

## **Session 9: Multistakeholder Perception of the Digital Economy**

*Friday, 29 July 2016*

*Moderator:*

Pedro da Silva

*Panelists:*

Eduardo Chomai - ASIET

Gonzalo Navarro - ALAI

Marcelo Jenkins - ICT Ministry, Costa Rica

Raquel Gatto - ISOC

Kemly Camacho Jiménez - Sula Batsu

Yolanda Marines - Gobierno Digital, Mexico

*Remote participation moderator:*

Matías Jackson

*Rapporteur:*

Agustina Callegari

*Questions intended to trigger discussions:*

- How is the region doing in terms of its digital economy? How can the different sectors contribute to its development? What steps should the region take?
- What have we learned from the various regional integration processes? Can these processes help develop and encourage the digital economy?
- What public policy objectives should the region consider in this area? Are there any replicable regional models or experiences?
- What is the best way to encourage entrepreneurship in the field of new technologies? What has been the experience of startup programs in the region?

Pedro Da Silva:

Session objectives:

- To discuss the status of digital economy in Latin America.
- To Identify what factors the sector can contribute.
- To identify problems from the point of view of consumers and producers. For example, encouraging entrepreneurship, stimulating innovation among small- and medium-sized enterprises aimed at increasing ICT adoption.

Kemly Camacho Jiménez - Sulá Batsú

The Sulá Batsú cooperative is trying to establish and experience new forms of business for the digital economy. They have been doing this for the past twelve years.

They don't want the regional economy to be supported by major technology parks. These are important, but there is the concern that it is the only possible model. Technology parks create independent cities with their own dynamics and disconnected from the reality of the cities where they are located. This model also results in young people who are able to find employment, who have their future guaranteed and therefore are both highly connected and disconnected.

Other business models were highlighted: social economy business models based on self-management or cooperative work.

Concern was expressed that Latin American economies are based on startups and co-working spaces. They are effective but their main goal is to achieve success. It is necessary to promote digital technology-based enterprises interested in transforming the issues that affect our region.

The problem of employment in the digital economy was emphasized – a shortage of technical experts, engineers, programmers, computer scientists. 449,000 vacancies (CISCO). There is a very important divide. Participants were invited to think about what kind of human resource these companies are looking for. Engineers over forty are starting to lose their jobs.

Concern was raised about the widespread use of the term “millennials” to characterize a group of young individuals that is very diverse depending on their context.

Smaller digital economies should be strengthened, as they contribute to wealth distribution and redistribution.

Associative enterprise models should be encouraged. Traditional economy drives individual enterprise models that build a digital economy based on people, not on success.

Concern was also raised regarding the fact that the digital economy is based on multidisciplinary companies. Social aspects are not prioritized.

In order for the digital economy to benefit all, it must be built on all areas of knowledge.

Local knowledge should not be a mere commodity.

The digital economy is global. We need to build local social economy.

#### Raquel Gatto - ISOC

The OECD meeting in Cancun addressed the topic of the digital economy. Not coincidentally, this is one of the major issues and one of the challenges for building a future of empowerment.

There are several working groups within the OECD. ISOC is part of eTAC (technical working group).

The multistakeholder group produced a final statement containing four principles:

- Open Internet
- Global connectivity

- Trust in the digital environment
- Opportunities for employment and capacity building

Focus: an open Internet. Keep in mind that the Internet is not guaranteed. It was built on fundamental values and principles. One of these principles – the principle of permissionless innovation – allows innovation by new entrepreneurs and new business models. This principle was and continues to be key to an open Internet. This does not mean anarchy and a lack of law enforcement. It means that an entrepreneur can launch a new product or service without requiring any authorization.

How to maintain an open digital economy.

The importance of rethinking new regulatory environments.

These are not the concerns of a single actor, but of multiple stakeholders groups. However, in addition to traditional actors, we must also include users in this construction. End users who generate demand and determine how the Internet is used.

When it comes to the digital economy, the idea is to have permissionless innovation, that the Internet will truly be for all, and that everyone can seize the opportunities that are out there.

Yolanda Marines, e-Government Unit, Ministry of Public Administration (Secretaría de la Función Pública), Mexico

Important cooperation mechanisms for the region prioritize the digital economy. Challenge: articulating the different countries (each with its own regulatory framework) and adapting these principles to local realities. There are also differences in terms of national democratic processes.

What are we doing? Resolution by all participants: to work at local level seeking to align the ecosystem and articulate policies that will promote entrepreneurship.

How can all countries coordinate their efforts for achieving proper personal data protection? This has to do with sovereignty and the fact that the Internet has no boundaries.

Challenge: attempting to regulate something that that is constantly changing and has to be freely accessible to all.

Challenge: innovation on the part of regulators. This is a challenge in which we are not alone.

Challenge: tax systems. Every economy has its own trade regulations, yet there are shared principles that must be promoted in every country.

Challenge: use of different credit/debit cards, different e-commerce mechanisms.

Convergent, innovative regulation.

Organizing a meeting of the Digital Single Market Working Group is quite a challenge.

Keep in mind that the Internet is here to stay and that we are all responsible for ensuring this.

Eduardo Chomai - ASIET

Global trends in digital economy.

The situation is clear: for the past decade we've been moving from connectivity to value added Internet offerings.

Major Internet companies are advancing in all stages of value creation. This translates into Internet service market concentration (90% market share, 6% tax share, 90% profitability).

Asymmetry.

Example: services such as search engines. Europe is watching them closely in terms of competition.

Analyze the status of value sharing.

US-centered economy: 64 companies, 83% of which are from the United States and only 2% are from Latin America.

We Latin Americans should be proud of the progress we've made in the past ten years. We've closed some access divides and are moving forward at a good pace, but there is still a long way to go.

The number of users continues to grow, but fewer enterprises are created locally.

Latin America is lagging behind the rest of the world in terms of local content production (one in four news items, e-commerce transactions, etc.).

It is important to ask ourselves how we can maximize the role of digital economy in our countries. Innovation and creativity play a central role.

Challenge: to develop a stronger digital economy. We are world champions in terms of consumption, but we are transferring our wealth outside the region. Because of the business models we are using, more than 60% of network traffic is international. This means that wealth is leaving our countries. Barely 9,000 jobs in the region. Neither is their fiscal contribution significant.

We need to think about how the region can achieve a critical mass of economic and human resources. There is not much venture capital investment in Latin America.

How can we move towards a Latin American market? Challenges: to develop our own content and bring down barriers so that, for example, a person in Chile will see that the entire region is its potential market.

Importance of regional policies.

The case of Europe is interesting because of the digital single market strategy it is adopting. Our region shares many similarities with Europe: we must face the challenge of concentration, improve connectivity.

There are treaties in force in Latin America and we need to advance towards a digital economy.

We were late to the industrial revolution, we can't miss the digital revolution.

Gonzalo Navarro - ALAI

Before creating a digital single market, Latin America must first create a single market.

Along with creating conditions for such a market, the regulatory element is essential for regional development.

The impressive numbers in the United States are the result of logical models and a favorable regulatory environment.

Innovation should come before regulation. When someone wants to start a business (one that includes the notion of success), they are thinking about developing a business in a free environment. They are inspired by successful US companies.

When there is a clash between what innovators think and their regulatory environment, or when a company goes against tradition, that's when the idea of regulation appears. See how we can solve the problem through legislation. We need a law that applies to all applications. We believe this is the right approach.

It is true that the region is lagging behind, not only in terms of the digital economy but also in terms of economic progress in general.

This means it is important to see which models have been successful and which have failed. Permissionless innovation catalyzes the digital economy. This does not mean moving forward in absence of legislation, but that legislation must be in line with the object it seeks to regulate.

We need to address this topic, find the bottlenecks and problems affecting our region.

There are examples of good regulatory practices in Latin America. Mexico has good personal data protection regulations in place which have benefited Internet development. Brazil passed the Internet Civil Framework. Chile passed a law on Internet intermediary liability.

This means there are great experiences that can be applied in the region. We need to find the bottlenecks and see what solutions Latin America itself has found to these problems.

Participants expressed interest in transforming the Digital Single Market WG into a Digital Economy WG.

Marcelo Jenkins - ICT Minister, Costa Rica

We must begin by defining "digital economy," a term coined twenty years ago when the Internet started to gain momentum.

Several authors had said the Internet would affect the way goods and services are seen, and this has proven to be true.

The digital economy changes how users purchase all types of goods over the Internet.

In certain cases, unit costs for products or services can be reduced to practically zero. For example, the cost of producing an additional copy of a pdf file is 0. Sending it over the Internet costs more or less the same – practically zero. This changes the relationship between buyers and producers.

But what does Google sell? It doesn't sell software.

Today, I pay for my Internet connection and I am also the target of publicity. Google has turned the digital economy upside down.

Challenges for inserting ourselves into the digital economy:

- Access, as there is still a long way to go.
- Digital alphabetization to take advantage of different opportunities.

In Latin America, there is no trust in the producer-consumer relationships. In China, nobody purchases a mobile phone in a store. In Costa Rica, nobody purchases a mobile phone online.

We must stop thinking about the economy as we knew it in the 19<sup>th</sup> century.

### **Open microphone:**

*Mark Datysgeld:* Before becoming involved in Internet governance issues, I didn't understand the importance of our region's cooperation. This effort is not perceived by the industry. There is no interest in producing content that is relevant to Latin America as a whole (media, news sites).

*Carlos Bogarin:* We must train the population to help them understand that, thanks to open technology, they don't need a great amount of money start an enterprise. People don't know that there is a world beyond Windows. Open technology is democratizing access to this market. Many small- and medium-sized companies throughout Latin America have achieved amazing results using open technology.

*Maureen Hernandez:* Open does not mean free: if people use it, they should contribute towards its development. We are not succeeding in developing the digital market due to trust issues. In Latin America, user trust is very low. Users prefer purchasing from local providers.

*Member of ISOC Venezuela:* Limited connectivity, ability to enter the digital economy.

*John (inaudible):* Latin American IT companies face various issues. Public policy should recognize its importance. Brazilian Internet service providers often open new companies that are in fact the same company in different tax jurisdictions.

Zero-rating: without free Internet access, open software is underutilized for development.

*Participant from Saint Lucia (Caribbean):* Before IGF 2015, I conducted a survey asking people how they had benefitted from the Internet. Two persons said their benefits were related to their personal businesses. What can be done to improve Internet governance in small islands?

#### Panelists

##### Eduardo Chomai - ASIET

Highlighted the importance of trust. In Latin America, users are more worried and feel greater distrust towards the Internet.

The fact that data is hosted in other countries does not mean that companies can infringe people's rights.

We share some common challenges with Europe. Much of the success represented by the industry has to do with the principles of a single digital market: a large market without barriers that promotes innovation and the production of local content.

##### Yolanda Marines - Gobierno Digital - Mexico:

Highlighted the value of trust. The production of high-quality digital services in the region must be unleashed. The best way to do this it is through this type of multistakeholder forums.

##### Gonzalo Navarro - ALAI

Sometimes we forget the Caribbean, a region that must be included.

While not much is needed to start a business, maintaining it over time requires perseverance. The problem is that these companies start growing in their own countries, but then realize it is practically impossible to grow outside their national borders. For instance, it is very difficult to transfer capital from one country to another. Entrepreneurs are punished by the region's bankruptcy culture. Likewise, there is no incentive for entrepreneurs. For example, those who do not pay a monthly electricity bill are punished.

Lastly, it is important to understand that the digital economy changes business models and the ways in which benefits are obtained. There are different models (e.g., publicity).

##### Marcelo Jenkins - ICT Minister, Costa Rica

Innovation is relevant but it is not the only thing we must take into account. Example: there is no innovation in Uber/Airbnb, as these companies use existing technology to sell something at a lower price.

These are not innovations from a technological point of view; instead, they represent business innovations.

Tariff barriers and regulations (state, provincial and municipal) represent major obstacles. It is not easy to move towards a common market in Latin America.

##### Raquel Gatto - ISOC

We must not only look at barriers, as there are enabling factors as well. Digital economy is not an island; it is also affected by other factors (access, language). Corporate and tax systems represent difficulties as well.

There is a lack of interest and a failure to perceive the importance of connecting everyone. We should focus on creating new opportunities.

Kemly Camacho Jiménez - Sulá Batsú

Highlighted various aspects of the digital economy:

- Decentralize opportunities (rural and coastal areas)
- Strengthen small- and medium-sized companies (off-line)
- Clean and fair
- Guarantee people's economic rights
- Environmental responsibility
- Based on ethical business practices
- Must not restrict local knowledge
- Must not generate technological dependence in our countries

#### **Microphone:**

*Pilar Saenz:* There is no digital economy without widespread use of banking services (credit/debit cards, currency exchange). It is impossible. Our economies have low banking penetration rates (plastic). In rural areas, penetration rates are even lower.

Regional traffic is exiting the region because there are not enough Internet exchange points. There are issues with regional infrastructure.

Goods and services in a digital economy.

Thinking about a digital economy requires considering other types of asymmetries.

*Encel Sánchez:* Stressed the use of digital currencies and asked for the panel's opinions on deep web transactions.

*Alejandro Pisanty:* Referred to privacy and data protection and recommended a book titled *Privacy on the Ground*, which reveals that the United States and Germany are the strongest countries in this area, though for different reasons.

In the region we have more than enough legislation, so we must focus on actions.

People in Mexico pay the same price for Amazon shipping than people in the United States.

University networks are not leveraged. We are not working on cloud computing or cybersecurity; instead, we are purchasing these services from external providers. It is important to consider the "cost of not doing."

*(Inaudible):* How can a person start a company in Latin America without obtaining a loan and then transform it into a digital economy? The problem does not lie with the people that



develop applications, but with their countries. Countries should create favorable conditions. There are no exchanges within Latin America, so a digital economy represents a great way to achieve this.

*Nicolás Echaniz:* In the digital age, knowledge sharing has zero cost but is said to be piracy. Prior to the digital economy, people had to manage scarcity, yet now they must learn how manage abundance.

*(Inaudible):* If costs are almost zero, why have governments not yet implemented services that cost almost zero? Why aren't these systems implemented in the form of a national system of zero-cost public services?

*Eduardo Rojas:* We need human beings with transdisciplinary knowledge. We are building a logic model for the use of information that will allow the creation of new job sources and provide opportunities. Attention should be placed on the individual we are creating.

*Fátima Cambroneró:* Highlighted the new business model as a new way of connecting consumers and providers. She asked about new payment methods such as bitcoins and mentioned a ruling by a Miami court regarding money laundering with bitcoins where the court had decided that it was not money and therefore no crime had been committed. Users don't fully trust the Internet yet, so what is the industry doing in order to strengthen this trust?

#### Panelists:

##### Raquel Gatto - ISOC

Stressed the importance of the digital economy and emphasized the existence of different perspectives. We can all make a contribution. We must not forget that, while it is at the core of the digital economy we love, the Internet is not guaranteed. Permissionless innovation.

##### Kemly Camacho Jiménez - Sula Batsu

We can't talk about a digital economy without talking about violence, corruption, environment.

##### Marcelo Jenkins - ICT Minister, Costa Rica

It is not about the product but about selling it. A problem in Costa Rica is that half the population doesn't have access to banking services.

##### Gonzalo Navarro - ALAI

Latin America is full of people who want to create new things. The problem is that they can't do this today because there are entry barriers (e.g., regulatory barriers). How do we see ourselves in the future? What elements are needed for the region to grow?

##### Yolanda Marines, Gobierno Digital, Mexico

The digital economy provides many options for success, but there are major infrastructure challenges.

Eduardo Chomai - ASIET

Terms and conditions for data utilization. Analyze how to advance.

### **Discussion highlights:**

- The importance of developing a digital economy for Latin American integration. There is still a lack of integration throughout the region (e.g., inclusion of the Caribbean).
- Many barriers to the development of the digital economy Latin America were highlighted during the session: access and infrastructure barriers, regulatory barriers, cooperation barriers, tax barriers, economic barriers, cultural barriers, language barriers. The existence of market concentration was also noted.
- The need to create local content and encourage local entrepreneurs. The ideas are there, what is lacking is the right context.
- We must promote digital, technology-based enterprises interested in transforming the issues that affect our region.
- It is important to remember that the open Internet is not guaranteed.
- Another Internet principle is “permissionless innovation,” which allows innovation by small entrepreneurs and new models.
- Innovation must come before regulation. This does not mean moving forward in absence of legislation, but that legislation should be in line with the object it seeks to regulate.
- Challenge: user trust (example: in Costa Rica nobody purchases mobile phones over the Internet).
- Challenge: increase access to banking services.
- See models in other regions (Europe, United States).
- Also, see models in Latin America itself.
- New business models for the digital economy: social economy business models based on self-management or cooperative work.
- (Consensus) The voice of every actor must be heard when discussing these issues.
- Relevance of the ECLAC Digital Single Market Working Group.
- Different perceptions of the Digital Single Market and the Digital Economy.
- Final question: think about how we see ourselves in the future and what elements are needed for the region to grow.