The Road to Shangra-La: Is Technology Creating the New Economy?

Remarks of
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Thank you, Clyde, for that introduction, and thanks to the Economic Strategy Institute for inviting me to speak here this morning.

Let me start off with a disclaimer. I didn't come up with the curious speech title you see listed in your program: The Road to Shangri-La - Is Technology Creating a New Economy? In preparing my remarks, I was tempted to just answer the question in the affirmative -- and then take questions.

But then I realized that it's not a bad title after all. You know, Shangri-La can have at least two meanings: one, it's a utopian paradise, like in the movie Lost Horizons; the other, it's a location that doesn't exist, a ruse, as it was used in World War II military cable traffic in the Pacific.

So there's no question that electronic commerce is putting us on the road to Shangri-La - but which Shangri-La? The paradise, or a ruse? That's what I'd like to speak with you about today.

Just a few years ago I would have focused my remarks here on urging the international business community to take the plunge and join the online revolution. I would have told you how enterprising businesses could find new sources of revenue, how this medium would expand markets, and how electronic commerce is the wave of the future.

But I don't think I need to do that today. I think most of you understand that electronic commerce, and the interactive medium, are here to stay. And you understand that the profound changes that will accompany the Information Age are only beginning.

History shows that every leap forward in communications has brought with it sea changes that affect the lives of people around the world.

The Internet is different from the communications advances that have preceded it: when it comes to having a global impact, no other medium or communications technology in the history of mankind transcends national borders in the same way. And, no other medium is as perfectly suited to building a global community. Empowering people to connect to other people, to entertainment and to information - all without regard to geographic, political or cultural boundaries - is what defines our medium.

Today, I'd like to spend a little time discussing where we are as a medium and what the future could hold for all of us around the world if this new medium fulfills its promise. In particular, I'd like to focus on the benefits we should see as our medium opens worldwide economies to expanded flows of information and
commerce. Then, I'd like to walk through some of the challenges we must face, and overcome, in order to realize that promise, especially in the area of public policy.

So let me start off with a report from the front lines.

Any way you slice it, this is a medium that is growing so fast it is staggering. In all, 23 million households, and millions of businesses, schools, libraries and other institutions, have access to the Internet, and that number is growing rapidly. Americans are using this medium as a source of information, a tool of education, a device for entertainment, a means to build community, and as a place to conduct commerce.

Network traffic continues to double every 100 days.

At AOL alone, we grew from 10 million to 12 million members in just the last five months. That's an extraordinary story about a truly extraordinary trend.

But the trend that we're finding even more significant is what those millions of people are doing once they're connected. In just over a year, we've seen our members' use of the service more than triple. In fact, AOL alone processes more than 28 million pieces of email to over 90 million recipients a day. And our members make over 800 million visits to the World Wide Web each day.

Globally, the growth of the Internet reflects the same trend. In the two and-a-half years since we launched our first international service in Germany, we've grown to well over a million members outside of the U.S. We currently offer services with localized content and flavor in eight countries and four languages, as well as access numbers in more than 100 countries. By way of perspective, it took us nine years to break the one-million member mark in the U.S.

So the Internet has arrived, or at least it feels that way. But some people are spending so much energy congratulating us, that they seem to forget that most of the journey lies ahead. I sometimes compare the current position of this new medium to a moon-bound rocketship. Yes, we've had our countdown, and we've achieved a spectacularly successful lift-off, but we haven't left the Earth's atmosphere yet, much less started walking on the moon.

So, what will this medium look like in the future? Well, that's still in many ways up to all of us. Because we're in an extremely interesting point in history with this new medium. It's important enough to matter and to be relevant - but it's still small enough to be shaped.
If we succeed in our mission, we will build this new interactive medium to be as central to people's lives around the world as the television and the telephone - and even more valuable.

Let me take a couple of minutes to focus specifically on the impact such a medium could have on the process of globalization -- as a powerful engine of transnational economic growth, of global commerce, and of a more democratic and connected world.

This medium will alter forever the fundamental processes of production, marketing, advertising, sales, distribution, customer relations, inventory, finance and billing.

This medium gives manufacturers and service providers the ability to accomplish virtually all of these processes, without being limited by physical location. And that liberation of the operation of business from the limits of geography promises the eventual elimination of many traditional global trade barriers, and the spawning of new worldwide businesses. Markets will converge in an explosion of technological innovation and expanded commerce. The results for Internet friendly countries will be jobs, economic growth and technological competitiveness.

E-commerce also helps consumers by enabling to make better buying decisions, thanks to immediate access to reviews, consumer reports, news articles, and interactive contact with fellow customers. Which, in turn, promises to lead manufacturers to produce goods with better quality and value.

And the promise of this new medium extends well beyond commerce and economic benefit.

It also can improve the quality of the communities and the societies in which people live. The ability of "ordinary" people to share directly in a diverse and rich community that extends communications beyond traditional national boundaries, is what makes this medium so special. In essence the Internet offers an electronic gathering place that fosters a broader, and deeper, sense of community.

However, as great as these opportunities are, so too are the challenges. As I said, the fact is the online medium is now big enough to matter, but still small enough to shape. And the enormous promise of the medium won't simply come about automatically. I want to spend my remaining time talking about some of the challenges the medium faces -- and what we must do to overcome them.

I group the primary challenges facing the ability of this new medium to unlock the economic and social power of a new networked global economy into three
areas.

· First, we have to win consumer acceptance and universal use; this is primarily the job of those of us in the industry, as I'll discuss in a moment.

· Second, we must move toward greater competition in national telecommunications infrastructures; this challenge is squarely on the shoulders of national governments.

· And, third, we must build a new framework for setting global policy -- relating to this medium and to electronic trade and commerce.

And one very interesting piece of building this framework is that it is really neither the sole province of either the industry or government. To be successful will require the development of an entirely new form of partnership between us, and we need to bring others to the table as well, particularly representatives of consumers and public interest organizations.

But before I get to the challenges associated with building a new policy framework, let me briefly address the challenges of consumer adoption and telecommunications competition.

The first challenge -- of making this medium central to people's lives -- has four parts.

First, it must be simple, convenient, useful and reliable. The truth is we still have a long way to go to make the new interactive medium as easy to use for the average consumer, and as reliable, as the television or telephone. And sometimes our industry gets caught up in the whiz-bang side of new technology rather than technology's ability to simplify things, and add convenience and relevance for consumers.

Second, privacy, safety and security must be as fundamental as ease and convenience. There's no shortcut to resolving issues which are fundamentally about building consumer trust and confidence in this new medium. For Example, the standards for privacy are higher for a medium with the power and reach of interactive services ... and they should be.

Third, customization and personalization is the medium's hallmark, and we should deliver on its promise. Being valuable and relevant means catering to the unique needs and interests of communities and individuals.

So we need to think of this medium as being an interwoven network of local services, all of which have global reach. That's in fact been the secret sauce
behind the success of AOL's international efforts. In all of the eight countries where AOL has a service, we focus on building each service within a local framework.

Fourth, the technology for accessing the medium and access itself must be affordable. That means focusing on building non-subscription revenues through e-commerce. It means being careful as the medium transitions to broadband not to allow basic prices to escalate and it means ensuring that pricing in each country is tailored to the needs of that country's consumers. It also means making low-cost computers with networking capabilities widely available to consumers around the world. But most importantly, it means getting rid of excessive local telephone costs for Internet users. This is particularly a problem in Europe where in addition to Internet online subscription fees, consumers must pay telephone charges that are far too high.

Which is a perfect segue to the second challenge that we must face, building a truly competitive environment for communications infrastructures, and specifically spurring greater competition in national telecommunication services around the world. There is a growing trend toward liberalization and privatization of major national telephone companies, but it is not happening quickly enough, and - to no one's surprise -- we're seeing tremendous stalling and foot dragging from some of the historical monopolies.

There's a very simple equation that governments will soon begin to understand. If their consumers have to pay excessive rates for using telephone or cable lines to access the Internet, those consumers will be slower to join the millions of consumers globally who are using the Internet regularly. Countries in this position will fall behind other countries where telecommunications is fully competitive in terms of economic growth, trade and job creation. And, these countries will find themselves at a competitive disadvantage in keeping up with the robust pace of technological innovation.

So now we come to the third major challenge before us: building a new framework for managing the global policies that will govern this medium and e-commerce.

I believe that for the next five years, policy will be more important to the future of this industry than technology. The problem is that too many people in Washington don't understand technology, and too many people in Silicon Valley haven't bothered to understand why policy matters. We're about to see the two worlds collide.

Constructing policy frameworks that open the door for this global medium to
deliver on its promise will be an exceedingly difficult challenge, and will require the good will of industry and government working together, shoulder-to-shoulder.

Since World War II, international trade has been the fuel of globalism, and world trade has been a primary contributor to peace and relative stability worldwide. A wide array of trade agreements has established the necessary rules to support trade. But trade to date has been overwhelmingly based on the shipment of physical goods and on concepts of physical boundaries.

And it's no surprise to anyone here that multilateral agreements such as the GATT Uruguay Round, and bilateral agreements, such as the US Mexico Free Trade Agreements are slow and politically painful to negotiate.

As we've discussed, the fuel for globalism for the next fifty years will be global networks and e-commerce. And the pace of global integration is already beginning to accelerate dramatically with the adoption of interactive technologies.

This integration will place tremendous strain on the current global framework for regulating commerce. Given the pace of change, and how long it took an international trade framework to evolve and change, governments will be challenged to an unprecedented extent to show leadership in establishing the new framework that will be necessary to promote -- and in fact not deter -- e-commerce.

And let me be clear. Without such a new international framework, e-commerce will prove to be destabilizing and conflict inducing -- rather than emerging as the new glue that binds nations, and the new fuel that expands world and regional economies.

Some of the early issues, and intense public focus, about child pornography, hate speech, security, taxation, fraud, gambling and so on, give us just a glimpse of the huge challenges that will ensue as more and more of the industrialized world gets wired, and as we experience global interaction on a scale never before imagined.

The challenge to governments is immense, and the process will likely be painful.

Part of the pain will come from ironing out differences in cultural perspectives on permissible and impermissible content.
Partly the difficulty will arise from countries still struggling to maintain direct control over the information flow available to their citizens.

But, mostly, the pain will come because establishing meaningful new rules for e-commerce will necessarily mean that national governments will have to cede some element of sovereignty, and no government wants to give up power. There will certainly be strong forces opposing such relinquishment of sovereignty, even in countries like the United States and the U.K. And for countries like Singapore and China, the opposition will be intense indeed.

But, there's a bottom line here: a patchwork of country-by-country laws and regulations will stifle a medium that transcends borders and builds international communities.

And top-down government regulation doesn't work in an environment as fast paced, innovative and interactive as this.

So the need for productive international dialogue, between governments, about global policies and standards, is becoming urgent.

Just as urgent, however, is the need for us in the Internet industry to step forward and exercise our responsibility as leaders of a new medium to help develop industry-wide and global standards.

In the United States, we've begun to develop a framework for working together. In fact, companies, government agencies and consumer and advocacy organizations have put an extraordinary amount of energy into building both the relationships and the mechanisms for decision-making and compromise.

Over the past year, America Online has participated in an extraordinary number of working groups and task forces dealing independently with key issues like: children's safety; copyright; encryption; taxation; privacy; and, many more.

Of course, we still have quite a ways to go - there are still more issues that haven't been addressed, than have. In fact, I'm willing to bet that we still don't even know all the questions yet, much less have all the answers.

And internationally, we have not yet even begun to develop the framework for the sort of cooperative policy development that we've been discussing.

Much of what we've spoken about today is the potential of this medium to be meaningful and beneficial to society. History tells us that when steam technology
was first developed, both the French and the British had it around the same time.

The French, focused around their system of absolute monarchy, used the new technology initially to create toys for the children of their royalty, and to pump water to the fountains of royal palaces.

The British could have chosen to use this power exclusively for their royalty too. But the British chose instead to use steam technology to power what would become the Industrial Revolution, marking the end of one phase of civilization and the start of a new one.

I would hate to look back fifty years from now and find that we have developed a plaything, stuck with the same sort of "500 channels and nothing's on" tag that has been attached to TV. We are not going to be another "vast wasteland". With the Internet, We can – and must – do better.

As I've said twice to you already today, we are at a magical point in the development of this new medium. We are big enough to matter, and still small enough to shape.

I submit to you that the effort we put into shaping this medium to reach its potential, and deliver on its promise, will be well worth it. We are driving an engine of enormous potential for global economic and social benefit. And when it's all said and done, it is something we will all be able to look back on, and be proud of.

Thank you very much.

Stephen M. Case is chairman and chief executive officer of America Online, Inc. A co-founder of the company, Mr. Case has supervised AOL’s rise from 250 employees and $30 million in revenue five years ago, to 7500 employees and nearly $1.7 billion in revenue today. His goal is to create a new medium that will someday be as ubiquitous as radio or TV and, ultimately, more useful. Mr. Case believes we are moving toward a more connected society where online users form new habits to communicate with others, find new information and entertain themselves and their families. As the medium continues to grow, Mr. Case has stated his intention to sustain AOL’s role as a pacesetter in defining the industry’s global vision, while at the same time confronting the challenging issues that are emerging as the industry grows, including child online safety. Mr. Case holds a degree in political science from Williams College.