Before the
**United States International Trade Commission**
Washington, D.C.

*In re:*

Global Digital Trade 2 and 3: B2B and B2C Markets, Key Foreign Trade Restrictions, and U.S. Competitiveness

Investigation Nos. 332-562 and -563

**INTERNET ASSOCIATION STATEMENT**

Chairman Schmidtlein, Vice Chairman Johanson, fellow Commissioners, thank you for holding today's public hearing. My name is Melika Carroll and I am the Senior Vice President of Global Government Affairs at Internet Association.

Internet Association represents over 40 of the world's leading internet companies. We support policies that promote and enable internet innovation – ensuring that information flows freely across national borders, uninhibited by restrictions that are fundamentally inconsistent with the transnational, free, and decentralized nature of the internet.

The internet plays an increasingly central role in driving U.S. exports across a wide range of sectors that fall well outside of what most would consider the "technology" sector.

For example, the Bureau of Economic Analysis has found that U.S. digitally-enabled service exports – an extremely broad category that includes engineering, management consulting, financial services, royalties related to intellectual property, and various others – amounted to approximately $385 billion in 2014, over *half* of all U.S. service exports.

I believe one of my fellow witnesses will dive more deeply into the services-specific aspects of today's hearing, so for my own part, I will simply note the excellent research her organization has done, including their finding that the services sector employs three out of four Americans.

Moreover, the internet is not solely enabling services exports. As you are well aware, the ITC itself has found that the U.S. *manufacturing* sector is the leading exporter of goods and services ordered online. The total exports amounted to $86.5 billion in 2012, mostly in physical goods.

And this is not just a B2C story. It's been estimated that by 2020, 27 percent of all manufacturing trade will derive from online sales *between businesses*.

The internet industry helps make these exports possible. We enable other sectors in the economy to use IT services to their own benefit, and we export digital services ourselves.

The internet industry is also becoming a major producer of original content, bringing music, films, and other creative works to audiences around the world.

Online streaming services that IA represents are providing "hope" – as press reports have put it – to independent filmmakers at a time when major studios have been slower to pick up their films. They're allowing creators more freedom to experiment, exposing their creations to much larger audiences and making it easier for audiences to take a chance on spending an evening watching an independent film.

We are the new faces of the American content industry, winning Emmys and Oscars, and providing digital distribution for streaming-only Grammy winners. The proof is in the numbers: Last year, IA members released more films than any major U.S. studio. They spent at least $10.8 billion on content, with plans to invest substantially more over the next several years.

I'd like to turn now to discuss the ways in which trade is increasingly shifting to digital exports.

U.S. internet platforms are a significant driver of the U.S. economy. The internet industry represented an estimated 6 percent of U.S. GDP in 2014 – totaling nearly $967 billion – and accounts for millions of American jobs, most of which are outside major tech hubs. Digital trade – in which we enjoy a surplus of $158.9 billion – is a major driver of this economic activity.

Global ICT service exports as a share of total exports rose from 27.7 percent in 2000 to 34.8 percent in 2016. That's an *increase* of 25 percent. And *U.S.* ICT service exports nearly *doubled* from 2006-2015, increasing by 84 percent in overall volume, to approximately $65.4 billion.

According to IA's own research, approximately 60% of the jobs supported by the sector's digital service exports reside outside of the internet sector in "traditional" industries.

Now I'd like to briefly touch on the importance of digital trade to the B2B and B2C markets.

First, B2C. In the past, a brick and mortar small business looking to grow international sales was often limited by a number of factors, including access to capital, geography, and language barriers. Less than twenty years ago, a typical small business generally had a limited local consumer base, and acquiring new customers through advertising was prohibitively expensive.

Today, over three billion people around the world use the internet. And with 95 percent of consumers residing outside the United States, hundreds of thousands of U.S. small businesses are using the internet to reach those customers, in ways impossible a generation ago. Today, almost $8 trillion is exchanged through global e-commerce each year. The internet has made it possible for small businesses to compete internationally based on the strength of their products. New services like eBay, Etsy, Mercado Libre, Rakuten, Allegro, Zalando, and Vinted offer the opportunity to gather positive customer feedback and spread awareness through user reviews and positive word of mouth – on a global scale.

Next, B2B. In its first report on Global Digital Trade, the ITC presented definitions and measurements of B2B e-commerce, which it characterized as "digital products and services used primarily by firms." As this definition suggests, B2B e-commerce is extremely broad, enabled by a wide variety of suppliers, and relevant to practically any firm leveraging some form of ICT service, regardless of sector or geography.

This far reach is borne out by data. IDC has estimated that B2B e-commerce made up the overwhelming majority – $23.9 trillion – of total global e-commerce in 2016. And *U.S.* B2B e-commerce sales accounted for $855 billion – a substantial amount, but a drop in the global bucket and a sign that access to international markets is crucial.

The U.S. Government needs to be proactive in ensuring this access. We currently have a comparative advantage in digital trade. It needs to be preserved.

This U.S. comparative advantage is reflected in the fact that 7 of the top 10 global internet companies last year were U.S.-based. But in recent years, Chinese internet giants have joined this list, with Tencent, Alibaba, and Baidu having joined the top 10.

Unfortunately, while the United States continues to be an open market for digital goods and services, U.S. cloud providers face major barriers operating in China, including measures that force providers to transfer technology and IP as a precondition of operating in the Chinese market. This is a serious problem, because U.S. players are the top cloud providers, and the overwhelming majority of market sales are overseas. It's a clear example of a predominantly U.S. B2B e-commerce export that drives major value both here at home (where the leading cloud players are based) and abroad.

IA's most recent submission to USTR's National Trade Estimate Report highlighted numerous digital trade restrictions across dozens of markets. Rather than enumerate them here, let me simply focus on some of the key barriers for the internet industry.

One foundational foreign barrier faced by IA members, and by the hundreds of thousands of U.S. businesses that use internet platforms to reach global customers, comes from inadequate and unbalanced systems of copyright in other countries.

In the United States, we take for granted a balanced and well-functioning system of intellectual property rights that enables the operation and growth of the internet. However, as U.S.-based internet companies expand services around the globe – and as all U.S. exporters increasingly rely on the internet to power trade – they are encountering unbalanced frameworks that deny adequate protection of rights and protections granted under U.S. law. Given that much of the current and future growth of U.S. industry will be generated through overseas business, problematic copyright frameworks in other countries present a clear danger to the strength of the U.S. economy.

As USTR rightly noted in its 2017 National Trade Estimate Report, "unreasonable burdens on internet platforms for non-IP-related liability for user-generated content and activity" is another significant digital trade barrier. Many foreign governments are exerting a heavier hand of control over speech on the internet and are subjecting online platforms to crippling liability or blockages for the actions of individual users for defamation, "dangerous" speech, political dissent, and other non-IP issues. Thus, we were pleased to see USTR include rules limiting non-IPR civil liability of online platforms for third party content in its updated NAFTA negotiating objectives.

A third set of barriers to digital trade – which has been well documented, so I won't discuss in detail here – is data localization mandates and restrictions on data transfers, which are increasingly preventing U.S. services from accessing overseas markets.

These are all important and complicated issues, and it will take sustained international engagement by USTR, the Departments of State and Commerce, and others to address them. The ITC's important work in this area will play a crucial role in that effort.

To conclude, the United States is facing a serious challenge in setting digital trade rules globally, with other countries trying to set a very different tone. It is critical that the United States work proactively to defend U.S. leadership. A modernized NAFTA provides an immediate opportunity to set a clear global example, by going beyond what we have negotiated in the past, and addressing the full range of barriers outlined above. This is no time to turn back the clock.

Thank you again for holding today's hearing and inviting Internet Association to share our perspective on digital trade. It is our hope the Commission will consider the full scope of issues the internet industry faces abroad. We look forward to playing a meaningful role in your investigation. I am happy to answer any questions.