

# How Europe can harness its digital economy

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BRUSSELS, 29 August, 14:54

With Britain already heading for the exit, it's easy to overlook the real dilemma Europe faces: an economy whose recovery has been hardly robust, a drought of investment at a time when the world is awash in liquidity and a labour market that has left pockets of sky-high unemployment and looming social unrest.

It's no wonder voters are shocked and horrified by all of that. They turn to populist slogans, casting protest votes and threatening the establishment with eviction.

Amid the sound and fury, it's easy to ignore one important fact: the digital economy in Europe is booming. Buoyed by the enthusiastic embrace of the young, countries and companies are re-tooling, re-wiring, re-connecting and re-engineering.

The result is an explosion not just in cross-border commerce and real-time communication, but in the actual economic activity undertaken by those that have embraced the new technology most fully.

But the trend is not universal. [A recent study by the Boston Consulting Group](#) showed Europe was rapidly splitting into digital haves and digital have nots.

Some countries – Belgium, Denmark, Estonia, Finland, Ireland, Luxembourg, the Netherlands, Norway and Sweden – have warmly embraced the digital revolution, investing heavily in broadband, ensuring digital skills are taught in schools, even moving much of their public administration over to hyper-user-friendly digital formats. We call these countries the “digital frontrunners”.

# Millions of jobs

Their commitment to the digital economy is very different from Europe's larger, slower moving countries, whose domestic markets sometimes seem big enough to provide a deep buffer against any effort of modernity to intrude.

The digital frontrunners have something else in common, too. They are all relatively small economies, so they depend on open economies and exports to earn their growth. And they need a strong European internal market to prosper and thrive.

In other words, these countries stand to gain the most from completing Europe's digital single market. But they also stand to lose the most if that single market is poorly managed, or saddled with new rules and regulations that purport to open markets but do more to close them instead.

The question then becomes, how can Europe build on the evident success of its digital frontrunners? And what do we need to do to ensure that their prosperity continues and deepens?

According to the BCG report, a fully functioning digital single market could in the frontrunner countries result in a GDP growth rate almost twice that of today, placing them among the fastest growing economies in the world.

This could also be translated to a net gain (after the effects of automation) of between 1.6 to 2.3 million jobs by 2020 in these nations. It goes without saying there are few other opportunities of this size present for European economies today.

That is – if Europe manages to get its digital single market right. Without a major effort to make deeper, faster progress on Europe's digital-single-market agenda, the study finds that Europe – and the digital frontrunners, especially – are on track to lose market share and vital national wealth to faster, more committed countries in Asia and North America.

# Asian challenge

Clearly the road to digital success for Europe is unfortunately not wide open. There are opposing and contrarian views among nations on the appropriate level of protection, the precise content of data privacy regulation and the desirability (or undesirability) of innovative business models, such as the sharing economy. Some nations are trying to prevent change rather than leveraging the benefits made available. The sense of urgency among policymakers seems very limited.

Meanwhile, many countries in Asia are on a digital rise, undergoing rapid change with ambitious plans for the future, fuelled by investment, speedy adoption of rules and regulations and a vocal ambition to become leaders in this field.

Looking for instance at the e-Intensity index produced by BCG, it becomes apparent that, following the current trajectory, several Asian nations – including China, Singapore and Taiwan – will soon overtake European countries in terms of digital penetration and uptake. This, at worst, would leave the European continent in a digital backwater on the global scene, with capital, talent and growth moving elsewhere.

To avoid this scenario, Europe's digital frontrunners need to unite to drive a more ambitious strategic dialogue at the highest political levels, so the digital transition happens at a pace sufficiently fast to keep Europe competitive in a rapidly digitising world.

Areas where Europe should focus include embracing and completing the digital single market, avoiding protectionist measures breaking out in some EU member states, pushing industry to adopt new technology (and the new business models they enable) and more broadly teaching digital skills in schools. At the European level, there is a clear case for the digital frontrunners to act as leaders promoting future-proof and innovation-friendly measures. Particularly as the UK will not have the same influence on shaping regulatory EU solutions that benefit new technologies as a result of the recent referendum.

The digital frontrunners and Europe are currently at a crossroads, with a unique chance to capture an immense opportunity. We cannot afford not to catch this huge digital wave. There might not be a second one.

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