

THE BROOKINGS INSTITUTION
TRADE AND THE DIGITAL ECONOMY:
OPPORTUNITIES FOR U.S.-JAPAN GLOBAL LEADERSHIP

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Welcome:

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Keynote Address:

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Closing Remarks:

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P R O C E E D I N G S

MS. SOLIS: Good morning, everyone. I am Mireya Solis, the Knight Chair in Japan Studies at Brookings. It is my great pleasure to welcome you this morning to a very rich program.

We are going to be talking about the digital economy, trade policy, and opportunities for U.S.-Japan global leadership.

There is no question that the stakes are very high. We can certainly predict that the digital economy will become an ever larger source of national prosperity and a dominant force of international trade among nations.

However, we do not have yet a well developed consistent overarching multilateral governance structure on digital trade that can also help secure the future of an open Internet.

Trade agreements, such as the Trans-Pacific Partnership, TPP, or TPA, are an endeavor to provide rules in these critical areas. In TPP, in particular, the United States and Japan can cooperate effectively. I think most attention has focused on the divisive issues regarding market access between Japan and the United States, but in fact, in the rulemaking part of these negotiations, these two countries have great convergence of interests and positions.

There is great opportunity here. However, before we get too carried away in our excitement, we should also factor in the list of formidable challenges that lie ahead when we think about the role that trade agreements can play in codifying rules on digital trade and principles on an open and vibrant Internet.

Let me just mention some of them as a reality check so you can see why this discussion is going to be so interesting this morning.

Even countries, for example, that share commitment to free data flows, have different approaches on how to balance unrestricted flows of data with privacy protection with cybersecurity concerns.

For example, many industrialized nations endorse different approaches domestically on privacy protection. How are they going to come to the table to negotiate trade agreements when they have different regulatory approaches on these very important issues.

Clearly, generating consensus among industrialized countries in trade negotiations is very important, but it is not the only task. How to bridge that divide with emerging economies with developing countries is also very important when we are thinking about creating rules that can be disseminated widely.

This brings me then to another interesting difficult question, and that is how to distinguish between genuine cybersecurity concerns and protectionism. Here what I have in mind in particular are the recent Chinese regulations limiting the sale of foreign technology to Chinese banks and requiring Western companies to provide source code.

China justifies this in the name of cybersecurity. Other Western countries believe this is disguised protectionism. My prediction would be that this kind of difficult situation will only increase in the future, and therefore, we need good rules to make sure we can deal with them effectively.

Last, finally, Internet governance is addressed in many different forums. What should be the division of labor between these different forums, international efforts, and trade agreements. How do we make sure we do not generate disparate rules when there are so many efforts going on simultaneously.

Now, to get us off to a great start, I would like to introduce Ambassador Demetrios Marantis, who will deliver the opening keynote.

Ambassador Demetrios Marantis is in charge of Global Policy, Government and Regulatory Work in the private firm, Square. Before joining Square, Ambassador Marantis served as Acting and Deputy USTR, and he has also served as Chief International Trade Counsel for the Senate Finance Committee, and he actually spent two years in Hanoi as Chief Legal Advisor for the U.S.-Vietnam Trade Council.

We are truly fortunate that Ambassador Marantis will offer us his insights this morning based on his wealth of experience on these critical issues.

Ambassador Marantis, the floor is yours. (Applause)

AMBASSADOR MARANTIS: Thanks, Mireya. It's really nice to be here. It is terrific to be in Washington, and it is awesome to see already looking out in the audience so many familiar and friendly faces.

I am thrilled to be here today. I should note up front that I am speaking in my personal capacity today and not as a former Administration official or as an employee of Square. That said, my experiences in both worlds have given me an unique view into trade and the digital economy, and a sense of opportunity, in particular, that lies ahead for the United States and Japan to continue to play a leadership role in coming up with the types of disciplines and obligations that will be very beneficial to tech companies and others.

I have to admit when I first moved to San Francisco to work for Square, I had trouble keeping up with conversations. People were using words that I didn't recognize. It was if everyone around me was speaking a different language. They were using words like "disrupt," or "sync," or "ecosystem," or even worse and sort of offensive to my like grammatical ears, making nouns out of verbs.

In the same vein, when I tried to explain to my co-workers my former role at USTR, their eyes glazed over when I started talking about TTIP, TPP, TPA, AGOA, TIFA, and whatever other words that we have in the trade lexicon.

I was certain that these two worlds would neither sink nor interface, but as it turns out, it is precisely the intersection of these two worlds that brings me here today.

Many of you are familiar with my prior roles as Acting and Deputy U.S. Trade Representative, but less with my current role at Square, and maybe even with the company Square itself. I will pause to do a little bit of a commercial.

Some of you may know Square for the little white card reader that plugs into Tablets or Smartphones, which often many of you may see at Eastern Market or in the food trucks around Farragut Square. For those of you who work on the Hill, Square powers Cups in the Russell Building, and for those of you who work near the White House, you will see the Square stand on swings as you get your morning caffeine.

Square is much more than a card reader. We provide businesses with a full suite of products that take the complexity out of running your business, out of accepting payments, and just out of commerce generally.

We provide free world class analytics. We provide inventory management, and we even provide small businesses with access to capital for businesses that sometimes have trouble getting loans.

Millions of small businesses around the world rely on Square because we try to level the playing field for small businesses by giving them affordable tools that they can use to navigate the competitive global landscape to start, run, and grow.

Right now, Square processes payments in the United States, in Japan, and in Canada, and has Cloud based software products that are available in 170 countries around the world. We serve customers as small as Peregrine Expresso on 14th Street or as large as Uniqlo in its flagship store in Osaka.

As we look to expand abroad and we look at other markets, it's really the regulatory landscape that makes a huge difference, and that's where trade agreements come into play.

The obligations that are under negotiation in an agreement like TPP can mean something pretty significant on the ground. Back when I was at USTR, I always fixated on the broad importance of trade agreements as a vehicle to promote job creating exports. It wasn't until well into my current job at Square that I realized the practical significance that some of these trade obligations have on the ground for businesses trying to operate in another market.

It is in the area of digital trade, obviously, given where I work, where I see this most. That's the area where we really owe a huge debt of gratitude to the United States and Japan, both of which have tirelessly worked over the years to promote a robust digital economy globally, but especially in the Asia-Pacific.

Let's start before getting to TPP with APAC, where Japan and the United States have long stood side by side to encourage other economies to establish a global environment for across Border digital commerce.

Often times people poo-poo APAC as being nothing more than a talk shop that produces tepid non-binding rules. APAC is far more valuable. It sets the policy direction for 21 economies in the Asia-Pacific, from Chile to China, and establishes best practices for governments to follow.

True, if an economy deviates from APAC norms, there is no real recourse, but there is tremendous value to having government officials from 21 economies sit in a room together to establish common principles regarding digital trade.

Under the leadership of the United States and Japan, APAC has developed initiatives on digital trade that really matter, including for small businesses. For example, APAC's Electronic Commerce Steering Group helps businesses use e-

commerce to simplify business practices, reduce business costs, and improve global competitiveness. That group importantly also developed the APAC across Border privacy rules to enhance consumer privacy and promote commonality between global privacy norms.

Based on these rules, APAC produced a checklist between APAC and EU privacy policies to help companies understand the similarities and differences between the two privacy regimes. For companies, especially small businesses trying to understand the nuances between the two, these kinds of initiatives have real practical value.

Let's not forget APAC's innovation and trade agenda which leaders of the United States, Japan, and other APAC economies agreed to in 2011 to promote market driven, non-discriminatory, and innovative policies.

APAC has been a very important catalyst. Its work has been foundational. It has germinated the types of obligations that the United States, Japan, and others are negotiating in the TPP.

As important as APAC has been, it is the TPP that will be truly ground breaking from the perspective of digital trade. Under negotiation in the TPP are legally binding obligations that will have game changing practical value for tech companies, and for the millions of small businesses in the U.S., in Japan, and in other TPP countries eager for new opportunities for growth.

Let's unpack this a little and look at the specific types of obligations that are most important. First and probably most important, Japan and the U.S. are working to ensure that the TPP secures across Border data flows. For a global tech company, this obligations sacrosanct.

For example, many businesses in the Silicon Valley offer Cloud based software products available worldwide. These products are premised on data flowing

freely across Borders. Arbitrary restrictions on data flows, such as blocking access to websites, significantly impede the ability of businesses, large and small, to grow and to offer innovative products across Borders.

The TPP will forbid such conduct, and will ensure that companies can run a business globally, and provide innovation across Borders in a way that drives jobs and economic growth.

Second, growing out of the work done by the United States and Japan in APAC, TPP negotiators are working on an obligation to prevent a country from requiring a business to establish a local data center as a condition for serving that market.

As I have come to learn since joining Square, data centers are extremely expensive to build. A business may very well want to locate a data center locally for reasons like customer use and location, network infrastructure, or peering saturation, but they should not be forced to have a local presence in the form of a data center just because.

Small businesses especially don't have the means to build an expensive and redundant data center as a prerequisite to entering a new international market.

Third, TPP will ensure that a country cannot force a supplier to use indigenous encryption or share proprietary technology related to such encryption. Information security in today's digital age is paramount. A global data driven business must be able to rely on its own tried and tested way to encrypt and de-encrypt sensitive information, and should not be forced to disclose it.

To require otherwise not only reduces security for the end user, but also provides a nearly insurmountable barrier to entry for a new entrant into the market.

Fourth, in the TPP, Japan and the United States have led the charge to protect Cloud based software and other digital products. How? By ensuring that a

country cannot impose a discriminatory tax or regulation based on the origin of that digital product. This is an areas where TPP negotiators can and should do more.

As Mireya mentioned, efforts are underway in some economies to require a company to divulge the source code for software or for products containing software as a condition of its import, distribution, or sale. Japan in its FTA with Mongolia has prohibited such a disturbing and problematic practice, and TPP negotiators should follow Japan's trail blazing example and do the same.

It is important to nip in the bud these types of discriminatory rules that skew international commerce and make it difficult if not impossible for a business, let alone a small business, to compete fairly on today's global playing field.

Fifth, the TPP will be the first trade agreement to include both vigorous criminal and civil protections for trade secrets. Trade secrets are the bread and butter of an innovative company, whether in the United States, Japan, or elsewhere. Theft or misappropriation of trade secrets would be devastating.

That is why TPP negotiators are seeking to require countries to provide the types of remedies for misappropriation and theft of trade secrets that we have in the United States.

Sixth, global companies, whether large or small, offer services on an across Border basis or out of a local subsidiary. In the same way countries can enact tariff or other barriers to physical goods, so can they seek to restrict a foreign business from providing services globally or locally. That is why the United States, Japan, and other TPP countries are working to require non-discriminatory treatment for services however they are supplied.

These six examples illustrate how the United States and Japan are working through the TPP to help solve real problems that real companies face in digital

trade, but what further sets TPP apart from previous agreements is its emphasis on small business.

There has been a lot of work to promote small business through multiple international trade fora, but the TPP is the first agreement to have small business as a specific focus. In fact, for the first time ever, the TPP contains a small business chapter that aims to harness the benefits of the agreement and ensure that small businesses have the tools to fully avail themselves of the opportunities that the agreement will deliver.

Something I have learned since joining Square is that small business owners do not have much time or resources to do much of anything other than run their business. They are not always accountants, managers, or analysts by trade, and they certainly aren't trade lawyers.

That is why it is so important that TPP ensures that countries make all of the necessary information publicly available and easily accessible to all. Lower tariffs, streamline Customs procedures, promotion of across Border services, and increased transparency will certainly help small businesses, but the significance of those provisions only matters to a small business owner when he or she knows how to access and utilize that information.

Certainly, I'm biased, but in my personal view, international trade agreements like TPP are vital to promoting a strong digital economy for global companies and for small businesses alike.

The U.S. and Japan have played a leadership role in this area for a long time, whether in the WTO, APAC, and now in the TPP. The two countries have a huge opportunity in TPP to promote digital rights, not just for global firms, but also and more importantly for the small businesses that form the backbone of the U.S. and Japanese economies.

We have the chance right now to secure the benefits of this monumental TPP agreement for America's digital economy, small businesses, and workers. By granting the President trade promotion authority, Congress will allow us to do so without delay.

I'm excited that Congress is hard at work at crafting a new TPA bill that will in part promote digital trade and small businesses. I hope this bill will be introduced quickly, and will secure congressional passage very soon.

While as I said at the beginning, we speak in different languages on opposite sides of the country, our core priorities are the same, to help promote the competitiveness of our companies, large and small.

Let's sync together and iterate on the build and on a solve that ensures that TPP, TPA, and the rest of the trade ecosystem enables and promotes the disruption and innovation that have become the hallmark of today's digital space.

Thanks. (Applause)

MS. SOLIS: Thank you very much, Ambassador Marantis, a fantastic presentation, and I think you have laid out a very rich agenda for discussion. Of course, I want to bring the public in with questions and have you answer them.

To get us started, I just have one question. As you were saying, there is the work that APAC is doing, there is the work of TPP, there is the work at the multilateral level in the services agreement, and so forth.

It seems to me these are, of course, very valuable efforts, they are all in the right direction, but they are not going to get us to a system where we have an agreement that covers all WTO members. That seems to me out of reach at this moment.

This raises the question of how do we make sure that these different efforts do not generate rules that are not compatible or consistent with one another. You

were talking about an ecosystem. How do we make sure that all the parts are working together in an organic way and we do not have efforts that take us in very different directions.

AMBASSADOR MARANTIS: Sure. I think the answer to that is someone needs to lead on these issues, and it happens that much of the leadership on digital trade issues are coming out of the United States and Japan, and have been for quite some time, and TPP really does provide an opportunity to set the highest standards in the area of digital trade that hopefully will expand to other countries as TPP expands to other countries, and can serve as a model for what other countries do, whether in bilateral free trade agreements with each other, or work that the WTO may in the future do in the area of e-commerce and digital trade.

MS. SOLIS: Great. Thank you very much. Let's open it to the public. We have a mike. If you could please raise your hand and wait for the mike to come, and please identify yourself and be very concise in your question.

QUESTION AND ANSWER SESSION

QUESTIONER: Good morning. I just wondered how do you address the issues of TPP or international trade based on most important things, is it transparency, stop the fast track, and besides that, currently in the international-wide economies, they use private partnerships, public partnerships, which means you can use the public sector to help, but what they are doing is using the public sector's power and resources, so at the end, the good taxpayers in that country that you tried to help is really being victimized, so how do you address this important issue about the general public?

AMBASSADOR MARANTIS: I think that is a great question, and that has been something that has been discussed a lot recently on TPP. Transparency -- I don't work in the Administration anymore, so these comments are based on sort of my own personal views.

Transparency is obviously very important, and I think this Administration has done a pretty amazing job at trying to infuse as much as transparency as possible into the TPP negotiations by providing access for the public to be able to participate in the negotiations and question negotiators, and have the opportunity to give members of Congress the ability to review in careful detail the text of the TPP agreement.

There is a balance always, because on the one hand, transparency is vital. On the other hand, if you make text public, you end up negotiating in public, and it becomes much harder to secure a deal.

The question is how do you strike a balance between the two very important goals, one of transparency, and the second, ensuring that negotiators have the negotiating flexibility to conclude a deal. That's a hard balance to strike. I know it's something that is under discussion in the new trade promotion authority bill that is being crafted in Congress now.

MS. SOLIS: Thank you very much. We will take two questions in a row.

QUESTIONER: Hi, I'm Len Bracken, reporter with Bloomberg BNA.

Great to see you, Demetrios, and thank you for outlining the six points. I wonder if you could take a case, let's say a hypothetical case, of a small business, say an educational service provider, and some of the problems they are running into now with TPP countries, maybe payments, or any of the other issues, and describe what the benefits might be after TPP is implemented.

AMBASSADOR MARANTIS: For a small business? For small businesses, and this is something that I see really on a daily basis in my current capacity, small businesses want the opportunities to grow, whether they are using technology tools in order to grow or whether they are trying to seek new markets by exporting their products or services, and that is the most important thing for small businesses.

But the difficulty I think small businesses have had in accessing the provisions or the benefits that international trade agreements often provide is they just don't know they are out there. They don't know what resources are out there to help them, and they don't know the types of benefits that trade agreements provide.

I think that is why what is happening in TPP now is really important, because for the first time ever, TPP will essentially require countries, participating countries, to provide small businesses with the type of information that they will need in order to take advantage of the benefits of the agreement.

That's what I think has been missing the most, supplying small businesses with the information that they can use to benefit from an agreement like TPP, which will have an enormous amount of benefits for small business, whether making it easier for a small business to be able to export his or her services, whether it's the ability for a small business to benefit from streamlined Customs procedures, whether it is the ability of a small business to have access to global supply chains, all of that are things that will happen in TPP, and will be of enormous benefit to small businesses.

QUESTIONER: Demetrios, welcome back to Washington. Nice to see you. Sherm Katz. Mireya, thanks for organizing this.

Demetrios, could you say a few words about the EU? As we know, it has a slightly different value balance as between privacy and free flow of data. How does it figure in the prospects for the goals that you have mentioned?

AMBASSADOR MARANTIS: It's a great question. I have spent in my past less time thinking about the EU because I was more focused on Asia in my role at USTR, but in thinking about that, the EU has also been a major leader in promoting digital trade in its internal market and internationally through its partnership, its economic partnership agreements.

We in the EU do have different ways of accomplishing similar goals in the area of data protection and privacy, and that's going to be a tough issue in TTIP. It already is a tough issue in TTIP.

I think both economies share the wider goal of ensuring that companies, businesses, large or small, are able to export data on an across Border basis, and they will have to figure out a way of accommodating each other's privacy concerns in a way that isn't obstructing international trade.

It's going to be tough to do, I mean that's the reality, but both the EU and the U.S. are very savvy negotiators, and I'm pretty confident will be able to figure out a way forward.

MS. SOLIS: More questions? Demetrios, let me take the opportunity. Building on the question just now, in many ways, the EU and U.S. negotiations, they are among industrialized countries, and sure enough, different countries have different regulatory frameworks on privacy, but the TPP negotiations is actually a very mixed group of countries when you think about the levels of development.

I think this makes it more interesting as a negotiation exercise in the sense of where they stand on what the balance should be between privacy and cybersecurity is different, the quality of the regulatory regimes might be different.

You have been so involved in the TPP process, can you highlight what do you think are the main challenges in developing consensus among the countries such as e-commerce, localization, where the pockets of resistance are, and how you bridge those gaps wherever they exist?

AMBASSADOR MARANTIS: You're right, and there are very different levels of developments in the TPP, but all of the 12 economies that are a part of it all share the goal of negotiating the highest standard agreement that they can.

In the areas of digital trade, it's an area that is not just important to the U.S. and Japan. It is critical for Vietnam. It's important for Singapore. It's important for Chile. It's important for the whole zone.

All of those countries, this is where APAC comes into play, all of those countries have spent the past five to seven years together talking about many of the same principles that are now being enshrined in the TPP.

For example, this idea of not forcing a data center locally. That is something that has been under discussion in APAC and it is concepts that Vietnam, Singapore, the U.S., Japan, Canada, Mexico, are all very familiar with.

I think the success that TPP members will be able to have on securing really high standard obligations for digital trade, we have APAC to thank for that. These countries have been talking about that, and have been socialized to what these different provisions mean now for many years.

This was a real priority for President Obama in 2011 when the U.S. was hosting APAC. That is why the U.S., Japan, and others really led on trying to come up with these principles on trade and innovation. If you look at those principles, a lot of them -- you have taken some of those very vague 30,000 foot principles and adopted them now into the text of TPP, into a specific binding legal obligation.

I think in short the reason why this has not been so difficult in the TPP for countries at various levels of development is because they have been talking about these ideas for many years in the framework for APAC.

MS. SOLIS: Very interesting. Other questions from the audience?

QUESTIONER: Hi, good morning. I am from the Korean Embassy. Ambassador, you mentioned that the TPP would have member states provide useful or meaningful information to small businesses. My question is does that mean the member

states have to provide the information required in some sort of common language, such as English, or in their own language?

AMBASSADOR MARANTIS: I don't know what the actual final language in the small business chapter is, but the idea is to have the information publicly available so that small businesses can access it. I would imagine that would mean Vietnamese small businesses would have access to information about TPP in Vietnamese, et cetera.

The point is to get the information out to small businesses so that they know all of the important aspects of Vietnam that will help them grow through exporting.

MS. SOLIS: Very good. One more question.

QUESTIONER: Nick Farmer. Can you speak to specifically how issues related to China, Russia, and maybe India might be impacted as you go beyond the TPP implementation?

AMBASSADOR MARANTIS: Sure. As I think we have talked a little bit today, there are concerns in other economies in the digital space of rules that could be seen as either being protectionist or limiting. What TPP will do is set sort of the highest standard rules that other countries as they are looking to attract investments or further liberalize their economy, it can help provide guiding principles for.

The source code issue is a real problem. Hopefully, that will be a problem that the U.S. and China will be able to figure out a solution to in the same way that when similar issues popped up in the area of indigenous innovation a few years ago, the U.S. together with the EU and Japan were able to convince China that this is not in its interest if it wants to attract further investment and really participate in global digital commerce. The same goes for problems, I think, that we have popped up in India and that pop up in Russia as well.

TPP, hopefully, will set a standard to which other countries can aspire.

MS. SOLIS: Thank you. I think we have time for one more question from the floor, is there is one. If not, then it is time to thank Ambassador Marantis. It has been wonderful to have you here, so please join me in thanking him. (Applause)

We are going to move next to the expert panel. Jake Colvin is going to moderate that panel. I want to introduce him. Jake Colvin is Vice President for Global Trade Issues at the National Foreign Trade Council, where he is in charge of engagement with the WTO, APAC, and policy work on intellectual property rights, environmental issues, and the digital economy.

I'm very grateful to Jake for doing this this morning. Thank you.

MR. COLVIN: Thank you very much, Mireya, and to Brookings for first of all for giving me, and I suspect many of you, a great alternative to our Monday morning staff meetings, but also for convening a really important discussion that brings together two different sets of actors that don't normally gather in the same room. On the one hand you have trade policy experts and we have our own set of acronyms and lexicon as Ambassador Marantis said, biannual ministerial and things like that, and then you have internet governance and cyber security and privacy professions who have their own lexicon and decamp to Geneva or Rio or Dubai for two to three weeks out of the year and have their own meetings. But what I think what it does is it permits us to have a wide ranging discussion this morning that reflects the broad set of issues that are covered in the U.S.-Japan dialogue on the internet economy.

And this morning we've got a great set of panelists, a highly respected group of panelists to talk through the bilateral relationship on efforts to promote an open, global, digital economy. So I'm going to introduce the speakers in order and ask them to come up and say a couple of words, and then we'll all sit down and have a discussion. First I'd like to introduce Ed Gresser who as of March 9 has returned to the Office of the United States Trade Representative as Director of Policy Planning. This is Ed's third stint

at USTR. He had previously been a Scholar in Residence and a Policy Advisor a while back to Ambassador Charlene Barshefsky before taking his current job, and was the Director of the think tank Progressive Economy. And he earlier directed the Trade and Global Markets Project for the Democratic Leadership Council and Progressive Policy Institute. He's also been a legislative aid for Senator Baucus and is just one of the most thoughtful scholars and practitioners in trade policy that we know, particularly on issues related to the digital economy and development.

And so, Ed, could you come up here and maybe talk a little bit about how trade negotiators are seeking to codify rules, particularly in the TPP and TTIP, and how are the U.S. and Japan cooperating on these issues?

MR. GRESSER: Thank you very much, Jake, and thank you, Mireya, for inviting me and keeping me on the panel in this kind of new role. As Jake mentioned I'm quite new to the agency. I think what I would like to do getting to the point about the codification about rules, but first pull back a bit and discuss a bit what can we see happening in the digital world, what we can see happening in digital trade. You know, why is this a focus of the U.S. government and of the U.S. Trade Representative, Ambassador Frohman. And I think to do that initially I just pull back. Jake mentioned that I had started my work in trade policy with Senator Baucus. That was -- I look back and I don't feel all that old and decrepit, but actually my career is a bit older than the internet. I started working for Senator Baucus in February of 1993 and the internet more or less as we know it in the form of the world wide web went live on April 30, 1993. So when I started my work in this field there was no concept of electronic commerce or digital trade, all those sorts of things. So they're quite new topics.

So when the World Wide Web went wide there were about 10 million users of computer networks in the world. By the time the Clinton administration came to an end in 2000 there were 360 million, mostly in the United States, Europe, and Japan.

Now there are 3 billion internet users. So a gigantic expansion of the digital world, and in fact just since 2009 when President Obama took office it's doubled from 1.5 billion to 3. In these past six years also the world's fiber optic cable network has doubled in mileage and flows of data around the world have grown from about 15 exabytes per month to about 60 exabytes per month. So what you're seeing around us and not apart from the world of policy, but not directly attached to it, is a gigantic and rapid expansion of the digital world, of the number of people who are using the internet, of the number of businesses who are connected to it, or the number of scholars and universities, and of the production of information that is traveling around the world. What does this mean for trade?

In a way with the rules and with the policies relatively undeveloped you could make an analogy to a kind of discovery of the sea for tangible physical goods, that there is a new medium for conveying high value things at much lower cost and much greater speed than ever before. You can imagine, and Demetrios pointed it out very well, a tremendous amount of new opportunities for small businesses. Small businesses are many who export, but it is a relatively small share of trade. The reason for that is that they don't have much time to travel about the world and to figure out how to fill out forms. Access to the internet, ability to transmit data, ability to bring data back, really makes it a different world for them. Imagine in the future very large new exporters, nontraditional types of things like universities or hospitals providing telemedicine around the world. You can see -- and then finally I can -- one more statistical point, CISCO internet of everything, this is a projection of the value of all this to the world, suggests that over the next 10 decades \$19 trillion in new value, new output. That is a figure more or less equal to the whole GDP of the United States, or to probably four years of global economic growth. So it's quite consequential. Then if you can look back at the United States there's a very interesting, very valuable ITC report that was done a few months ago

called "Digital Trade 2", and this looks at the impact of growing internet use from 2006 to 2012. In practical terms over those years U.S. internet rose from 69 percent of the public to 79 percent. The ITC concludes that because of this growth which is not tremendous, U.S. GDP in 2012 was likely \$517-711 billion higher than it would otherwise would have been, that real wages in the country were 4.5-5.0 percent higher. And, kind of an interesting point given some of the criticism of the internet as not being a large employer, unemployment in U.S. because of the falling costs of job search was about 0.3 percent lower than it otherwise would have been. That year it was like 7.9 percent. So they're thinking instead of 8.2 it had fallen to 7.9. And in practical terms this means about 450,000 men and women on the job and working when they would otherwise have been at home.

What then are the challenges? All of this future depends on a single open internet. We can already see in the ITC report the cost of some barriers to trade, and we can see some larger, more ominous systemic challenges. In particular, arbitrary limits to data flow, forced localization of data and servers. These are sort of the central issues that USTR has been working on. Beginning back around 2010 with the articulation of ICT principals, first with EU, then with Japan, Mauritius, Taiwan, and Jordan. These set out the idea trade agreements should prevent restrictions on cross border data flows across industries, and that as a corollary local storage or processing requirements should also be avoided.

TPP with TTIP and TISA is a unique opportunity to bring these concepts into policy on a very large scale. I would say Japan is a very important partner here and echo Demetrios' comments. After Japan has joined the TPP they have proven themselves one of the most helpful voices in the negotiations in this area, and success in the digital trade provisions of TPP at the end will very significantly reflect Japan's contributions. They've also made innovative contributions of their own that U.S. has

supported. The two key principles on free data flow and limits on forced localization were introduced as binding rules in TPP. A consensus among TPP partners on the value of such commitments has now emerged and we are well on our way to finalizing it as part of the TPP.

In all instances I'd like to mention two things before we close. Key challenge has been to convince trading partners that these new rules which protect the flows of data that are the key to the internet's growth are not going to undermine important governmental and societal goals. Chief among these has been the protection of privacy. We've approached such concerns the way we approach regulation generally. Trade rules recognize the right to regulate and are not a means of interfering with sovereign decisions and matters that may reflect values that are different from country to country. We are proud supporters of robust privacy protections and strongly believe they are fully consistent with expansive cross border transfers. At the same time we believe in the value of the open internet, of data flow, and of digital commerce. Trade rules are a means of ensuring that the implementation of domestic rules, including with respect to privacy do not unduly restrict trade. This is reflected in WTO and FTA general exceptions which give latitude for regulation but impose reasonable constraints. The regulation does not serve as a means of unjustified discrimination or disguised restriction on trade. It would be necessary to achieve the stated objective.

For the first time also in any trade agreement we're asking our trading partners to secure robust balance in their copyright systems. An unprecedented move that draws directly on U.S. copyright exceptions and limitations including fair use for important purposes such as scholarship criticism, news commentary, teaching and research. The balance we're seeking also includes the safe harbors for internet service providers, ISPs, are available so legitimate providers of cloud computing, user generated contents sites, and a host of other internet related services who act responsibly on line

can thrive. Our touchstone in TPP is the strong and balanced domestic legal framework we have.

Fundamentally, the hope of TPP is to be a milestone in the work to preserve the single and global internet that we've inherited from the last few decades in an atmosphere where its use is broadening, it's becoming one of the main vehicles of transmission for commerce. And its future can bring so much benefit to individuals, to families, as consumers and worldwide shoppers, to businesses as exporters, and to all of us. Fundamentally, the heart of the work on TPP is a hope to ensure freedom the internet, the open digital economy, and to preserve preservation of the single, open internet as a common good for the world's people.

My thanks to Brookings for inviting me to participate and hope to take your questions in a moment. (Applause)

MR. COLVIN: Thank you, Ed. And I think it's important to remember you want not just an open internet, but an open, secure, and reliable internet. And so as you look at what the trade agreements do or have the potential to do, as Ed pointed out, it's not just about guaranteeing data flows, it's about protecting trade secrets and making sure that intermediaries are appropriately protected.

And so with that I want to turn to Motohiro Tsuchiya. And Professor Tsuchiya is a professor with the Graduate School of Media and Governance at Keio University. He focuses on the impact of the information revolution on international relations, regulations regarding telecommunications and the internet, and cybersecurity. He is the author of several books, but he has a new book coming out shortly on cybersecurity and international relations. He was a Visiting Scholar of the East-West Center from March 2014 to February 2015, and we're very pleased to have him here from Japan. He's just off of the plane as of last night and so glad this is the morning and not in the afternoon. But look forward to hearing what you have to say. I wonder if we could

take advantage of your expertise in cybersecurity and internet governance. So now how can we ensure an open, reliable, and secure digital economy while addressing legitimate cybersecurity concerns, and how are the U.S. and Japan cooperating bilaterally in internet governance and/or trade forums? Thank you.

MR. TSUCHIYA: Thank you very much. My name is Motohiro Tsuchiya from Keio University in Japan. I'm very happy to be back to Washington D.C. I spent one year in 2001-2002 in Washington D.C. area, so I was a Visiting Scholar to the University of Maryland and George Washington University. It was time of 9/11 so it was hard time for foreigner to live here, but it was exciting for me because I realized the importance of cybersecurity by the incident. So I switched my research topic from internet governance or digital divide to cybersecurity/cyber issues.

Thank you for taking up this cyber issue in the context of Japan-U.S. relationship. Actually so Prime Minister will come to Washington quite soon and I'm not sure if he will talk about cyber issue, so this is also important topic to be discussed between Japan and the United States. So I believe you cannot undergo my rough English so I have some slides for you. And I will talk about China, but I'm not blaming China. So China is notorious, but I have some friends with Chinese institutes so they are struggling. So they are notorious of being the origin of cyber-attacks, but they are still struggling too. So we want to fix so the problem with the alliance between Japan and the United States. So many people mentioned about this incident, so Chinese government is now drafting counter terror law, and this law mandates Chinese financial companies to use domestic encryption software to track financial activities in China. So even foreign companies operating in China has to use Chinese encryption software to protect their transactions. And Chinese government is demanding set up back doors for the Chinese government. And you have -- so if you are from the Microsoft, Google, or other American or Japanese companies, so you have to submit source codes of your software. So this is

a big intellectual property or trade issues for foreign companies, and of course domestic Chinese companies too.

But these things are happening in many times in Chinese history. So in 2000 I bought this box of the operating software called Red Flag. So it's one version of Linux. So China wants to develop their own operating system. They didn't like Apple, they didn't like Microsoft or Windows. So they wanted to develop their own software to secure Chinese transactions, Chinese people's communication. And in 2009 the China Compulsory Certificate was notorious. So the Chinese government wanted the same things as today, so they wanted to mandate foreign companies to use Chinese software or disclose source codes of the software used in China. So U.S. government, Japanese government said no, no, no, no, this is not a good idea, so please stop, and Chinese government stopped it. But actually again the Chinese government is trying to introduce this measure in quite the near future. But foreign companies trying to set software as a black box, they want to protect their intellectual properties. But why do Chinese government need to look inside of black boxes? So they are worrying about inside of the black boxes, especially after Snowden revelation. So Snowden says U.S. government has deep hands into the Chinese networks, and maybe so American companies might have back doors for the U.S. government or something like that. So they are very paranoid about software now.

In June 2013 President Obama and President Xi met in California to talk about try to fix the cyber issues, cyber-attacks, but they couldn't agree. But why? I believe that President Xi couldn't promise any workable promise. So because Chinese domestic cybersecurity is very, very serious these days. So this is a picture of the ant people. So it's a strange word, but very young people who graduated Chinese university are sharing this tiny room because they couldn't find any jobs. And there another people called rats, the rat people. So they are living underground. They are sharing a very tiny,

wet, very bad condition room to share because they don't have jobs. So these kinds of -- so you see some lot of computers in the rooms. So they are still stick to the information technology, digital technology. The internet is changing Chinese society actually, so they want to find a job, they want to have a very good life, but they cannot. So they are angry young men, angry young people, and they could be a possible cyber fighters. So that's a problem. So this is a domestic problem in China. President Xi is trying to fix this problem but he cannot. So the one solution is that anti-corruption activities, so President Xi is trying to fix corruption issues in China. But so this is good for young people so young people are supporting President Xi so far, but I don't know what will happen.

So what the Chinese government is doing now is controlling companies instead of people. So young people are not controllable anymore in Chinese society, so that's why Chinese government is trying to regulate companies, domestic companies, foreign companies. So that's easier for them to control the internet.

But what's happening in Japan, so we are getting a lot of cyber-attacks in these days. More than five million malicious events found in government monitors only in 2013. And more than 150 instances were reported in critical infrastructures in Japan. So we are in a very serious condition these days. That's why the Abe administration drafted and published a cybersecurity strategy in 2013. I was a member of the government council so I was sitting on the other side of the table, but no one is interested in me (laughter) so I have no picture. So I helped the drafting of this strategy. And last year, so the National Diet passed the Cybersecurity Basic Act. What is Basic Act? So Basic Act is a mid-term or long-term goal is set. So this is a very important step for us to pass this legislation, and we are making a lot of international collaboration between U.S. government and other European and Asian governments. So we started this dialogue between Japan and the United States. And so 2+2 Ministerial Meeting was held many times and they discussed the cyber issues too. So we have many, many projects

between both governments active and practice, UN GGE or other things. So actively coordinating our positions with FBI and practices working for the U.S. predictor project. So we are making a good collaboration these days.

And another big partner for Japan is ASEAN. So we are regular meetings with ASEAN governments, ASEAN countries. And one of the example of the collaboration between ASEAN is in DAEDALUS. This is a monitoring system of darkness. Darknets is not -- a network IP address is not used actually, but they are receiving a lot of malicious accesses from foreign countries. So we are sharing this kind of information and intelligence with ASEAN countries. This is an example of (inaudible).

So international alliance is very important to protect us against cyber threats. And we have to strengthen our activities between Japan and the United States. And free flow of information is very important, but we should not let China export their anger to fix their problems. So we have to stop their cyber-attacks. So have to help them fix their problems by international alliance. So it's easy to blame China or other countries for cyber-attacks, but we have to look at the root of the true problem. We have to help them to fix the problems.

So as Jason said, I was a Visiting Scholar at East-West Center last year. I spent one year in Hawaii. It was very, very nice year for me and my family, but I was reading the history of the Japan-U.S. relations, so we were very tragic history. So we had many, many communication or perception gaps. So we have to -- we are still not perfect. We will sometimes misunderstand each other. Maybe we might be misunderstanding China or other countries. We have make a very good alliance to fix cyber issues.

Thank you very much. (Applause)

MR. COLVIN: Thank you, Professor Tsuchiya, for that wonderful presentation which was also a great example of fair use I think given all those headlines

that were up there. So that was perfect.

I now want to introduce Jim Foster who is I think going to probably pick where he left off. Professor Foster is a Professor at Keio University and directs the Keio International Center for the Internet & Society. He has a long and distinguished career in the U.S. Foreign Service. He worked for 11 years at the U.S. Embassy in Tokyo, including as Economic Counselor and Minister for Political Affairs. And is also DCM, Deputy Chief to the U.S. Mission to the European Union in Brussels. After the Foreign Service he joined Microsoft as Director for Corporate and Regulatory Affairs in Tokyo, and he helped lead the launch of the U.S.-Japan internet economy dialogue. So, Jim, Asia is emerging as the new center of the global internet economy. U.S.-Japan cooperation is increasingly important. Could you talk about how the U.S. and Japan can align better in the future in areas like cybersecurity, standards, privacy policies, trade agreements, to ensure a more open internet for the region?

MR. FOSTER: Thank you very much. I'm just delighted to be with you here today. I'm going to do a little bit of level setting. I think you even saw my first slide. What is the internet? My goodness, are you going to start with that? But I think just to get into the conversation, and then I will get into some specifics. I'm afraid I'm going to annoy some people in the audience here, perhaps with some of the things I may have to say towards then end, but I assume we're going to have a vibrant question and answer period.

Okay. So what is the internet? You know, everybody thinks they know it because you use it every day, but just a few words to keep in mind. It's a global technology without borders, it's a distributed resilient network, it operates at scale, it's ubiquitous, and it is threatened as my colleague was saying by threats of cyber sovereignty, and frankly dangers of ethnic, linguistic, and economic fragmentation. We may look at these 20-25 years we've had of a global internet as kind of being an

interesting interlude, but certainly not an integral part of the future of the internet.

What is the internet economy and, you know, I think again we dance around that a little bit, but it's everything from email to social media to eCommerce to big data, Internet of Things. Really new business models. The way we consume books, the way we watch television, the way we listen to music, the way increasingly we're getting our healthcare, education is changing dramatically. Even taxis. I mean my goodness, what will we do without Uber? And that has created a new economy, but also a whole new set of new issues. Other's privacy and, you know, that's about protecting and sharing data. That's a new sort of concept. Cybersecurity, we have infrastructure but we also have surveillance. Content on line, new very destructive business models. I mean the book, the music, motion picture industry are fundamentally going to change. Newspapers. I mean how many of you have read a print newspaper today? Probably a lot of you. I get my Washington Post however on line because I live in Japan and it's great. Net neutrality. One sense it's about competition, but it's also about capacity building. Now I have something to say that may get people a little annoyed here about that. A competition, the problem of scale. And when you've got big boys around the world operating globally what happens to the local guys that want to get started. We talk about small business, but small business finds it hard to get a start in the global internet. And then standards in interoperability. This is really at the nub of some of the things we're going to talk about today. A global internet, but we also live in communities and those communities in many ways have different standards, values, expectations. How are they protected and how do you link them up together with what the global internet is all about?

Okay. So Japan and the U.S. were really pioneers on the internet. We were the guys that invented it, but Japan was really the first country in Asia to deploy its scale. And we brought the internet together to Asia. I always say and very proudly that

Keio University was at the forefront of that. We actually plugged Japan into the internet and frankly played a huge role in building the internet out in Asia. But increasingly Japan is on the sidelines here. I mean the weight is clearly shifting to China and India. By 2025 80 percent -- 2025, 10 years from now 80 percent of the users will be in Africa and Asia. It will be a very different internet. What we say and what we think about the internet will be less relevant because as we used to tell everyone, hey, it's all about scale and the bulk of the subscribers, the bulk of the businesses are in the United States and Europe, therefore we are going to be at the forefront of setting standards and expectations.

That argument doesn't carry so much anymore. And to me it's not surprising though certainly I think it shows the way the world is changing. Lu Wei, who is the head of the Chinese Internet Office, is part of the NETmundial Initiative Coordinating Committee and not someone from Japan or any of the other leading nations. I mean if you know the way the Coordinating Committee is set up he is the political representative not just for Asia, but for Africa and the Middle East. It's a big change. You can correct me, Mr. Ambassador. As I said we'll have some discussion.

So I think there is clearly a need for a deeper partnership and I think we recognized that early. There's been a rapid expansion of the U.S. ICT presence in Tokyo since over the past decade. Apple, Facebook, Twitter, Google, Amazon, EBay, those companies didn't exist when I arrived in Japan to work with Microsoft. And in Japan as well there has been a rapid expansion. Softbank, Emobile, Yahoo Japan, Mixi, Dana, Rockton, they're all household names. So very clearly, and we've heard it repeated, U.S.-Japan leadership is important to preserving the openness, transparency, and diversity of the internet in Asia.

The question I'd like to raise, and I think it's important to -- I mean it's nice to talk about cooperation, but I think we really need to think clearly what is the nature of that cooperation, what are the expectations that we're bringing to it. And it questions

whether we are truly -- U.S. and Japan -- are up to the challenge. We need a regional, not unilateral or bilateral solution.

We talked about this as early 2009 in an ACCJ Internet Economy white paper, raised some of the issues. I'm going to jump over this, but one of the key things that came out of that, the final chapter was we called for the establishment of a U.S.-Japan bilateral internet economy dialogue. And we centered that not in the trade policy mechanisms of the two countries, but in the State Department, the Federal Communications Commission, and on the Japanese side with the Ministry of Internal Affairs and Communications. Because we were talking about partnership in building an internet economy. And the question is how trade policy intersects with that.

Dialogue started in November of 2010. We had a lot of issues on the table, privacy, spectrum allocation, digital content, cybersecurity, procurement standards, eCommerce, and we met six times since then, most recently under Ambassador Sepulveda's leadership. And the private sector has actually played an active role in this; very unusual to get the American Chamber of Commerce and Kay Don Ren in the same room together talking about the same thing. We've had recommendations for the governments on cloud computing, big data, barriers to cross data flows, Internet of Things, and internet governance. And I think certainly the dialogue itself has been a very, very useful tool and a spur to U.S.-Japan cooperation, and most recently the ITU Planning Potentiary Meeting at the OECD and the WISIS process. And I also think it's supported a lot of greater private sector exchange on privacy issues, data localization, cloud security standards, disaster preparedness. And we're all working together on that big challenge called the 2020 Olympics.

So what's our future agenda for the U.S. and Japan, but it's also an agenda for the region. I mean clearly focusing on the ICAN transition including greater engagement with third countries to remove obstacles, the free flow of data, building

coalitions on shared values and principles of free markets, to challenge these demands and assertions of cyber sovereignty, avoid these risks of fragmentation that I touched on, move ahead as Tsuchiya Sensei was talking about with cybersecurity collaboration, exploring technologies transfers prior to getting the framework for that, sharing best practices, and continuing U.S.-Japan cooperation and promoting things like open data, areas like healthcare, education, energy, and managing the Internet of Things.

This is where I think people are going to get a little interested perhaps. I think getting privacy right is going to be a big test for us. Japan currently has a bill before the Diet where they're discussing revisions to their privacy law; it's passing in May. A new law will establish the data protection agencies, set rules for use of anonymized data, define requirements for repurposing data, set parameters for input for the multi stakeholder community, and reporting requirements for business in that context, and establish criteria for cross border transfers. To date, quite frankly, there's been a lack of transparency and broad discussions on the ways in which this law is going to be implemented. The other thing too is that the U.S. simultaneously -- I mean the administration has come forward with proposals developing its own approach on privacy, it's really important that the two countries consult closely on these two perspectives and that we have a model in the region. That's why I think we need an early meeting of the U.S.-Japan internet economy dialogue. We last met in September. I would argue we need one as early as May or June. And that we need to set up a privacy working group under this to meet periodically and share our respective practices. I don't there has been in that respect adequate communication. I know that's going to get people upset.

I've travelled around over the past week or so meeting with American businesses, talking about Japan and things like that, and what I heard was a lot of discussion and criticism of the approach that we're taking on net neutrality. And particularly the use of Article 2 to regulate the internet under a telecom framework. And

they asked me what might be the impact in Japan. I mean Japan doesn't have problems with net neutrality because they've solved the infrastructure problem at least for now and they also have problems putting enough content on line. So they don't have a net neutrality problem. But the fact is what if we had the Ministry of Communications assert authority to regulate the internet as a telecom service? I think we'd be pretty upset about that. And so the question is practices and regulations that we developed in the U.S. context we need to always consider how the impact is bilaterally, but also internationally.

Finally, what do I do? I think that a lot of these discussions on the internet have pretty much centered on discussions among business and government. I think we need to involve the universities more, not just as individual scholars, but as institutions, in the process and researching and developing recommendations. Association of Pacific Rim Universities recently launched an initiative to promote strength and ties to more institutionalized consultation between government and the academia think tank community and businesses in the region. Keio University is taking a major role in that with support from corporations in the U.S., Japan, and Korea. We just had a very successful meeting in March; we're going to be proceeding on a number of different fronts. Basic goal is to link university research with the challenges of a growing internet economy in the region and to build capacity in government and civil society and the challenges and issues surrounding the further development of the internet. Did I make it? Ten minutes?

Thank you. (Applause)

MR. COLVIN: Well, thank you all very much. And I know we don't have a lot of time so I'm just going to ask one question and then turn it over to the audience for questions and comments.

But one of the things I wanted to talk about is building on something that Ambassador Marantis and Ed had pointed out with respect to small businesses and

entrepreneurs in the global economy. Through the Global Innovation Forum at NFTC one of the things that I've had the opportunity to do is get to know small businesses and startups who are global from day one, not just in the United States but elsewhere around the world. And you have these wonderful stories about someone either from a services company or eCommerce or business to business that puts up a website and has a couple of good media hits and all the sudden they have demand from 16 countries around the world that they're trying to fill. The suit that I'm wearing is from a company up in New York called Black Lapel, the internet's first full year of operations exported to 72 countries around the world. And so these are wonderful stories of the digital age that wouldn't really have been possible even several years ago. Now I know this has been a priority for the U.S. government, I suspect it's been a priority for the Japanese government as well, but I wonder if the three of you could talk a little bit about efforts to support small businesses as they go international, not just through trade agreements as you spoke about a little bit before, but also through forums like APEC, which I'm a big fan of. And I know it gets divided as a talk shop, but I think thanks in large part to the good work of Ambassador Marantis back during the U.S. host year and since, it has been a really serious forum for incubating issues on the digital economy that then get translated into things like the TPP. But could you talk about forums and efforts where the U.S. and Japan could align to promote small businesses and startups accessing the global economy?

Maybe, Ed, start with you.

MR. GRESSER: Well, I guess you could divide some of the digital work into categories like the TPP where you're talking about rules; you're talking about heading off threats to the integrity of the internet, those sorts of things. And then you have educational and capacity building efforts. And those can be spread throughout the range of our forum. You could talk about -- APEC is an important one -- could talk about -- the

African Growth and Opportunity Act is a very important one, one we're working on toward renewal in the upcoming months. And what has struck me about it is AGOA when it was created 15 years ago is basically an effort to use U.S. tariff system to encourage large buyers to look at Africa as a source of goods. You can now think about ways to encourage small and local American businesses to make partnerships with African partners. Here in Washington we have 70-odd Ethiopian restaurants. They are natural buyers of Ethiopian agriculture products. If they can reach them on the internet, if they have a secure way of making payments, and if they can link up with Ethiopian airlines which has its daily flight to Addis Ababa every day. Those type of things are better done through discussion, through capacity building, through education, than they are necessarily through rules and enforceable provisions of agreements.

But I think your point about APEC is well taken because those sorts for fora are very valuable for new entrants to trade who are trying to figure out how to do it as opposed to very experienced people who want to be -- who have a problem that they want to get rid of or an aspiration that they want to achieve.

MR. TSUCHIYA: Thank you. So I wanted to introduce you to an example of a social business in Japan. It's an unusual word for you maybe, but social business is a very specific word in Japan. So they are trying to invent or create new market for small companies actually. One example is care for mothers of sick children. So some parents have a sick child because they have a genetic problem or other things, and usually mothers cannot work because they have to take care of their children. So it's a big social problem for us. So we want more women working in society, but it didn't work. So the government cannot fix this problem and the market could not fix the problem. But young people using information technology created new business to take care of these mothers. So they set up a new website and a very flexible contact system so if mother need your help they can notify to the company and this small company uses

information technology to fix this problem and sends care workers to their homes or something like that. So these are new, very niche, very tiny market, but they are using information technology to make a new market. So these kind of things happening in Japan. We call it social business.

So Keio University was very famous for producing so-called the salaryman in Japanese society for big companies. But (inaudible) I'm working for is famous for making new venture companies because they are usually the one to work for big companies. So they want to start their own businesses, they want to make new markets up in the Japanese society. So this kind of thing is happening in the Japanese society using information technology. But the market sides are very niche, so they are not big presence in society, but it's starting gradually in the Japanese society. This is very attractive move I think.

MR. COLVIN: And, Jim, you know, you and I had been talking earlier about this, what Motohiro just described is kind of breaking the mold in Japanese society. And so are there ways to incubate this or exchange best practices in ways that the U.S. and Japan can show leadership? I know Rakuten has been active in trying to support small businesses and entrepreneurs in Japan, there's Decamp in Korea. Are there platforms or opportunities to move this along on a global basis?

MR. FOSTER: Well, I think, you know the most fundamental thing -- and we had this conference about two weeks ago and we brought in representatives from 17 internet research institutions around the Asia Pacific, and I threw this question out to them. I asked how can we really help small business, how can we really grow the internet in the region. And the answer we got almost from everyone is you've got to build infrastructure. I mean it's not just a question of -- I mean it's a fundamental question of access. You know, Japan has been really good at that. I think that if you look back in 2005 Japan was probably in the top five if not the top three of internet countries in terms

of the rankings in the World Economic Forum Technology Report that comes out every year. Now they've dropped below the top 20. And one of the reasons is is they haven't solved this problem with utilization. A lot of it is government, a lot of it is business practices, a lot of it is personal attitudes, but I think the fact is Japan has done a very, very good job of building out its capacity. They really have the best infrastructure in the world I believe. And they did it because the government played a large role in it. I don't think you can depend upon the private sector to build out the infrastructure for us, and think as an example here with the capacity problems we have in the United States. So I think if the two governments can get together, use the ADB -- I mean this is a great chance to throw something back, maybe even have an aspect of cooperation with the Asian Infrastructure Bank that the Chinese are (inaudible) and let's focus on building out the infrastructure and capacity in the region. I think that will be more for small business than anything else I mean in terms of incubation or a lot of these social programs. If people have the things at hand they'll use it.

MR. COLVIN: Are there questions from the audience, and if so can you please identify yourself and ask a question? There in the back.

MR. BRACKEN: Len Bracken, Bloomberg BNA. Question for Ed Gresser, but I invite comments from the other panelists. Ed, do you have a message for U.S. lawmakers regarding any possible changes that might be needed for the implementation of TPP? You mentioned copyrights, maybe in other internet areas. And then it's such a fast changing kind of sector, do you anticipate that TPP itself would need to be changed in the future?

MR. GRESSER: In terms of the message for Congress on these issues I may direct you to Ambassador Froman's speech to the Central American progress last year called Trade Based on Values. I think it sets out the USTR's policy on these issues very clearly.

In terms of changes to TPP, you must complete an agreement and have it ratified before you can aspire to improve it. And so I think our goal would be let's put this at a high level in this year and work to implement it and at some point in the future think about, you know, what are the next steps.

MR. COLVIN: Are there questions?

SPEAKER: Thank you. My name is Li Young. I think traditional value of both America and Japan they are very good, they have a good sense of heroism, really patriotic, not like currently they say patriotic as a label. So I just want to know before FBI would say encrypting the data would be help to protect your privacy, but now they hate encrypting because of this internal obsession of FBI misconduct. So I just wonder if you can -- Japan and American can really lead issues how to protect real privacy, how to promote people's voice because currently they use hacking to obstruct the people's voice or their communication. Like Arab Spring is successful, but in the United States American Occupy Wall Street not go anywhere, they cannot even have a microphone. So I just wonder if you can really help the FBI problem. You know, a lot of small businesses, they are really contractors or subcontractors with the FBI with the CIA. I think we have to do the right things right rather than just promote small businesses.

MR. COLVIN: Ma'am, thank you very much for your question. You brought up a really important point and it's one that Mireya had touched upon as well as Motohiro. So I wonder if maybe I could -- if I could just add to that a little bit and say, you know, you had talked about China's cybersecurity policies, and so a lot of what we've been talking about this morning has been working through trade agreements where you have like-minded countries that are -- it's a wonderful vehicle to align policies among those like-minded countries, but what about the Chinas of the world, what about the Brazils of the world that might not be part of these negotiations? What levers exist for the United States and Japan on issues like cybersecurity which you just brought up to enable

access to the global digital economy?

MR. TSUCHIYA: Thank you for your question. Actually 14 years ago I came to Washington D.C. to research on encryption policy. So at that time it was the Clinton administration. Clinton administration had encryption export regulation. So they didn't to export stronger encryption technology, encryption software to other countries including Japan. So only United States can use the stronger, powerful encryption. So other countries they are not allowed to use the advanced technology at that time, but it was silly, foolish regulation because everyone could download that software from the internet. But still the U.S. government said, no, no, no, no, as if foreign people should not use the stronger encryption. But it didn't work. So Vice President Al Gore said no more. So we abolished that regulation. But after that so actually many people are not using encryption software even today. So how many of you are using PGP or other personal encryption software on your machines? Very few. I'm using PGP, so we call it GPG now. So if you use the encryption software for personal communication, so you will be the usual suspects actually. So NSA or FBI might follow you. So that's a stupid situation. I hope U.S., Japan, other governments can develop a better software for encryption. But the point is the convenience. Why people don't want to use encryption technology, because it's not convenient. It's very annoying to use software in your computers. So you have to update your software very frequently and you have to keep your private key in your machines. So if you lose your private key you will lose everything. So these kind of things is very annoying for ordinary users. But I think we have to develop -- Japan, U.S. companies must develop new, convenient, and secure encryption technology. So this will change the internet economy, digital economy in the future. So it will be much safer and it will be more privacy oriented internet to (inaudible). I hope -- I'm afraid intelligence agencies don't like to accept the idea, but so it's for us, it's for our nation, so we should develop that kind of software.

MR. COLVIN: Go ahead, Jim.

MR. FOSTER: Again another thing that came out of our conference, we raised exactly this question, and I think some of the computer scientists just said if we had to do it all over again we would have built a better internet. I mean we're really stuck with what came out of universities instead of what is dealing now with the kind of world in which we're dealing with, particularly the national security requirements. I think one of the most interesting developments is that we don't have a robust dialogue among our alliance partners in Asia on the cybersecurity issues. So there is tremendous communication between the U.S. and Europe through the vehicle of NATO, but in terms of our bilateral alliances only recently has Japan put in place a framework that will allow us to really have a robust dialogue. And that dialogue somehow or other has to include Korea as well. I think it's paradoxical that China has convened a meeting on cybersecurity between Japan and Korea and itself, but we have yet to do so. And I would strongly recommend that we start moving in that direction as difficult as it might be. We need to sit down and talk about these issues because our economies are incredibly vulnerable as I think my colleague, Professor Tsuchiya, illustrated.

MR. COLVIN: So, Ed, what about these policy letters to influence the behavior of nations that are not part of our trade agreements, like the Chinas and the Brazils of the world? How can the U.S. and Japan cooperate to secure an open internet in places outside of the TPP?

MR. GRESSER: Which they have to say, the most useful and effective thing we can do now is to improve the -- that if there is demonstrated in its negotiations, a common set of views, a workable set of policies, that U.S. and Japan join into as two of the really advanced internet users, if those are policies and principles that Viet Nam and Malaysia and Peru view as valuable to them, that's a very powerful signal. I think that is -
- you know, in these next few months or this year the most important thing.

MR. COLVIN: Other comments or questions?

MR. DILLON: Ken Dillon, Scientia Press. This is for Professor Tsuchiya. I was very taken by your characterization of the ants and the rats in China. And I would interpret your meaning to be that that's actually a problem for Japan and the United States more than it is a problem for China itself. If you are thinking of them becoming hackers or people full of anger, destructive in one way or another, independent of the People's Liberation Army's branch for doing cyber-attacks, they would be a kind of population of angry hackers who would be attacking around the world causing a lot of disruption. And how do you see a solution coming for this? Should we try to reach out to them and somehow enlist them to help us keep the internet in shape, or should we talk with the Chinese government? What solution do you see?

MR. TSUCHIYA: Thank you so much for your question. It's a difficult question of course. People tend to say that Chinese Communist Party is controlling everything inside China, but it's not true in cyberspace. So there are many types of hackers in Chinese society. So one is patriotic hackers. So they are doing for their own fun actually. So they don't have any specific goal. If they try to be very political, but sometimes they are doing just killing time. The second is economic hackers. They want to try to steal valuable information and they want to make profits from that. And third is a PLA. But I think PLA is not operating alone. They are trying to hide their real capabilities, prepare for the future war, so they are not so active actually. But fourth is their intelligence agencies. So China has spy agencies. So they are very active. They try to steal political or military information from other countries including United States and Japan. But in that case so President Xi Jinping cannot control everyone inside of China, which he might control PLA, he might control intelligence agencies, but he cannot control economic hackers or patriotic hackers. That's their problem. And sometimes there are cyber marginal exposures. They are hired for profit. So they hired so jobless

young people inside China, so they get money instead of hacking somebody. So that black market existing Europe, Russia, or other countries too. So this is their problem. And fixing this problem is almost hopeless.

Now in Japan we established cyber defense unit inside the self-defense force. So the number is very small, less than 100 actually, but we are trying to educate and hire very talented white hot hacker for our military -- our self-defense force. And it's happening in the United States too I believe. So we have to educate those people and we don't -- we should not let them go to the dark side. So we are always saying that you have to protect our nation and you have to be patriotic. So it's difficult, but some young people are very patriotic in the Japanese society now. So if you got talented geek, so you can go to the private market or black market, you can raise a lot of money, you can be rich, but still sometimes some people want to work for the government. So that's a good sign for us. So we want to educate and we want to let them get rewards for their work, not by money, but something reputation or peer review or something like that. So we went to develop better framework for white hot hackers in Japan. This is a big policy tack under the Japanese government now, under Ministry of Defense, Ministry of (inaudible), or Economy, Trade Under Industry, or MIC. So we are very eager to hire very good talented people to protect us from bad guys.

MR. COLVIN: Thank you. I thought I saw one more question in the back over there.

SPEAKER: Hello. I'm student in American university doing a Washington semester program. I heard that -- to Professor Motohiro -- that freedom of flow of information is very important. There has been some cases like collateral freedom. How effective is collateral freedom as a tool to open up the internet freedom in places like China?

MR. COLVIN: I'm sorry, I didn't understand, collateral freedom?

SPEAKER: Yes. So collateral freedom is a term that I learned when I went to Freedom House. It's where foreign businesses work in China and they open up an information that's against Chinese law, but Chinese law cannot stop them from releasing those information because these companies have such a large role in Chinese economy. For example, like Amazon, they have released the firewall. There was a thing like that. There's a website like that where they open up an information that's again Chinese law and through this the freedom of internet is kind of broken down.

MR. TSUCHIYA: So people say Chinese great firewall, so cyber great firewall is very strong and controlling Chinese people's internet use. Actually it's not so powerful. For example, I have many Chinese students studying our university, our graduate school, and they have their own Twitter account and Facebook account before coming to Japan. And they are still using these American social media inside China, and the number is growing, growing every day actually. So there are many ways to avoid Chinese government's regulation. Of course the government is not so foolish that they are trying to fix those security holes. So it's kind of competition between the government and internet users, but still Chinese users enjoying their freedom to use the internet. For example, so if you use the term of vary famous religious group, so your tweet will be deleted from the Chinese Twitter site (inaudible), but they are still using another tongue to represent that religious group. So these kinds of things are happening. So you cannot directly criticize Chinese leaders, but you can imply your criticism. But this kind of thing is happening every day in the Chinese market, Chinese cyberspace. Some people say so China is restricted very much so they are losing internet freedom, but still Chinese people want some freedom to use the information, to go this for future. So I think it will be better gradually, steadfastly in the future. So President Xi Jinping needs support from the young people. So he's fighting with the corruption for the elder people. So elder Chinese people don't like him anymore. So young people needs better future and Xi Jinping is

trying to get support from young people. So these things will change the cyberspace in the future in China I believe. I'm not sure. I might be wrong, but I'm believing so.

MR. COLVIN: Did you have a question or are you -- okay. I thought you were going to tell me it was time to go.

SPEAKER: Oh, no, I'm enjoying this conversation too much. Jim said that he was going to make some comments that were going to generate a lot of discussion. So I want to go back to an observation he made about Japan's privacy law, the one that's being considered. He made the comment that there was not enough transparency, that there could be some concerns, and I know that some in the American business community when they looked at the privacy law raised some concerns. But I wonder why this concern and if in fact things can work out themselves and that we don't perhaps need full convergence in domestic regulatory framework to have a robust international cooperation. Because from what I understand, and I'm not an expert on privacy law, but looking at the outline there are three mechanisms by which personal information can be transferred to parties outside Japan. One is to get the consent of the people involved, one is to certify the country is having as similar regulatory regime, and the third one is if the company is an American company and follows equivalent practices to Japanese companies then this should be allowed. Wouldn't that third element in particular reassure American companies that they don't have to be worried if Japan does go ahead with this privacy law in its current format?

MR. FOSTER: Yeah. The problem is, you know, quite frankly is always -- and, you know, I've had a long experience negotiating with Japan. It's what you see on paper often is very, very different than the way it's implemented and practiced. And I think that we haven't had a lot of transparency or engagement by the government with the business community or quite frankly with the broader public on this particular issue. Now we're going to go ahead and establish a data protection authority and the question

is how much transparency and input are we going to have into the process by which they actually develop these implementing regulations. You can interpret each of those categories that you talked about in terms of consent, in terms of third party certification, in terms of, you know, the government doing an adequacy finding with respect to third countries in a very positive way, but also be negative. And as a point of fact the data protection authority is going to have only 250 people assigned to it. It's likely that over the next three years they'll probably only be able to hire 40 percent. Probably the overwhelming majority of them are going to be on one to two year delegated billets from other agencies. So the question is where is the expertise going to come from to do adequacy findings with respect to 150 countries around the world? Right now we have 121 countries around the world that developed privacy frameworks. And on what basis is this going to be done? Is Japan going to actually rule against Brazil, or are they actually going to rule against Viet Nam? So there's going to be -- there's really a lot of questions and that's why I think, you know, as I've mentioned, I'd like to see the U.S.-Japan internet economy dialogue. I'd like to have a meeting. We're not turning this into a bilateral issue and certainly not into a trade policy issue because we have a lot of development and other sort of concerns here in the United States as to how we handle privacy. It's not simply an enforcement issue. There is definitional and other kinds of questions. But let's get the dialogue. That's why we launched it four or five years ago. And in that particular process then I do think we called on this as the American Chamber of Commerce last September for the creation of a privacy working group. A small working group of people, below the radar, but just exchanging and trying to get a little bit more transparency, a little bit more interaction between ourselves and the Japanese. Why? Because exactly as Ed was saying this is incredibly important for the rest of the region. And frankly I think we're seeing both because of the administrative structure of the Japanese government, which is basically a civil law -- you know, the data protection authority is not an independent

regulatory authority. It's being located as an Article 3 organization within the cabinet office, so its independence is really questionable. So the administrative issues are there, the administrative culture, but also I mean Japanese companies are not really active on the internet domestically. I mean they're beginning to have a broader presence in Asia, so privacy for them is not part of their business model as it is for companies like Google and others. And so one of their main concerns as they're trying to sell into the EU our countries that are influenced by the EU privacy framework that they can have an adequacy finding from their Article 29 working group. And so a lot of their development of this privacy law, particularly the huge changes that took place between June of last year when the original privacy framework was introduced, and we actually spoke about it quite favorably because it was multi stakeholder process, there was a lot of transparency, it was based on market principles, they talked about sharing data. And what came out of the process from the cabinet office in late December and now has been pushed into the Diet for a variety of reasons that are too complex to explain here, what we're going to end up with -- and I think it's -- and the fact is the law is going to pass, it's not go be amended, but the fact is that the actual process of building the law is going to take place over the next couple of years. And I think we want to be part of that process. And there is -- and I think Demetrios referenced it -- a very, very different approach to privacy and more broadly internet governance between ourselves and the EU. And it's very, very important that our economies along with Japan get aligned because the model is up for grabs in Asia.

I'll just stop there.

MR. COLVIN: And I think from the U.S. business prescriptive one of the things that we worry about is these rules being too prescriptive in a way that, you know, for example, in the EU, permits an adequacy finding of a country like Argentina and not of the United States (audio skips) is a focus on outcomes. And stepping back and thinking

about the idea that you're the United States and Japan just like you're the United States and Europe. There's no way that you can't transfer data between the two countries, and what you have to do is come up with frameworks and bridges that enable that to happen, including the small business and startups who are most likely to get wrong footed by these different rules.

MR. FOSTER: So just having that adequacy finding provision in the law, I mean they assure us well it's not going to be a problem, but it is in there which means there is going to be a process. And then as you said, what happens when one country is declared one way and one country is declared the other? And where is the capacity in Japan to do that? I mean I'm sure the U.S. can go through that kind of a process around the world. That's the reason we say let's focus on outcomes.

MR. COLVIN: Having overstepped my bounds as moderator I think I'm going to end it there. And please join me in thanking our panelists today. (Applause)

MS. SOLÍS: Thank you very much. So we are now in the last leg of today's event, and as the Panelists exit the podium, I want to take the opportunity to introduce Ambassador Daniel Sepulveda, who will deliver the closing remarks. We are very grateful for you to come here and share your views.

Ambassador Sepulveda is Deputy Assistant Secretary of State and U.S. Coordinator for International Communications and Information Policy, in the State Department Bureau of Economic and Business Affairs. Wait, wait, let me just share a little bit more about all your remarkable accomplishments.

In this role Ambassador Sepulveda leads the Department's positions on Communication and Information Policy. In the past Ambassador Sepulveda served as Assistant USTR, and from 2004 to 2008 he advised, then, Senator Barak Obama, on Trade, Immigration, Interstate Commerce, Labor and Ethics and Lobbying Reform.

Thank you so much, Ambassador Sepulveda. Please come to the podium. (Applause)

MR. SEPULVEDA: Thank you. It's been an incredible interesting morning. I'm tempted to just scratch my prepared remarks and talk off-the-cuff, but I won't do that. I do want to say, thank you very much to Brookings for having me, it's great to see so many of you, particularly my friend and colleague, Demetrios Marantis, who serve in the Senate with me, and then was one of my many superiors in the Administration when I started at USTR.

I will want to talk during the Q&A about some of the issues raised on Japan and international governance, and Internet Governance privacy issues, network neutrality, NETMundial, et cetera.

But I will turn now to my prepared remarks which are directly related to what we've been discussing today. As has been pointed out, there are 3 billion people connected to the Internet today, and set to join them are trillions of devices on the Internet of Things. Together, those connections and the data and the economic activity that they generate constitute the global digital economy.

America and Japan are leaders in the global digital economy, not just as producers and consumers, but as advocates for the policies that enable its existence and its continued development. Our partnership is strong because we both believe that promoting continued global digital connectivity, with as little friction as possible injected into the transfer of ideas and information, holds the potential to lift people out of poverty, formalize the informal economy around the world, increase the efficiency of supply chains, increase the productivity of workers, raise wages and, in general, improve people's lives.

So what does that mean for our trade policy and why should advocates for the global Internet support our work in this space, including Trade Promotion Authority

and the TPP? The answer is this; the value that trade agreements can add to the strengthening of the global Internet economy, as a platform for progress, lies in language that America and Japan are championing.

The goal is to establish a joint commitment among signatories to policy that encourages private sector investment in the networks that enable the transmission of data across borders by protecting cloud computing against data localization, and provisions preserving the free flow of information over the communications networks that connect peoples, nations and firms. These are two critical -- two critical components to the future of the global Internet.

Those provisions applied to as many markets as an agreement like the TPP will cover can create the certainty of a safe space for the Internet to continue to grow that covers millions of people and can set an example for the rest of the world to follow.

Senator Ron Wyden, the Ranking Member on the Senate Finance Committee, has made the argument that, "America's trade negotiating objectives must reflect the fact that the Internet represents the shipping lane for 21st Century goods and services. Trade in digital goods and services is growing and driving economic growth and job creation all around the country. U.S digital exports are beating imports by large margins, but outdated trade rules threaten this growth by providing opportunities for protectionist policies overseas. The U.S. has the opportunity to establish new trade rules that preserve the Internet as a platform to share ideas and for expanding commerce."

Senator Wyden is absolutely correct. He is widely acknowledged as one of the strongest champions for the open Internet in our Congress and his work on trade is completely consistent with that body of work.

Our pending agreements with nations in the Pacific community will establish rules for the preservation of those virtual shipping lanes as enablers of the

transport of services and ideas, allowing startups and the voices of everyday people to challenge incumbent power in markets and ideas.

We know that both old and new American businesses, like Square, small and large alike, like the people that Square serves, are dependent on the global Internet as the enabler of access to previously unreachable consumers and markets. In the U.S. alone, American Internet companies and their global community of users contribute over \$141 billion in annual revenue to the overall U.S. GDP, simultaneously employing 6.6 million people.

And the Internet is not simply about the World Wide Web, it is the communications platform for managing global supply chains, distributing services and goods, and for acquiring the market information necessary to succeed anywhere in the world.

As Ambassador Froman has said, "Trade, done right, is part of the solution, not part of the problem." It is, when done right, an enabler of the values America holds dear, and that idea is neither new nor is it partisan.

It was Woodrow Wilson who said, "The program of the world's peace, therefore, is our program; and that program, the only possible program, as we see it, is this," and he listed his fourteen points. Among them was number three, "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance."

It was Franklin Roosevelt who asked the New Deal Congress for the first grant of trade negotiating authority. And in his remarks at the signing of the Trade Expansion Act of 1962, it was John F. Kennedy who said, "Increased economic activity resulting from increased trade will provide more job opportunities for our workers. Our industry, our agriculture, our mining will benefit from increased export opportunities as

other nations agree to lower their tariffs. Increased exports and imports will benefit our ports, steamship lines, and airlines as they handle an increased amount of trade.

Lowering of our tariffs will provide an increased flow of goods for our American consumers. Our industries will be stimulated by increased export opportunities and by freer competition with the industries of other nations for an even greater effort to develop an efficient, economic, and productive system. The results can bring a dynamic new area of growth." I strongly believe that if John F. Kennedy were alive today, he would also cite what increased trade and lower barriers to entry could do for the global Internet.

It is fully consistent with the sentiments of these giants in our tradition, from Wilson to Kennedy, that President Obama most recently stated, "Twenty-first Century businesses, including small businesses, need to sell more American products overseas. Today, our businesses export more than ever, and exporters tend to pay their workers higher wages. But as we speak, China wants to write the rules for the world's fastest-growing region.

That would put our workers and our businesses at a disadvantage. Why would we let that happen? We should write those rules. We should level the playing field. That's why I'm asking both parties to give me Trade Promotion authority to protect American workers, with strong new trade deals from Asia to Europe that aren't just free, but are also fair. It's the right thing to do."

Preservation of these ideals is and should remain a bipartisan and broadly-held goal. It is crucial to our future and contained within the language we will be asking the Congress to approve. Beyond trade policy and the critical provisions in the TPP for the future of the Internet, America and Japan have been and are working together to ensure that our domestic digital initiatives are both enabling the digital economy and leveraging it for positive purposes.

We conduct annual dialogues on the subjects and share information and ideas on issues ranging from how we use communications for disaster response, how we encourage competition, and how we are working to sensibly construct rules for the collection, use, and distribution of data in our markets in a way that protects privacy while simultaneously enabling innovation.

In the multilateral space and the most direct relevance to the work of my office, America and Japan are strong partners in the multilateral forums and negotiations, where we work together to ensure that we preserve the decentralized, multistakeholder system of Internet governance.

Last year, our two governments partnered at the International Telecommunication Union's Plenipotentiary Treaty Conference to protect the Internet's existing system of voluntary protocols and multistakeholder-led governance against initiatives by other nations to centralize control over the Internet in the hands of governments at the ITU.

We have no better partner in this fight than Japan. At the same time we partnered at the NETMundial Conference in Brazil, the Internet Governance Forum in Istanbul, and other institutions and gatherings in an effort to encourage and facilitate greater participation and representation from the developing world in the existing system of Internet Governance, and for creating a space in which we can address outstanding challenges, together, through collaboration and cooperation, rather than through control and compulsion.

Together, we will continue to focus the world on expanding connectivity, keeping digital trade routes open, and ensuring that we continue to expand the digital economy and make it more inclusive. These are valuable, long-term efforts and we have the kinds of bonds between friends and allies that will help us succeed.

Thank you for your time. I look forward to your questions. (Applause)

MS. SOLÍS: Thank you very much. Ambassador Sepulveda. That was really a fascinating set of remarks. So I want to just, you know, ask you a couple of questions, and then, again, bring in the audience. And the first thing I want to do is give you -- you hinted that you wanted to go back to the expert panel discussion on regulatory issues that both countries are pursuing, net neutrality, the privacy law in Japan, and so forth.

MR. SEPULVEDA: Sure.

MS. SOLÍS: So if you can weigh in on that discussion, at least.

MR. SEPULVEDA: Right. In the first instance, the issue of privacy; what is the issue of privacy? In this space we are talking about corporate and consumer privacy, so you are talking about how private firms collect, use and distribute people's information. There are multiple models for ensuring that people are treated fairly and with dignity within that process.

So in the United States we have various sectoral laws, so you have HIPAA for health, you have Gramm-Leach-Bliley for financial services, and then underlying all of that you have the FTC's Authority to protect consumers against unfair or deceptive practices. In Europe you have a very prescriptive model, a traditional model of rules and regulations, where you follow a check-list of things that you need in order to achieve that outcome.

And countries around the world are looking at these models and trying to figure out for themselves what works for them. At the end of the day, obviously people -- nations are sovereign to make law, and within their particular nations you have to comply with their laws.

The question becomes, can we create rules of the road that are protective of privacy but enabling of innovation, while at the same time being interoperable, and mutually respected even when they are not identical?

And so it's okay, I think, we think, for everybody in the world to be asking. As far as I know, Brazil is currently working on a proposal, Chile is working on a proposal, and the EU is revisiting, the EU, say partly with our colleagues at Commerce in negotiating through to make sure that that's been adequately updated.

In terms of Japan and the current privacy law, our technical experts, both in my office, and at the FTC, and in the Department of Commerce, at the (inaudible) Office, have been speaking with the Japanese constructors of this rule, on a regular basis; almost monthly, if not monthly. We have experts who are fluent in Japanese working on this issue with them. What we've asked for is for the Japanese to ensure that our firms are getting an opportunity to express themselves and get a fair hearing, as the process moves forward.

There were many changes to the rules and laws and the laws, and the laws, as it was original proposed and where it stands today. Some of those were actually quite responsive to many of the things that our industry proposed, and that we, as Government, advocated as well.

Where we stand now is to some degree of legislative ambiguity where you stand at the end of almost legislature procedure, and then you have to go through an implementation process. And it's in that implementation process that it will be critical to ensure sort of an easy user interface, for lack of better words for firms who collect to use and distribute people's information, to interact with the Japanese Government, and ensure that they are in compliance with the law, but not have that process, of ensuring that you are in compliance with the law, and be so prohibitive, or restrictive, or overbearing, that it denies your ability to engage in commerce.

But these are real and legitimate issues, and we are struggling with them domestically, we are struggling with them internationally. Our goal, again, is to try to try to create a legal, regulatory and policy space for proffering cooperation and collaboration

over control and compulsion.

Where you are not trying to dictate the design of services, where you are not trying to dictate the design of technology, and you are trying to create as little need for a company like Square to have more lawyers and engineers. And what you want to make sure is that they can reach their consumers, and their consumers can reach them, and everybody is treating everybody else with respect, without having to have an excessive layer of intervention between the user and the enabler of a given service or goods.

MS. SOLÍS: Excellent. I'm sure we'll come back to these, also --

MR. SEPULVEDA: I do want to go back to the network neutrality question.

MS. SOLÍS: All right.

MR. SEPULVEDA: The speaker raised the idea that Title II application of the Federal Communications Act isn't a regulation of the Internet. It is *not* a regulation of the Internet. It does not touch the Internet protocols, does not touch content, and it only regulates the behavior of broadband service providers as it relates to their last-mile connectivity, terminating monopoly to an individual.

It is by no means the regulation of the Internet, and as Tom Wheeler has said, that network neutrality protections are no more a regulation of the Internet, than the First Amendment of the United States is the regulation of speech. The First Amendment of the United States is an enabler of free speech. A protection of network neutrality is an enabler of the free flow of commerce.

When countries around the world try to block an individual from providing a service to another individual or from speaking, or they take down an entire website, they do that through the infrastructure. Our fight, our domestic fight, our domestic championing activity, has been to ensure that every user, on any device can

reach every other user on any given device, for both the exercise of their human rights, and well as their ability to engage in commerce.

And there should be actor in that process that can control that activity, neither private nor public. And at the end of the day it's the exercise of that underlying principle, that the network should be neutral as to what you do with it, where you go, who you engage with, that is being protected in this Act. And I'm intensely proud of both my Administration and the Chairman of the FCC for taking this action.

MS. SOLÍS: Thank you very much, Ambassador. So I'm sure we'll come back to these issues, the central issues. I want to shift a little bit the discussion, because you also, in your remarks, you alluded to what President Obama said during the State of the Union regarding, you know, framing the importance of trade policy, if we don't do it, China will do it, will decide the rules of the road.

And I find in my own work when I, you know, make presentations, one of the best ways to really convey what's at stake in the TPP is to actually engage in a mind exercise, a counterfactual, if you will. What happens if the TPP fails? What kind of world we would be living in? And I wonder if you would be willing to go along with these hypothetical.

MR. SEPULVEDA: Yeah.

MS. SOLÍS: Ah!

MR. SEPULVEDA: The TPP will not fail.

MS. SOLÍS: Well, but I think it -- again, as a hypothetical because, then, we have to imagine ourselves, what kind of rules will China put out there?

MR. SEPULVEDA: Sure.

MS. SOLÍS: How will the Internet suffer? I mean, I think laying out all these consequence it's important to understand why we are working so hard to make sure the TPP does fail? Do you want to frame it that way so then you can address it?

MR. SEPULVEDA: Let's limit -- for my purposes I'll limit it to the relationship between the TPP and China, as it looks at the digital economy issue, right?

MS. SOLÍS: Yes. Of course. Mm-hmm.

MR. SEPULVEDA: So, in the first instance, you just had the recent -- the Professor talked about the proposal from China, either on two fronts. One, in the financial services front to ensure that you are only using domestic providers of services, or providing source code relative to the transmission of information, and then in the counterterrorism law that they are proposing on other fronts; which has been delayed, by the way, as a function of -- I mean it's not about (inaudible), not just by ourselves, but by Japan and EU as well.

And the premise in the TPP is that your default is to enable the free flow communication. Right? If they are -- and cyber security threats are a real thing, they are not a made-up thing; the question becomes how is it best dealt with? There are multiple points of exposure to risk, and we believe that the best way to deal with these challenges are through cooperation and collaboration with the private entities that have skin in the game themselves. I mean, when our financial services in the -- a bank is hacked, they have as much at stake as anybody else, if not more.

There are joint mutual self-interest to enable a collaborative approach to a solution to information-sharing and best practices, and other mechanisms. That are responsive to the changing economy and responsive to the changing technology, in a way that very firm or prescriptive rule in regulation (inaudible), first.

And second, I would not -- we would not allow, and we will not allow the bale of cyber security to be used for protectionist purposes. So what you are saying is, we want you to use, you as a bank, to use only Chinese domestic software, because of cyber security? Hmm? Maybe. But maybe it's because you want to develop your own software sector, and maybe you don't want to give our software providers a fair access to

your market.

That's not fair, and I think that USTR has been extremely strong in standing up for a fair treatment of our providers and foreign markets, and we will fight against that. And having the alliance of the multiple countries of the TPP saying, yeah, those kinds of -- that kind of way of doing public policy, that kind of way of managing the digital economy is wrong.

When we go into international forums, and we have this alliance of large number of countries across, not just widely divergent economic status, but also across widely-divergent political philosophies, but a unified agreement on the idea that the Internet should be global, open, and interconnected; and as lightly-regulated and frictionless as possible. That becomes an extremely powerful tool when people propose, in Treaty Negotiations like a Plenipotentiary or elsewhere, that idea that would -- that are contrary to that, and oftentimes it's China that's leading those conversations.

So, the greater our alliances grow, and the more that -- that is not just the United States, but when a bad idea is raised it's, you know, the other countries of the TPP, Australia, Chile, whatever; are making the argument that, look, we belong to an agreement where we've established, as a set of nations, that we believe in the free flow of information, we are not going to come to this organization, and let you inhibit free flow of commerce. That can only be good for us.

MS. SOLÍS: Great. Thank you very much. So questions from the floor, we have two here. Just wait for the microphone.

SPEAKER: Hi. Ruth (Inaudible) from Central News Agency, Taiwan. Thank you, Danny, for the nice presentation. The Amazon is less successful in China. And then even the Facebook still prohibits in China, but the Mark Zuckerberg, still be the one who block the Internet -- the official. And I just wonder, is TPP really helpful for changing the current situation, and since China is -- exclude from the TPP, how can we

enforce them to play the game by rule? Thank you.

MR. SEPULVEDA: You raised a number of things in that question, but what the TPP does is it proposes a counter-vision, an alternative vision to control and compulsion, and a vision that enables the free flow of commerce, and the free flow of information. And so, at the end of the day, you know, you can look at results, and you can look at what the enabling effect is on both human creativity and productivity and innovation, and commerce, and China will see, that given its markets, 750 million people connected to the Internet, it's a unique, it's a statistical outlier in many, many ways.

And it can get away with many, many things that no one else can get away with, but that doesn't mean that's in their interest to get away with it. That at the end of the day we see that not only our industries and economies that are connected, more successful than those that aren't, those that are connected on a frictionless and free terms and conditions as possible, are more successful than those who are connected and not on those terms.

So, again, like you mentioned a Mr. Zuckerberg and his trip to China, and had the Facebook discussions with China, at the end of the day if China were to enable and allow Facebook to participate in that market, or any other social network, or any other service that allows free flow of communication between individual, and allows for the creation of community, it could be a great thing.

You know, it's obviously up to Facebook and China to determine what the terms and conditions are going to be under which Facebook goes there, but by that same token we are going as in government going to continue to advocate for ensuring that those and conditions are as open and free as possible.

SPEAKER: Hi. I am Tihi from Boston University, and I have a question about timing. How could the timing of Prime Minister Abe's visit to the U.S., and the incoming U.S. Presidential Election cycle affect the timing of TPP, and granting of TBA,

and do you expect fundamental agreements to be reached before the Prime Minister's visit, since we do not have free flow of information from the negotiations? Thank you.

MR. SEPULVEDA: That's very funny. I'm an optimistic person by nature, and I know some of the actors involved in the Congressional negotiations and, you know, we can't promise anything, but we are looking forward to the Congress coming together behind both TBA and TPP, because it's in our interest to do so.

And I think that Mr. Wyden who is leading the significant portion of negotiations on our side, and as I've said, has spoken eloquently on these questions before. And Mr. Hatch and others, will be able to, at some point in the near future, to come an agreement. Will it happen before Mr. Abe's visit? I don't (inaudible)

MS. SOLÍS: Other questions? This gentleman in the back.

MR. BRUSCHI: I'm Bob Bruschi. I'm a consultant. What is being done to facilitate having meetings over the Internet, where people gather money for projects and have complete transparency?

MR. SEPULVEDA: I think if the question is about crowd sourcing or funding for given projects, it's not my area of expertise. I know that there is a whole lot of regulatory questions related to that from the Financial Services side, and there's an interest in Congress, but I can't speak to it with any expertise. I apologize.

MS. SOLÍS: One more question, on the back?

MR. ROUSSEAU: Thanks. Jean Rousseau (inaudible) with the French Treasury. Two questions, actually. The first one, I think Professor Foster reminded us this morning that Internet is not only a tool for trade, but a fantastic lever for changing our societies. Doesn't that make it difficult then for countries which have different political regimes, or societies, which are different to agree on rules?

And the second question about the free flow of information, it's a great concept. In my country, ISIS, the so-called Islamic State, is having quite a bit of success

in attracting young people, including young girls, to go to Syria, join their ranks. Should the free flow of information rules apply to this propaganda?

MR. SEPULVEDA: So, two questions there. The first is relative to how nations with different values and moral structures can apply those values and moral structures in essentially a borderless environment, in which people with different morals and value structures can engage their people. And so, for example, in parts of the world that you can't say something negative about the Prophet Muhammad.

And people on Facebook will do so. Or people on other networks will do, Twitter, or whatever. There has been a mechanism rolled out by which the companies themselves are engaging and interacting with the platforms. Are engaging and interacting with governments around the world to try to figure out the cleanest mechanism, the fairest mechanism by which to ensure that, any requests for take down of information, relative to the protection of whatever values exist in that particular country, are done in as narrow a way as possible, as targeted a way as possible.

So instead of taking down all of Twitter because you are upset about one person's tweet. You talk about specific tweets, they are subject to some sort of process by which the determination is made, that that is in violation of particular law in that particular jurisdiction is, and then you work towards a resolution of that problem.

From our perspective there are international agreed-upon human rights, and we push very hard on platforms, whether they be American or otherwise to ensure that they are not enabling the prohibit on the exercise of those rights. But it's an ongoing and difficult -- complex and difficult dialogue, on which some very, very sharp minds are working, and we are in constant collaboration with them.

Your second question was relative the use of the Internet by, in this case, violent extremist, and we had a recent conference which Rick Zingel hosted, and the Secretary and President hosted a conference at the State department, on how do you

counter violent extremism, of which one sub-part is, how do you counter the use of the Internet by violent extremist to recruit potential terrorists.

And our answer had historically been, in the first instance, all of the platforms engage half-term observers, and in many cases, the mechanisms by which either visuals or language used to attract people to a violent cause, or in violation of those companies' terms of services, and those can be taken down upon request.

The more complicated challenge is when something isn't obvious, whether it's a debate of ideas or a debate of concepts, in which a hateful concept is being presented, or a concept with which we find serious disagreement.

What do you do in that scenario? And our argument and work has been try to use the power of the Internet to provide an alternative force, an alternative voice, to champion the values and ideals that we stand for and to discourage young people who might be attracted to violent extremism from pursuing that route, and making the case for the causes and values and mechanisms for human empowerment and the life that we believe in.

And so that's the current process, there is an immense -- again, an immense amount of discussion between leaders in Europe and the United States, but other parts of the world as well, about what the best mechanisms for countering violent extremism, and the recruitment of people for that end. And we will continue working on that.

Again, what we've been talking today, a lot of what we've been talking about today, are sort of the challenges and the difficulties that the creation of a worldwide global network has brought to us, and they are real. Cyber security challenges are real, privacy challenges, cross cultural challenges are real, but I really do prefer to look at this from a half-full -- I think it's a glass three-fourths-full with these other challenges being put into that equation, but we have to recognize the enabling aspects of human productivity,

and the exercise of basic human rights, that Internet has enabled. That it acts for as an engine.

At the end of the day, whatever we try to do to solve the problems that the Internet creates, we have to be very, very careful not to kill the goose that laid the golden egg. And destroy all of those things that are, not just good about the internet, but unprecedented, really amazing things.

On the scale of the creation of the printing press, for enabling human development and activity, it's just a -- that's our folks -- I work on. I think that's what the administration is focused on, and we are really, really working hard to create mechanisms by which to establish safe spaces for co-operation and collaboration.

Both with industry, with our friends around world, with civil society, engineers, academics, to try to address these solutions, while ensuring that preserve what is good and useful, and working about the Internet.

MS. SOLÍS: Well, I don't think we can end on a better note. Thank you so much, Ambassador Sepulveda. Please join me in thanking everybody today, all the Panelists. Thank you. (Applause)

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