

TESTIMONY OF

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BEFORE THE

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Subcommittee on Trade

Expanding U.S. Digital Trade and Eliminating Barriers to U.S. Digital Exports

PRESENTED

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I. Introduction – Who is PayPal

Chairman Reichert, Ranking Member Rangel, and members of the Subcommittee, I would like to thank you all for giving PayPal Inc. the opportunity to testify today on the important topic of digital trade and its impact on U.S. exports. PayPal operates an open, secure and technology agnostic payments platform that businesses use to transact with their customers online, in stores, and increasingly on mobile devices. In 2015, 28% of the 4.9 billion payments we processed were made on a mobile device. With our 170 million consumer accounts and 14 million merchant accounts, PayPal is a global payments platform that is available to people in more than 200 markets, allowing customers to get paid in more than 100 currencies, withdraw funds to their bank accounts in 57 currencies and hold balances in their PayPal accounts in 25 currencies.

Our company is a truly global business – with 47% of our gross revenue coming from activity outside the United States. But, PayPal is not just a global business based in the United States; it is actually a platform that enables hundreds of thousands of U.S. entrepreneurs, small businesses, as well as mid-size and large businesses, to reach customers around the world. The point of payment has traditionally been an area where transactions are abandoned. Customers need confidence that their payment will be handled securely and they want the comfort and convenience of paying in familiar currency, using their preferred method. PayPal can help merchants meet these consumer demands through our globally trusted brand, in particular when the merchant is located in a different country than the consumer. About 25% of our total payment volume is cross border trade. Our services enable a new kind of a global trade that is

truly beneficial for small businesses across America, from the local hardware store to the small software company selling an app around the world. The 2013 World Economic Forum (WEF) Enabling Trade report found that the use of technology platforms can reduce the burdens small businesses face when selling overseas, increasing cross-border small business sales by 60-80%.ⁱ

PayPal is focused on efforts to promote digital trade. Our PayPal Passport tool is a free online resource designed to educate and empower small businesses to expand their global sales by uncovering new peak sales opportunities outside their own borders. We have partnered with the U.S. Department of Commerce to do webinars and in-person seminars designed to make small businesses aware of this free resource. PayPal's purchase protection gives cross border buyers piece of mind by reimbursing the full purchase price plus any original shipping costs if there are any complaints; including purchases of services and digital goods. Finally, PayPal does not expose merchant or consumer financial information, meaning that both sides of the transaction feel safe and secure when engaging in a cross border sale.

II. The Power of the Internet to Facilitate Trade

The notion that the Internet has transformed the global economy is now well understood. The McKinsey Global Institute reports that the Internet accounts for 21% of GDP growth in advanced economies and facilitates \$8 trillion each year in e-commerce; McKinsey estimates that digital flows now have a larger impact on GDP growth than goods trade.ⁱⁱ Importantly, McKinsey also reports that 75% of the impact of the Internet is being realized by traditional

industry. Thus, the use of the Internet to facilitate commerce is not just an Internet industry trend, but is actually a phenomenon that is affecting every segment of the U.S. economy. The U.S. International Trade Commission report on digital trade found that that digital trade boosted gross domestic product by 3.4 to 4.8%, through enhanced productivity and reduced international trade costs, and the effect on total employment ranged from no change to an increase of 2.4 million full-time equivalents.ⁱⁱⁱ

There are about 3.5 billion Internet users globally.^{iv} The United States has less than 300 million Internet users. So over 90% of the addressable market for U.S. businesses leveraging the Internet is in other countries. Moreover, digital trade is a growth market for U.S. businesses. Cross border business-to-consumer e-commerce is expected to be a \$424 billion market by 2021.^v A report from Progressive Economy finds that low-value or “micro” U.S. exports increased by 103% between 2005 and 2010, more than twice the increase for all exports; these low-value shipments often tend to be e-commerce shipments.^{vi} In U.S. export markets like Spain, Mexico, and Japan research firm Ipsos estimated that cross border online consumer spending will experience nearly 30% year-over-year growth in 2016.^{vii}

III. Small Business Digital Trade

PayPal is proud to sit at the center of the digital trade revolution. It is a revolution that has profound impacts on the concept of trade as we know it. Traditionally, international trade was solely the domain of the largest businesses who could take on the capital costs, establish the

regional contacts, and comply with the regulatory requirements associated with international trade. A small business can now use the Internet in combination with a host of online service providers to engage in trade at a geographic scale similar to large businesses. This democratization of trade has tremendously positive development, inclusion, and growth implications.

Insights from our data at PayPal demonstrate the tremendous impact that digital technology is having on U.S. small businesses. Over 65% of U.S.-based PayPal top merchants engage in digital trade. Compare this with numbers from the U.S. Commerce Department, which finds that less than one percent of America's companies export. When we surveyed 170 U.S. small and medium sized businesses that have an online presence we found that those businesses that engage in cross border trade report double the sales revenue of those businesses who only sell domestically. One in three businesses who reported that they currently only sell domestically intend to start selling cross-border in the next year.^{viii}

To contextualize these statistics it is useful to examine the following case studies of U.S. small businesses engaged in digital trade:

- Stan Carson from Wenatchee, Washington spent much of his career as an engineer in the US Coast Guard, but in 1994 he started a brick-and-mortar sporting goods store. Stan began his online business in 1997 and it has grown consistently since then. Stan has seen the benefits of digital trade as he now employs 28 individuals. "Selling

internationally provides us with the ability to better source our products and broadens our market share,” he said.

- Jamie Wankum from South Sioux City, Nebraska managed international sales for Gateway Computers for 15 years before starting his online business focused on recertified electronic products. Jamie now employs 10 people and exports his products through his website brownbox.com as well as a number of online marketplaces.

IV. Barriers to Digital Trade

The opportunity described above is tempered by the barriers that limit the benefits of digital trade. Small businesses in particular face a host of barriers to engaging in digital trade. In our survey of U.S. small businesses we learned that shipping, regulatory compliance, and customs/duties were the top three barriers to cross border commerce. Furthermore, consumers expect that a business of any size will provide a seamless cross border online commerce experience with language translation, mobile optimization, free shipping, and a safe, easy, way to pay for their products and services. These are all major challenges for any business, but present particular challenges for smaller businesses engaging in digital trade.

Trade scholars claim that one of the “new issues” raised by digital trade is data localization, but this issue is merely a modern manifestation of a classic trade barrier known as a localization requirement. PayPal believes it is especially important that new international trade agreements prohibit localization requirements that impact the digital ecosystem. For example,

PayPal was recently forced to withdraw its services to Turkish users – both merchants and consumers – because Turkish rules governing a local payments license insist that payments systems be fully localized in the country. We are concerned with other countries developing similar requirements on foreign companies seeking to provide services globally.

V. The U.S. Government and Digital Trade

The legislative and executive branches of government have recognized the importance of digital trade and have taken several actions in the last few years to support it. In Congress, the passage of the Customs Reauthorization Bill importantly raises the de minimis, the level below which imports are exempted from duty and paperwork. This is not just an import issue that enables business and consumers to more easily procure foreign merchandise; it is also an export issue because U.S. small businesses that export online have faced tremendous issues accepting returns on e-commerce shipments from international customers. The Customs Reauthorization Bill facilitates the return of these low value shipments because it eliminates the need for these goods to be subject to duties and paperwork upon re-entry to the United States. The Department of Commerce has also effectively promoted digital trade with the appointment of its first Director of Digital Economy, the build out of export.gov (a one-stop shop for information and portal to access the Department's export assistance centers), the creation of the Digital Attaché pilot program, and Secretary Pritzker's Startup Global initiative to emphasize the digital and offline resources available to startups and small businesses interested in accessing the global marketplace. The Office of the United States Trade Representative has also been working diligently to harmonize digital trade standards around the world. The Trans-

Pacific Partnership (TPP) contains important language on national treatment for cross border financial services, a bar on customs duties on digital products, regulatory transparency and coherence, as well as small business trade facilitation.

There is even more that the U.S. government can do. By improving customs and duties systems, consistently educating businesses on updated best practices, and promoting safe and secure services, governments can help to combat some of the major barriers reported by small businesses. The U.S. government can also encourage the use of technical solutions that are being created to resolve some of these barriers. Trade agreements could go further in prohibiting localization requirements affecting cross border financial services companies.

Ambassador Michael Froman has stated publicly that the United States Trade Representative is looking to address this issue in the context of the Trade in Services Agreement (TISA), which would be a welcome addition and one that we would also like to see included in the Transatlantic Trade and Investment Partnership (TTIP). All of these efforts will no doubt help to improve the environment for digital trade.

The United States is in a competition to get global policy on digital trade right. The European Union has its Digital Single Market Initiative. The Regional Comprehensive Economic Partnership – an agreement between China, India, and several other nations in the East Pacific – is looking into e-commerce and digital trade. The United States must continue to look for opportunities to open up the market for digital trade and create rules that provide certainty for businesses and consumers engaged in the cross border digital marketplace.

Chairman Reichert, Ranking Member Rangel, and members of the Subcommittee, we respectfully submit this testimony and hope to work with you to continue to expand the opportunities presented by digital trade, in particular for U.S. small businesses.

ⁱ World Economic Forum, Enabling Trade (2013)

ⁱⁱ James Manyika, Susan Lund, Jacques Bughin, Jonathan Woetzel, Kalin Stamenov, and Dhruv Dhingra, Digital globalization: The new era of global flows (February 2016) available at: <http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/digital-globalization-the-new-era-of-global-flows> ; and McKinsey Global Institute, Internet Matters: The Net's Sweeping Impact on Growth, Jobs, and Prosperity (May 2011) available at: http://www.mckinsey.com/insights/high_tech_telecoms_internet/internet_matters

ⁱⁱⁱ U.S. International Trade Commission, Digital Trade in the U.S. and Global Economies, Part 2 available at: <http://www.usitc.gov/publications/332/pub4485.pdf>

^{iv} Internet World Stats (accessed on June 30, 2016) available at: <http://www.internetworldstats.com/stats.htm>

^v Forrester Research, Online Cross Border Retail Forecase, 2016 to 2021

^{vi} Gresser, Edward. "Lines of Light: Data Flows as a Trade Policy Concept." (2012).

^{vii} PayPal & Ipsos, Cross-Border Consumer Research 2015 available <https://www.paypalobjects.com/digitalassets/c/website/marketing/global/pages/stories/docs/paypal-insights-2015-global-report.pdf>

^{viii} Ipsos and PayPal, Cross Border Merchant Research 2016 available at: <https://www.paypalobjects.com/digitalassets/c/website/marketing/global/shared/global/media-resources/documents/us-deck-paypal-merchant-insights-usa-report-2016.pdf>