

NetChoice *Promoting free speech & free enterprise on the internet*

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NetChoice

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The Honorable Wonwook Lee

Chairman of the Science, ICT, Broadcasting and Communications Committee

1 Uisadang-daero, Yeongdeungpo-gu

Seoul, Republic of Korea

The Honorable Seounglae Jo

Chairman of the Agenda Coordination Committee and Vice Chairman of the Science, ICT, Broadcasting and Communications Committee

1 Uisadang-daero, Yeongdeungpo-gu

Seoul, Republic of Korea

The Honorable Sungjoong Park

Vice Chairman of the Science, ICT, Broadcasting and Communications Committee

1 Uisadang-daero, Yeongdeungpo-gu

Seoul, Republic of Korea

Dear Chairman Lee, Vice Chairman Jo, and Vice Chairman Park:

On behalf of NetChoice, an international trade association of domestic and foreign technology businesses, we write to respectfully request that you vote **against** the proposed amendments to the Telecommunications Business Act that would split app stores from in-app payment systems. If passed, the amendments would:

- Hurt Korean consumers and businesses;
- Stifle innovation across integrated, global markets; and
- Damage U.S.-Korea trade relations.

Introduction

Apps, and the app stores that distribute them, are thriving. They help us stay connected with friends and family, keep us informed, and offer countless sources of entertainment—all at our fingertips. They also spur economic development. In fact, the app economy is booming: According to the Progressive Policy Institute, Korea’s app economy is the strongest in the world and employs nearly 2% of the workforce.¹

The app economy’s staggering success—both at home and abroad—is because of competition. In today’s global economy, Korean technology businesses like Samsung and LG are household names in the U.S., and American businesses like Apple and Google are household names in South Korea. While this globalized competition means our domestic businesses must work even harder to attract and maintain customers, that competition has been a boon to both countries. Indeed, it has generated untold innovation and consumer welfare, and has ensured that our liberal democracies lead the world in technological development.

If the National Assembly passes the app store amendments, however, all that will be put at risk.

The Amendments Will Hurt Korean Consumers & Businesses

Although the amendments target American technology businesses, they will also hurt Korean consumers and businesses. To see why, consider first that, at their core, app stores are just like brick-and-mortar stores. Like Hi-Mart, for example, app stores partner with third parties to distribute software to consumers. And like Hi-Mart, they want customers to have a positive experience.

But there is one important difference: Digital marketplaces have more skin in the game and thus more to lose. When Koreans buy faulty software from Hi-Mart, they’re likely to blame the software developer, not Hi-Mart. And they’re likely to keep shopping at Hi-Mart even though they had a bad experience with a product. By contrast, when smartphone users have a bad experience, they’re likely to blame the app store they used. Why? Because consumers see their smartphones and app stores as one integrated product. Consumers don’t see app stores and their payment systems as mere conduits for distributing third-party apps; they see them as features integrated with their devices.

That is one reason American firms like Apple and Google guard their app stores. They understand that their mobile operating systems—Apple’s iOS and Google’s Android—rely on consumer trust. And because most consumers have an impersonal relationship with them, they rely on their reputations to attract and maintain customers. Their reputations for developing high-quality, secure products rely on

¹ Michael Mandel, *Will Korea App Store Legislation Force a “Decoupling” From the U.S. Economy?*, Prog. Pol’y Inst. (July 12, 2021), <https://www.progressivepolicy.org/blogs/will-korean-app-store-legislation-force-a-decoupling-from-the-u-s-economy/>.

consumer trust—that their products are safe from bad actors. So without that trust, their customer base would plummet.

And even if consumers hold the app developer responsible for a security breach, that experience alone is enough to dampen enthusiasm for downloading apps from app stores in the future. Not only is that bad for app stores and their consumers, it's also bad for app developers who bank on consumers trusting the app stores they use. Indeed, the balance between app stores, app developers, and consumers is delicate:

- New app developers with unfamiliar names benefit from consumers trusting app stores because consumers are far more likely to download and pay for an unfamiliar app if they trust the app store and payment-processor; and
- All app developers want to keep app stores from becoming so polluted with fraudulent or poorly secured payment systems that consumers leave the stores altogether or stick only to apps from the largest, well-known corporate brands.

The amendments risk that balance, and they risk putting subscription-based and premium apps at a disadvantage. Without trust in payment systems, many consumers are unlikely to buy or subscribe to apps that require payment. That means free apps will have an even easier time attracting consumers: Not only are their products free but they would also come with no risk of mishandled payment information.

So if app stores lose control over the user experience, the entire app economy will suffer. To be sure, a policy change won't send consumers fleeing immediately. But it will inevitably lead to high-profile security breaches, payment fiascos, and other horror stories that sow enough doubt in the market that the policy will have tangibly harmed the app ecosystem.

Even if the amendments empower Korean app developers to bypass American in-app payment systems now, that forced split between operating systems and app stores will boomerang to hurt *everyone*.

The Amendments Will Hurt Innovation

As we noted at the outset, the app ecosystem is thriving because of globalized competition. And because profits entice competition, policy changes that undermine the latter necessarily hurt the former. So while Korea might want to shield a few domestic app developers from having to pay in-app payment fees (most pay nothing), it'll decouple investments in app stores from the profits those stores create. With limited profit potential, app stores are destined to become stale: Why accept all the headaches if your competitors get to benefit at your expense?

That is particularly troubling because, just as bad actors continue to find new ways of harming consumers, app stores must continuously invent new ways to protect them. That costs money—a lot of

money. So it is understandable that app stores wish to recoup some of those costs through fees on those who benefit most from their investments. After all, no one expects Hi-Mart to run its stores free of charge, so why should app stores be any different?

And if app stores must separate their in-app payment systems, what incentive is left for new competitors to enter the market? Since app stores derive most of their income from fees assessed on in-app payments and reinvest that income in their stores, we can expect fewer businesses will be willing to spend the billions necessary to create a competitive app store if they must then share their revenue with their competitors.

Coupled with the problems outlined in the last section, this effect will ripple through the entire app economy, undermining innovation in the process.

The Amendments Will Hurt Korea-U.S. Trade Relations

Korean and American tech products not only compete, they often partner. (Consider, for example, Samsung's smartphones that run Google's Android operating system.) This is exactly the type of market both countries envisioned when they ratified the *U.S.-Korea Free Trade Agreement* and when they joined the World Trade Organization: Just as Korea is expected to let its domestic businesses succeed or fail on their own merits, so too is the United States.

But these amendments violate that principle. And like other protectionist policies pursued elsewhere, these amendments will invite criticism from the United States—and rightfully so. There is no evidence of consumer harm. In fact, there is abundant evidence to the contrary. So if Korea goes through with these changes, it will set the precedent for manufacturing nonexistent market failures as a pretext for treating domestic businesses better than foreign competitors. That, in turn, will prompt foreign countries to do the same.

Liberal democracies have been down this tit-for-tat path before—and we soundly rejected it. In its place, South Korea and the United States adopted bilateral free-trade agreements and joined international institutions like the WTO. That's in part because we recognized that all benefit from the free flow of goods and services, and that global competition should reward the best products, not the most interventionist government. This new path has helped Korea's and America's economies soar.

But the stakes at issue here are even higher than rates of economic growth. Since the future is digital, technology will only grow in importance. And as technology businesses make leaps and bounds with new products, we'll face new problems—for example, we'll have to respond to governments that misuse these products and to bad actors who use them for wrongdoing. To do that effectively, Korean and American stakeholders will need to work together to promote a future that is both innovative and beneficial to our mutual interests, which is made far easier by our shared values and respect for human rights.

If, however, the future of technology belongs not to Korean and American innovators, but instead to foreign adversaries, that future won't be so bright. Indeed, we must not take for granted that many of the world's best tech products flow from Korean and American shores. Doing otherwise serves only to help oppressive regimes overtake our businesses and leave us dependent on them for our technological needs. That would make it near impossible for our liberal democracies to defend both our values and our citizens.

In the end, free trade benefits all of us by spurring innovation. It also benefits liberal democracies by freeing our businesses from political posturing to focus on creating the best possible products, which then win customers across the world and leave our countries in a position to negotiate from a position of strength on the world stage.

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Because the amendments harm consumers, businesses, and free trade, we respectfully ask that you vote against them. While we recognize the Assembly's sovereign right to govern as it sees fit, we urge our counterparts in South Korea to remain committed to technological innovation, international cooperation, and a future that advances our shared values.

Sincerely,

Steve DelBianco, President & CEO, NetChoice
Carl Szabo, Vice President & General Counsel, NetChoice
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cc:

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