

## 6. The Political Dimension

**Discussant: Diego Arria, Technology Holdings International**

**Discussant: Antonio Botelho, Universidade Católica do Rio de Janeiro**

**Discussant: Elliot Maxwell, U.S. Department of Commerce**

**Discussant: Robert Vitro, InterAmerican Development Bank**

The information revolution touches all of society, and so the different dimensions cannot really be separated. For instance, the role of government is eminently political but also is critical to the business environment. Or a social dimension, like education, also is at the heart of countries' economic and business opportunities in information technology. This section begins with a framework for thinking about government policy, then turns to Brazil and to a perspective from Venezuela on the region.

### The Role of Government Policy

It is striking that leadership by the private sector is widely accepted yet the role of government is important. There are a number of ways to consider the role of government policy in the information revolution. In the United States, the "creative destruction" model assumes that the private sector should lead, and that governments should mostly stay out of the way, of e-commerce, for instance. Yet government is needed, most obviously in sustaining a legal framework for commerce. That framework should be predictable, minimal, consistent, and simple. Governments need to recognize the unique qualities of the Internet, as well as the fact that e-commerce must be treated on a global basis.

As part of a legal framework for the Internet, developing a system for managing electronic contracts is clearly a role for governments because enforcement ends up in the public courts. Specific issues in this area include digital signatures, jurisdiction and dispute resolution, taxation, electronic payments, and antitrust. In the area of digital signatures, the U.S. government has been arguing that governments should be technologically neutral and should not certify digital signatures, but should instead let the market do so. Yet whether or not the market can accomplish this task is debatable, and many Latin American countries currently are considering electronic signature laws.

At present, there is no one place to resolve international disputes over e-commerce. When a business is located in multiple places, with distribution and delivery around the world, it is unclear whose laws should apply. Producers and consumers both will want jurisdiction where they have most confidence they will be treated fairly, better yet favorably, and usually that will be their “home” country. At present, the U.S. government argues that mechanisms for resolving disputes online will minimize arguments over jurisdiction and keep disputes out of courts.

A related and obvious challenge for government is taxation. In European (and some Latin American) countries, value-added taxes apply regardless of where goods are sold, while in the United States taxes on sales are mostly at the local and state, not federal level. Coordination of these systems is a logistic and legal challenge. The Europeans now talk of “coregulation,” though the meaning is not yet clear. The goal will not be global rules but rather “interoperability,” which would permit somewhat different rule regimes to work together. Electronic payments also involve governments, and some Latin American governments have passed laws to govern such payments. Antitrust issues arise as well, from concerns that e-commerce will create “winner take all” possibilities.

Governments have a role in building confidence and trust among consumers. This role includes but extends beyond privacy and authentication to take in consumer protection, cybersecurity, and intellectual property protection. These issues are complex, as a recent case in France illustrates. French courts wanted yahoo.com, in the United States, to be held accountable for content placed on yahoo’s subsidiary site in France. The recent controversy over the 38-million napster.com subscribers illustrates the challenges of intellectual property rights, especially when companies seek to patent business lines or processes. So, too, cybercrime is difficult to prosecute if, as in the case of the “love bug” in the Philippines, the act committed is not a crime where it was committed. On the other hand, strong encryption is now a fact of life; U.S. companies can export it to anyone except states on the U.S. government’s terrorist list. .

Governments also help build a country’s information infrastructure, by establishing a framework for competition in communications, setting policies on spectrum, working to open markets abroad, fostering interoperability, and managing domain names. Governments can also work to foster digital inclusion along dimensions of race, gender, income, geography, age, and physical disabilities, to narrow the international digital divide, and to reach out to small and medium size enterprises. There is also a need to measure the state and progress of the digital economy, a role that also seems a natural one for government.

Last, but certainly not least, is e-government itself. As has been noted previously, some governments in Latin America, such as Brazil, have made progress in collecting taxes online. Since governments are relatively important in Latin America, the effect as they move online – to collect taxes, file trademarks and deliver services – will be correspondingly significant.

## The Case of Brazil

At the root of the politics of the information revolution in Brazil is hostility between the telecoms and those who are making the information revolution. These two groups do not communicate with each other, have different histories, and have different bases of support. Despite this friction, growth and innovation are evident. Sixty percent of Brazilian tax returns are filed online (the figure would be more impressive except that perhaps two-fifths of the total economy is "informal," hence completely untaxed). Brazilians recently were able to vote electronically. The telecom regulatory regime is now solid, after Brazil learned from the experiences of Mexico and Argentina. There are now 22 million cell phones in Brazil, a number expected to grow to 58 million by 2005. E-commerce in Brazil, at \$300 million in 2000, is the biggest market in Latin America.

There are now 7 to 8 million Internet users, and the government, which has just published a "green book" or discussion document on the information society, hopes that number will increase to 37 million, or a fifth of the population, by 2005.<sup>10</sup> The government is trying to wire its 26,000 schools and 6,000 libraries, along with other centers, or "telekiosks." Now, fewer than four percent of elementary schools are wired. A government fund takes two percent of gross telecom revenues, and new initiatives compete for this funding – for instance, to create kiosks in *favelas* (slums), or to link the cities in Pernambuco State, or Parana, or Rio. Rio Digital aims to let *favela* dwellers band together to buy groceries or construction supplies in bulk and have them delivered to the *favela* entrance, from there to be distributed.

Venture capital and incubators are increasing. One model is somewhat akin to Japan's *keiretsu*, i.e., groups of industrial firms organized around a bank and closely coordinating their strategies and their purchases. This arrangement would let existing firms share risks. It may run afoul of antitrust regulation, however, suggesting that some changes in antitrust policy may rise on the agenda. Pension funds are another source of funding, but with interest rates at

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<sup>10</sup> See [www.mct.gov.br](http://www.mct.gov.br), Livro Verde Sociedade da Informação.

30 percent there is little incentive to invest in anything other than short-term paper. By the same token, only the national development bank now confers "microcredits," which are in any case likely to be too small to finance IT ventures, though they surely could help other businesses become better users of IT.

Throughout Latin America, cell phones will be key, and, as in other dimensions of the IT revolution, Latin American applications may be different. For now, cell phones in fixed kiosks can supply simple information. But third generation cell phones, on which Europe has placed an enormous bet, will be very large (3 megabits/second) pipes. Can that link become a viable business? There are still a lot of places where it is hard to get a cell phone, and so Latin America's solutions will have to be different than Europe's.

## **A Venezuelan Perspective on the Region**

NGOs have pushed the social dimension of IT development, and the organization of NGOs has in turn been promoted by IT. Yet one of the focal points for the organizing of NGOs has been Mercosur, the regional free-trade initiative, and most of the NGOs that have emerged are against Mercosur. For their part, most Latin American governments have opposed NGOs as a challenge to their power. They want trade and commerce but not political integration or freer movement of people. They see the Internet as an instrument of power. Consider tax structures on IT, which give advantage not to the people or to IT development but rather to government budgets: computers in Venezuela are twice as expensive as those in the United States, entirely as a result of taxes. Many leaders give lip service to the empowerment of NGOs but in fact fear the phenomenon.

There is no Spanish counterpart to the word "accountability," but IT can be a boon to accountability in the region. As in the Chavez-Castro case, it could make available more information. The issue of cybersecurity in Latin America exists in this context. Security surely is a problem, from both hackers and the determined underworld of IT, terrorists and criminals. If the infrastructure for deploying IT in the region is fragile, might security become such a worry that governments and business shun new IT technology and resort to "old economy" ways of doing business -- face to face meetings, paper memorandums and phone calls? In fact, when governments are determined, as in Brazil's online elections, they can manage security. At this point, security is probably more an excuse for not moving toward more accountability than it is a real stumbling block.

## Bottom Lines

It is striking that, while there is a debate about the role of government in IT, that debate presumes that the private sector will be the leading edge. Government plainly has roles to play in establishing legal frameworks, adjudicating disputes, building public confidence and developing the infrastructure for IT. *Where* to adjudicate disputes is itself an issue, as consumers will want adjudication in “their” country, suppliers in theirs.

Governments remain large in Latin America, and thus they will also be important users of IT: witness those Brazilians who vote or file tax returns online. Yet, on the whole, the region’s governments have taken a “fiscal,” rather than a “consumer,” approach to IT; they have kept prices high for tax reasons – and so computers costs twice as much in Venezuela as in the United States.

Governments pay lip service to IT as a means of increasing the transparency of governance, but most of them pay little more than that. And advertisers are not willing, in many countries, to support media that oppose ruling governments. As governments learn about the potential dangers of the Internet to their power, they may move against it, but the Chavez case suggests the limits they will confront in trying to control information flows.