Session 9
Does Innovation Really Serve Growth

Will Europe Break Down its Digital Silos?
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From the 1990s onward, globalization seemed to be an unstoppable train driven by rapid growth in trade and international flows of finance. Europe epitomized a world that reached beyond national borders to do business. Today it's a different picture: Those traditional engines of globalization have run out of steam, and some EU members are chafing at the bonds of a single market.

Despite the recent flattening of the global goods trade and the post-crisis collapse in cross-border capital flows, it's not time to write the obituary for globalization. But it is time to recognize that globalization has entered the digital age—and its fundamental nature is changing as a result. An estimate 211 terabits of data –or the equivalent of 8,500 entire Wikipedias– flow across the world's borders every second. This volume of data has grown by a factor of 45 over the past decade, and it's projected to post another nine-fold increase by 2020.

Increasingly, the Web provides the ties that bind the global economy together. Consider that some 50 percent of the world's traded services are already digitized. Approximately 12 percent of the global consumer goods trade (and possibly twice as much of the B2B trade) is conducted via international e-commerce. Cross-border Skype calls equal 46 percent of the volume of traditional international calls.

Digitization is opening up trade to new places and new players—not just the advanced economies and large corporations that dominated in the past. Marketplaces such as Alibaba and Amazon host millions of small merchants from all over the world. Some 40 million small companies are on Facebook, up from

25 million in 2013. Across 18 countries, anywhere from 88 to 100 percent of eBay sellers are exporters, while only one out of ten small firms export through physical channels. A great deal of trade has always moved within well-established regions, but the Internet reduces the barriers of distance as far-flung buyers and sellers connect with a few clicks.

Digital flows are more than just transactions; they also include information, knowledge, and communication. Rio Tinto, for example, transmits data continuously from its mines, processing plants, and vehicle fleet to "excellence centres" in Australia, where analysts monitor operational efficiency in real time and head off production delays before they occur. Energy giants BP and Shell are using Internet of Things technology to explore reserves and monitor well production around the world.

All of this activity adds to GDP. Recent research from the McKinsey Global Institute estimates that over a decade, global flows of goods, services, finance, people, and data have raised world GDP by at least 10 percent, adding $7.8 trillion in 2014 alone. Remarkably, data flows already accounted for $2.8 trillion of this value, surpassing the impact of the global goods trade.

Europe can do much more to tap into this dynamic source of growth. EU countries occupy 19 of the top 25 slots in MGI's global ranking of participation in cross-border data flows. But a closer look shows that while the Netherlands tops the list, the other EU countries show a steep drop-off in scores.
Despite its extensive digital infrastructure, Europe does not currently rival the United States as a producer of global content, a creator of major platforms, or an incubator of successful Internet companies. Europe also lacks Asia's momentum. Hong Kong has become a major data hub connecting Asia to Europe, Australia, and the United States, while more than 18 percent of China's trade takes place on digital platforms—approximately double the share in Europe. The Chinese have also embraced mobile transactions to a much greater degree than Europeans or even Americans.

In many ways, connecting with the world begins with your neighbors, and Europe has a huge opportunity to unlock more cross-border e-commerce. Today only 15 percent of EU consumers purchase online from other EU countries, due in part to issues of confidence, convenience, and logistics costs, and only 7 percent of Europe's small and medium-sized businesses sell cross-border.

The European Commission is beginning to tackle these issues through its Digital Single Market agenda, which focuses on bolstering consumer protections, harmonizing and improving logistics, and simplifying VAT administration. It also proposes an end to geo-blocking of website users based on their location, more seamless high-speed digital networks, and harmonized regulations on issues such as privacy and cybersecurity that urgently need clarity.

But time is of the essence to reach agreement and implementation. Companies are racing to carve out a role in the world's rapidly forming digital ecosystems—not just for e-commerce, but also in R&D data flows. Europe will also have to resolve its ambivalence about the world's biggest digital platforms. While many are wary of the power held by the biggest players, limited participation will harm consumers and businesses alike unless European companies can build and scale up alternative platforms of their own.
Europe was the face of 20th-century globalization. But it will have to adapt to compete in the new era of digital globalization. EU member states cannot afford to turn inward just when they need to apply a global perspective to cyberspace.