

Speech given by Senator Dale D. Marshall at the Southern Growth Policies Board 28th Annual Conference on Technology and Trade at Westin Rio Mar Resort Hotel, Puerto Rico on June 25th, 2000

Distinguished colleagues, ladies and gentlemen, I must begin by saying that it is a singular honor to have been invited by your organization to participate in this very important forum and your annual conference.

Last November, I met your Director, Carol Conway after delivering a presentation in Toronto at to the Americas business forum. Perhaps she felt that I had said something interesting on that occasion, as she immediately invited me to participate in this forum.

It is an honor for several reasons:

Firstly, it is not often that august bodies such as this is, seek out the views of the developing countries of the hemisphere on issues of trade and development. And when some think of the hemisphere, they tend to think only of the Latin giants of Brazil and Argentina.

It is also an honor from the point of view that the Southern Growth Policies Board recognises the importance to the countries of this hemisphere of the work of the FTAA in eCommerce.

While I have been asked to look at eCommerce from the perspective of Latin America and the Caribbean, we must remember that this geographical region includes countries with populations of under 50,000 people and countries with many millions.

The range of issues is therefore not seen through the same eyes and the treatment of those issues is bound to differ from country to country.

The organisers of this conference have called this a *vision panel*. What a responsibility this is for my colleagues and I because we are being expected to open your eyes on where Electronic commerce can take us, and how we can get there. I am reminded of the fact that some of the most famous people in history have fallen a little short when asked about their vision for our future. I am told that Charles Duell, head of the U.S. Patent Office said in 1889, *“Everything that can be invented ... has been invented.”*

Thomas Watson, the famous chairman of IBM is reported to have said in 1943: *“I think there is a world market for about five computers.”*

And of all people, Bill Gates..... well he is reported to have said in 1981 *“640 thousand bytes of memory ought to be enough for anybody.”*

Even these visionaries had difficulty looking into the future even in the areas for which they were best known. We too can barely guess at the direction which eCommerce will take in the next five years, or in the next fifty years.

Let me begin by bringing you up to date on the work of the FTAA Committee of Experts on Electronic Commerce. This committee has been one of the most important committees in the entire FTAA process from the point of view that it has been grappling with what is essentially a new phenomenon;

- a phenomenon which is changing almost on a daily basis;
- a phenomenon which presents many of the same old problems of traditional trade but because of its nature, presents them in an entirely new order of magnitude;
- a phenomenon which also presents new issues of its own;
- And more importantly, eCommerce is something where none can afford to be left behind.

The reality for the two main economies of the hemisphere, the US and Canada, has been that they too are having to grapple with this new phenomenon, but for them this does not present a problem of the same order of magnitude as the same exercise presents for Latin America and the Caribbean.

This committee is one of the few examples in the International arena where the private sector sit with the public sector and deliberate on fundamental matters and try to come up with positions and solutions. The inclusion of private sector experts is not only recognition of the fact that the governments of the hemisphere are not seized with knowledge of eCommerce in the same way as the private sector players who develop and use it. It is also in recognition of the fact that there are important for governments and private sector players alike in creating a predictable multilateral framework in which electronic commerce can flourish in a way that will redound to the benefit of all the citizens in this hemisphere. I was more than pleased to discover this afternoon that this joint public/private sector approach has been employed by your organisation for 30 years.

The mandate of the committee required that we

“examine eCommerce (issues) with a view towards identifying the environment that will allow eCommerce to benefit (all) the countries of the hemisphere”.

This mandate comes from recognition that as a region, the Americas have many things in common but there are also many respects in which we differ.

The mandate equally comes from a recognition of the important role that eCommerce will play in hastening the Hemisphere’s integration into a unified, regional market. It is an inescapable fact that in order to realize the full benefits of the establishment of a Free Trade Area, all countries in the hemisphere, both

developed and developing, must be fully equipped to access the world of eCommerce.

The work of the committee is especially significant to the smaller economies of the region because for the first time they have the opportunity to meaningfully participate in the deliberations which will be the foundation of the policies which are developed. Notwithstanding that the subject is being considered in many different international fora, such as the OECD, APEC, WTO and others, the smaller economies of the region simply do not have the resources, financial or human to meaningfully participate and of course, some of these fora are closed to them. The work of the FTAA, being hemispheric, brings the discussions within their reach and here they have every opportunity to make their positions felt and also to learn from the experiences of the other countries in the hemisphere. Think how important such an opportunity is for a small Caribbean nation with a population of 50,000.

The work program of the committee required us to study the issues as they relate to the countries of the region and particularly, to study the Internet readiness of the countries in the hemisphere. On the question of the Internet readiness in the hemisphere, the committee commissioned a study by the OAS to assist us in making some reasonable assessment of the state of play. The data gathered clearly demonstrates the gap between the developing countries and the developed.

I do not mean to suggest that from one developing country to another that differences will not also be seen. However, even those among us who are somewhat ahead, are still far behind the obvious leaders. There are 34 countries in the Free Trade Area and it would be dangerous to generalize. The countries are in many different stages of development. Our experiences in terms of opportunities and challenges of electronic commerce are therefore quite different.

The committee was required to submit a report with recommendations to the trade ministers of the hemisphere at their meeting in Toronto last November and I should like to draw to your attention to one of the major recommendations to come out of the committee and I chose this one because of its overarching importance to the Latin America and Caribbean countries.

Governments as model users

In many countries of the hemisphere, indeed in the world, governments represent the largest segment of economic activity. Governments therefore have a pivotal role to play. I must say to you however, that in most of our countries, there is no widespread usage by governments of eCommerce solutions. Very few governments use the technology as a means of interfacing with the populace.

The results of a study done by the OAS at the request of the Committee show that while many countries use email as a means for their populations to access government and government agencies, most governments do not process payments electronically. There is no applying for licenses electronically, nor are they issued electronically. Only a few countries permit electronic processing of customs documents; only a few countries have systems of electronic bidding. By and large, government agencies tend not to have a presence online.

The Committee therefore recommended that FTAA governments promote and use electronic commerce in government to government, government to business and government to citizen transactions. As difficult as it may be to accept, our governments can ill afford to sit back and wait for the private sector to lead. From a cultural perspective, in many countries, the willingness of governments to grasp new technologies and new approaches to conducting their affairs, lends legitimacy and also gives comfort to the various players in the market place.

The Government of Barbados has encouraged many of its agencies to lead by example, by establishing a presence online. In fact the branch of government which markets Barbados as a tourist destination, has a web-site which gets 3 million hits per day. This first step by government has encouraged many of the private sector partners in the tourism sector, such as the hotels and other service providers, to themselves establish an online presence.

There are also the efficiencies and the economies which a shift to online activity will bring to government. Consider across the region how our governmental publications, our national gazettes are printed, and then distributed by post, when an online solution would bestow benefits and result in tremendous savings. In fact, the dissemination of public information and advice in all areas of government activity, by posting information on web-sites and electronic bulletin boards is a significant way in which government can deploy eCommerce.

In the area of government procurement, which normally accounts for between 40%-60% of a governments budgets, there are substantial benefits to be reaped in terms of transparency, more competitive prices, and speed of effecting transactions.

No doubt the private sector is not waiting for governments to lead in the implementation of eCommerce solutions, however it cannot be doubted that the governments must play a leading role by seizing the many opportunities available. In so doing, governments will be bringing the world of eCommerce to all the people. Because of their unique role and their greater resources, governments can be the much needed catalyst for the development of electronic commerce within their countries.

Our governments therefore need to develop clear strategies for the use of e-business in the day to day business of state administration and in government to

government transactions; government to business transactions and government to individual transactions.

The role of industry and business

With the exception of the United States and Canada, electronic commerce transactions in the region are still in the early stages of development, and currently Internet technologies appear to be used primarily for purposes of marketing and communications, rather than for commercial transactions. Firms which derive significant income from eCommerce are still relatively rare in the region. This situation is changing but not at a very rapid rate in much of the hemisphere.

However, it is clear that the hemisphere's businesses must urgently adopt e-business strategies and solutions if there are to compete in the global economy.

We must begin by recognising that the rest of the world is not standing idly by as we in the western hemisphere develop eCommerce. Countries such as Malaysia, Singapore and Dubai are well ahead in terms of developing what they call super-information corridors. And while two countries in the hemisphere have booming ecommerce activity, the rest of us cannot assume that we can piggyback on their successes.

No doubt there are many factors external to the businesses themselves, which hamper them getting involved in electronic business, such factors as communication costs, limited infrastructure, limited access and low bandwidth to name a few. These are all issues which our countries must grapple with before we will realize the full potential of eCommerce. However, to the extent that our businesses can engage in eCommerce with the existing circumstances, it is imperative that they do so.

The world of eCommerce is rapidly evolving and new opportunities are becoming available every day. The market for electronically delivered services and content is now evolving so rapidly, that our businesses can ill afford to remain grounded in traditional modes of supply. To do so will be to ensure that they cannot compete in the new world economy.

The dividends will be especially high for the region's smaller companies and smaller economies that traditionally have been hampered by limited information, high market entry costs and distance from markets. The use of electronic commerce by small and medium size enterprises means the elimination of traditional barriers to trade such as the distance between markets and the difference in size of businesses.

Smaller businesses throughout the Americas will have the opportunity to access global audiences at much lower costs, thus allowing them to penetrate international markets in a way that was impossible before now.

I have already mentioned the tourism sector in Barbados, which is characterized by relatively small hotel properties with small marketing budgets. These hotels have successfully been able to reach out to a truly global audience not previously reached through advertisements and flyers. Nearly 25% of employment in the Caribbean is related to tourism. It has been predicted that travel and tourism will be the largest online data product in the next 3 years. Clearly then there is tremendous potential for eCommerce in this service sector.

We simply must capitalize on these and bring many more of the regions businesses online.

This would be a good point to examine where we are in the region in terms of eCommerce activity and eCommerce readiness and you will pardon me if I seem to emphasise the Caribbean. I did mention earlier that there is a great disparity

existing between the countries in the hemisphere and unfortunately, the special circumstances of the smaller Caribbean countries are often forgotten.

Well the researchers are using such terms as *hypergrowth* to describe the increase of eCommerce activity and the gee whiz numbers abound.

The number of Internet users in Latin America is predicted to reach 30 million within the next 3 years. By the end of this year it should reach just over 13 million.

The region is expected to have revenues in 2004 of 82 billion US dollars of which the bulk is expected to be business to business.

In terms of market size, Brazil is the clear leader at present and this is expected to continue with Argentina ranking second. Given the size of these national markets and their projected growth rates, it would be foolhardy to ignore them for long. But the risk of leaving the other smaller economies behind is great and to do so would be equally foolhardy.

Where are we now?

It appears that the most critical factors facing the growth of electronic commerce in the smaller economies of the region are:

- The relative newness of online commerce in the region;
- Lack of modernized infrastructure in the telecommunications industry;
- Lack of competitive access to telecommunications and Internet services;
- Narrow bandwidth;
- Fewer connected computers per capita; and
- The inability to ensure secure transactions.

There is tremendous disparity between the countries of the Western Hemisphere with respect to the state of development of infrastructure and computer use by

the populace. For example, the ratio of personal computers in Latin America and the Caribbean is in the region of 5 per 100 inhabitants. In Canada, this figure is 27 per 100 and in the USA, it is 36 per 100.

Another indicator is the number of Internet Service Providers. These numbers range in the hemisphere from 3 in Costa Rica, to 29 in Chile, 380 in Mexico and over 7000 in the USA.

The number of Internet Hosts also demonstrates the disparity. In Canada and the USA over one and a half million hosts were registered as of January, 1999. The largest number of hosts in Latin America and the Caribbean was found in Brazil with a quarter million. Outside of Mexico, Argentina and Chile, fewer than 20,000 hosts were registered in all other countries of the Hemisphere. In the Caribbean, all but one of the countries had less than 500 hosts registered with fewer than 100 in eight countries.

Equally striking is the large degree of difference between the countries in terms of Internet users. In Canada and the USA about one-third of the population uses the Internet on a regular basis. This is to be contrasted with Latin America and the Caribbean, where Internet Use is currently only among 1 to 1.5 percent of the population.

Our positioning in the on-line world clearly depends on several factors.

We can start with costs.

I speak not of costs to the business, because low costs to the business is the very essence of eCommerce. I am speaking about the cost to the consumer. From costs of the hardware to the cost of Internet services and cost of telephony

services. These costs will indirectly impact on the ability of the average person to access the Internet.

It is clear that the use of computers and Internet services at present is primarily available of the upper income groups of society in Latin America and the Caribbean. This is seen when you consider that in Bolivia, the average price of a computer is given to be \$700.00. This is two-thirds of the per capita annual income of the average Bolivian or 8 months earnings. This can be compared with an average cost of a computer in Canada at \$1,500.00. That figure represents one twelfth of the per capita income annual of the average Canadian or 1 months pay.

Purchase cost is not the only factor in influencing the cost of Internet access. The monthly cost of Internet access must be added to the cost of equipment and connection, and ranges widely in the hemisphere. In addition to the fixed monthly costs of Internet access, the telecommunications operators in many countries in the hemisphere levy additional variable charges on use of the telephone lines, on a per minute basis. The slower the Internet connection, the higher the charges for the user. This necessarily reduces the time that users spend online, which in turn hampers them from engaging in meaningful eCommerce activity.

Speed of Internet connection is in turn a function of the efficiency of the telecommunications infrastructure, particularly the bandwidth for access, and the amount of information that can be carried across the network at any point in time. The total cost to the user is therefore a combination of both the fixed and variable components, and tends to be considerably higher on an average per capita income basis in the Caribbean.

From this you can readily see that cost of access is a major obstacle to the growth of eCommerce in the developing countries in the region.

Unless Internet access is affordable, it will be impossible for us to empower a sufficient percentage of our populations to make eCommerce a viable commercial option for our businesses. Many countries in the region do not have a flat rate for telephone usage. The consumer therefore has to pay for the time spent on the phone-line, as well as the time spent online. Browsing the Internet, which is a must for any potential consumer, may simply not be an affordable past-time. Any of you who are involved in marketing know how important it is for people to browse. An environment where the costs are so high that people log on and log off after a very short time is not an environment in which eCommerce will thrive.

Businesses involved in eCommerce in the region, are limited in terms of their customer base to those people who have access to credit cards. Let us consider what percentage of the total population of St.Kitts or Trinidad have credit cards. Whatever that percentage is, that is the maximum number of potential eCommerce customers today in those countries. Most online transactions cannot be done today without credit cards. On the other hand, practically every West Indian has money to spend. We are not talking about wealth, we are simply talking about nothing more than the ability to purchase a good or a service.

Electronic commerce, as it is presently conducted, is therefore restricted to a small segment of all our societies and will not become widespread until we develop ways to extend it to a greater segment of our societies.

This is again not a purely domestic issue. In much of Latin America, banks are prohibited from clearing credit card sales online. Most people cannot participate in online commercial activity unless they have a bank account with one of the few

banks which will allow you to manage your account online and make payments via this medium.

We must therefore consider and concentrate on three things:

- **how to increase the customer base by bringing the technology within reach of every citizen;**
- **how to simplify the process of doing business online so that every citizen can use it effectively; and**
- **finding a mechanism of payment which will allow every citizen to participate in this online marketplace.**

Where should we start?

A good place to start would be for us to conduct a comprehensive review of our legislation which governs commercial transactions, to see if these legislative instruments are conducive to eCommerce transactions . In many Latin American and Caribbean countries, our legal frameworks were developed at a time when the Internet was not even contemplated.

The legal system of the English speaking Caribbean for example is based for the most part on English Common Law, this being the law brought by the English settlers in the 17th century. Since that time, our legal and political institutions have been based on UK models. It is therefore not surprising that across the region the main pieces of commercial legislation¹ were based on UK laws, which

¹ Sales of Good Act Cap. 318 (1895)
Bill of Exchange Act Cap. 304 (1907)
Bills of Sale Act Cap. 306 (1893)
Bills of Landing Act Cap. 305 (1892)

themselves were developed when the only forms of electronically generated communications were the telegraph and the telephone and when the only durable forms of communication was with the use of pen and paper.

In addition to legislative instruments, our Law of Contract and of Tort is essentially the common law of England as followed by Barbados' Courts.

Our laws were therefore developed for a paper based commercial environment which frequently required persons to physically execute documents and which sometimes required witnesses. These laws may currently be insufficient to secure the enforcement of contracts entered into online or ensure the validity of electronic signatures.

Such a review is already under way in Barbados for example, and we expect to enact an Electronic Transactions Act based on the model Law developed by UNCITRAL in the next few weeks.

Across the region, many countries have either recently enacted legislation or are considering legislation aimed at facilitating electronic commerce and these have been all based on the UNCITRAL model – among these are Columbia, Chile, Peru and Mexico.

Concluding Statement

In Latin America and the Caribbean, as elsewhere, Internet based Electronic Commerce is daily touted as the new way of doing business that will transform, improve and expand the realm of traditional commerce, both domestic and international. The Internet has created great expectations for developing and emerging economies to participate in an increasingly global digital economy.

Improved access to the regions markets is at the heart of the Free Trade Area of the Americas. Electronic Commerce will make it possible to access each others markets at very minimal costs. Throughout the hemisphere, it will allow companies to enjoy higher growth and improved economic efficiency and profitability. The resulting productivity gains should propel the economies of the region and lead to a higher standard of living for our populace.

But we must do it together. As a region we must collectively work towards the ideal that in eCommerce, all must be enabled – no one must be left behind. This is important for regional stability and for US businesses. It must not be forgotten that eCommerce opens up the region, not just to interaction with US businesses, but it also brings the rest of the world within reach. And as we seek to penetrate other markets, they too will be seeking to penetrate ours.

It may be considered presumptuous of me to point out that there are many commonalities between your southern states and many of the countries of the hemisphere. Perhaps we can learn from each other as we find ways to deal with our respective digital divides.

The famous French poet, Paul Valerie, made the comment,

“The problem with our times, is that the future is not what it used to be.”

This is so true, as the eCommerce revolution spreads across the globe. Nothing is what it used to be and we really can't even guess what is coming next. What we do know is that there won't be much of a future if all of our citizens, yours and mine are not empowered so as to be part of this revolution.

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