 185, over-the-counter pain relievers from 17 to 141. The U.S. market offers 7,563 prescription drugs, 3,000 beers, 1,174 amusement parks, 340 kinds of breakfast cereal, 50 brands of bottled water. Whole milk sits on the supermarket shelf beside skim milk, half-percent, 1 percent, 2 percent, lactose-reduced, hormone-free, chocolate, buttermilk and milk with a shelf life of six months. Today's consumers have access to more book titles, more movies and more magazines. Ford's company still makes black cars for buyers who want them, but it

also offers a palette of 46 other colors-toreador red, jalapeño green, Atlantic blue, mocha frost, autumn orange, teal and more.

That, my friends, is choice; and it is made possible by an open economic system—domestically and internationally. Free trade impacts the lives of all Americans; it raises their standard of living by offering them more products for less money. It stretches their dollar further, enabling today's consumers a lifestyle unimagined fifty years ago. It helps each succeeding generation live a better life. But it is even more than that. Some of you heard that litany of choices and thought, so what? What does choice mean? And is that much consumer choice really a good thing?

Too often we fail to grasp the salient fact that the most important benefit of free trade is not trade, per se, but freedom itself. At least every two years, Americans go to the polls to cast their vote in an election. It is an important rite of passage for a free society. But every single day Americans cast multiple votes when we open our wallets and buy products and services, choosing one brand over another, one service instead of another. Competition increases our economic choices and expands our political freedom. So trade is the very essence of freedom. Without it we cannot give the American consumer the quantity and quality of goods they need at competitive prices. Without it the horizons of the American consumer are nearer, his options narrowed, his choices limited, [and] his freedom diminished.

Eighty years ago John Maynard Keynes wrote in his Economic Consequences of Peace:

What an extraordinary episode in the progress of man was that which came to an end in August, 1914. The inhabitant of London could order by telephone the various products of the whole earth, and reasonably expect their daily delivery upon his doorstep; he could at the same moment adventure his wealth in the natural resources and new enterprises of any quarter of the world . . . and most important, he regarded this state of affairs as *normal, certain and permanent*.

That was the state of the world in 1914, at the beginning of the millennium, when the world was undergoing profound economic change and rapidly increasing prosperity. But, as Ambassador Barshefsky pointed out in a recent address on the "Trading System in the 21st Century," it was not meant to last. The open trading regime of the early 20th century was replaced, in her words, by

the tariff hikes and colonial preference schemes of the 1920s, capped by the Smoot-Hawley Tariff in the United States, [which] cut trade nearly 70% by 1934 and transformed the world

into something like a series of island economies. By 1948, disintegration was complete: trade batters divided the Allied economies; China left the world economy in the communist experiment; Russia was long gone; Japan and Germany had not yet returned.

As we stand on the cusp of the 21st century, let us not repeat the mistakes of the 20th. Our continued economic vitality is by no means ensured. Continued peace and prosperity are never guaranteed. It must be guarded and nurtured repeatedly. Each and everyone of us in this room carry this responsibility. It is vital that you share your vision of the international trading regime with the American worker, the Honduran laborer, and the Brazilian professional. We must market free trade as opportunity, hope, and progress. Opportunity for a better life for the American worker. Hope for future generations. Progress towards a world free from the economic stagnation that leads to civil strife, individual impoverishment, war, and political repression. You hold the key to the future of international trade in this country. The active participation of your businesses, your associations, and your individual participation, have been instrumental to our success in the past. But the past is not enough. Your continued support for international trade is essential if we are not to lose the hard fought ground we've gained.

Future gains in trade will depend on forward thinking. Trade in the 21st century will be driven by e-commerce. Just as the industrial revolution transformed world trade at the turn of the 20th century, electronic commerce holds the promise of transforming international trade as we enter the new millennium. But like international trade, the promise of electronic commerce will only become a reality if we are guided by the principles of market competition, non-discrimination, and rule of law. To understand the significance of this new paradigm, we must understand the changes which have taken place in just a few short years.

The Internet, the backbone of electronic commerce, had three million users in 1995. Today, there are over 140 million in the United States alone, with 52,000 more Americans logging on each day. By 2005 it is estimated that a billion people, one fifth of the world's population, will be connected. The value of e-commerce, estimated at about \$200 billion last year, may reach as much as \$1.3 trillion in the United States alone in just three years. Over 23 million will be online in Latin America by 2003. In 1998, the Latin American e-commerce market was estimated at \$170 million, but this will explode to \$8 billion by 2003. Everyday innovative products reach the electronic marketplace. From home mortgages, insurance, stocks, books, compact disks, and computers, today's consumers can access a dizzying array of products and services from their home computer. As Thomas Friedman, the author of "The Lexus and the Olive Tree," points out thanks to the Internet we all "can have a bank in our homes, an office in our homes, a newspaper in our homes, a bookstore in our homes, a brokerage firm

in our homes, a factory in our homes, an investment firm in our homes, [and] a school in our homes." This is just the beginning.

Imagine a world without boundaries, where information flows seamlessly from one person to another. Imagine a world where a doctor working in the most remote jungle community of Africa can share information with a tropical disease specialist studying in the Mayo Clinic in Minnesota. Or where unfiltered news accounts on conditions in East Timor can be transmitted within minutes of their occurrence to policy makers in Washington, D.C. Or a child in Miles City, Montana can befriend a Serbian girl during the darkest hours of NATO's bombing campaign. That world is not tomorrow; it is here today.

The Economist recently reported that British Airways now handles much of its automatic reservation services through its subsidiary corporation, British Airways World Network Services, based in Mumbai, India. Dial British Airways in London and your call is likely to be handled in India. A firm in Delhi, Selectronic, takes dictation from American doctors through a toll-free number, transcribes the recordings, and sends them back as text to an American HMO. The specialist in Colorado Springs will have his medical report to the HMO in Denver processed in New Delhi. This year, for the first time in history, Congressional offices can transmit information on pending legislation and Capitol Hill events through electronic "Dear Colleagues." Much of the planning for international conferences is now done via e-mail, drastically improving efficiency and saving many of us countless late night hours waiting for that phone call from Tokyo or Jakarta.

It may be a cliché, but still the truth, that the world is shrinking rapidly. But are the benefits of the Internet universally shared? As the information superhighway grows, the world finds itself with a widening chasm between the "haves" and the "have-nots"—those who have access to the new technology and understand its uses and those who do not. While the Internet is bringing people together, we cannot yet ensure that its benefits reach all nations and all strata of society equally. Not everyone has a Pentium in their pocket. But I believe this problem will be resolved through the marketplace. As prices drop more and more people will have access to better and better technology. Just fifteen years ago Motorola introduced its first cellular phone. The suggested retail price? \$4,395. Today cellular phones can be purchased for one hundred dollars or less. But why even purchase it when you can lease a cellular phone for around twelve dollars a month!

Take another example. In 1970 a computer capable of processing 12.5 million instructions per second (MIPS) cost \$4,674,160. Less than thirty years later, you could buy a computer capable of processing 166 MIPS for under a thousand dollars, and the price continues to drop. That's a thirteen fold increase in capacity for one four-thousandth of the cost or a 52,000 fold increase in cost/benefit efficiency! Clearly, as the price continues to drop, the "have-nots" will join the "haves."

Beyond technological cost, other barriers exist to the growth of e-commerce, particularly in Latin America. There is no single language linking the continent and many state-run telecommunication monopolies continue to impose high costs and inefficiencies. Other barriers include expensive and unreliable shipment, the lack of online security, and inefficient banking systems. Again, some of these problems can be resolved through the marketplace. Language barriers can be overcome as more and more companies realize the potential of the Latin American market and begin offering web sites in English, Spanish, and Portuguese. Some of the barriers to the growth of e-commerce must be resolved by the governments of Latin America. Argentina continues to tolerate a monopoly for Internet access. Because of the monopoly the cost of high-speed net access in the country is prohibitively expensive, between fifty to one hundred times the cost of such access in the United States. To make a phone call from Buenos Aires to Rosario it is cheaper to call through New York! On the other hand, the recent privatization of the state-run phone company in Brazil is expected to lead to reduced telephone charges and better infrastructure service in that country, helping to accelerate the growth of e-commerce.

Online security and the need for an efficient and reliable banking system are critical aspects to the future of e-commerce in Latin America. In this regard, I want to salute the work of the National Law Center for Inter-American Free Trade for the cutting-edge work it has been doing on the development of standard banking practices throughout the Americas. Their work will go a long way [in] helping this hemisphere meet the challenges of international commerce in the future.

Online security remains a difficult issue. Governments must work to carefully balance national security and law enforcement needs with consumer access to safe and reliable encryption technology. Strong encryption allows people to protect their digital communications and computer systems against criminal hackers and commercial theft. Congress believes the public has a right to know that their financial information, medical records, and personal communications are private and secure from criminals. Strong encryption technology also helps businesses protect their trade secrets and proprietary information from unauthorized penetration. Without this technology, the growth of e-commerce will remain stunted. In the U.S. Congress, we have grappled with this issue through introduction of H.R. 850, the Security and Freedom Through Encryption Act. This bill currently has 259 co-sponsors in the House, and I am hopeful it will be brought to the floor soon for a vote.

On the multilateral level, we must tread lightly but with purpose. We must allow business to define the boundaries of this new marketplace while at the same time ensuring that adequate consumer protections are preserved. In doing so, four main principles should guide us during our multilateral negotiations. I understand that Senator Baucus touched on these last night but they are so critical I want to reemphasize them here today.

First, cyber-space should remain duty free. Just as in the world of international trade in goods, tariff barriers imposed on electronic commerce will stifle competition and impede efficiency and innovation. In the U.S. Congress, we have agreed to a three-year moratorium on taxation of the Internet. I would encourage other nations to consider undertaking similar steps. Second, we must import international rules of trade into this new global market place, or what Ambassador Barshefsky terms "technological neutrality." This means that countries should not deny firms and consumers the benefits of newer and cheaper goods and services simply because they are delivered electronically. Third, we must keep an open mind regarding classification of new goods and services delivered over the Internet, ensuring that digital products receive the most liberal treatment possible under our international trade regimes. Finally, protection of intellectual property is essential for electronic commerce to reach its full potential.

Let me close by asking all of you to take just a moment, and visualize the type of world that you dream of for your children and grandchildren. Is it a future built on fears and economic insecurities? Or is it a future built on the hope, opportunity, and economic progress that open markets and free competition bring? We all have a lot of work ahead of us and heavy responsibilities as we enter the new millennium. The future of the international trading regime, which served our nations well through the second half of this century, is in our hands. It must be preserved. So too, is the future of the electronic marketplace. The work we undertake today will truly lay the foundation for our prosperity tomorrow.

I know those here today embrace this vision. Now, I ask you to join me in making this vision become a reality.

Thank you.