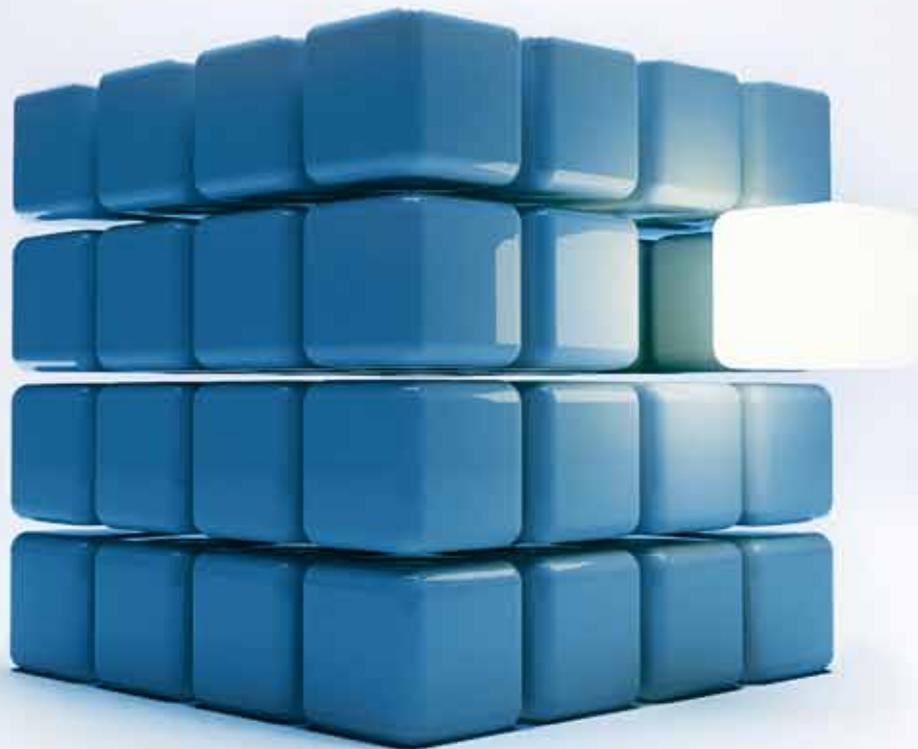


Innovation through Digitalisation



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Published by



With the assistance of



Co-funded by



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Executive Summary

Europe and the world are recovering from the impact of the global economic crisis. To many, the worst seems behind us. Following 2014's European elections, we are now entering a new phase. Spurring a new era of growth has moved to the top of the European Liberal agenda.

This emphasis on growth was reflected in a series of ELF events titled 'Innovation through Digitalisation'. The events were: 'What's the State Got to Do with It? Towards a Private-Sector-Driven Digital Economy' (Barcelona in May); 'Tech Start-Ups: The Way to Recovery?' (Athens, June); 'Democracy through Fibre: The Promise of Internet Literacy' (Sofia, September) and 'A Recipe for Liberal Success: Creating a European Digital Single Market' at the ALDE Party Congress in Lisbon in November¹.

The paper provides specific policy insights and recommendations on how Europe can achieve growth through innovation in the digital field. Liberals have been, and are, eminently placed to spearhead and implement a Digital Single Market:

- Former Commissioner for the Digital Agenda Neelie Kroes has laid the foundation for putting digital issues at the top of the EU agenda and that emphasis continues with the new European Commission and its specific investment plan for growth and recovery²;
- Andrus Ansip is the new Vice-President of the European Commission with the Digital Single Market portfolio. As the former Prime Minister of Estonia he brings a strong track record of digital innovation at a much needed time;

¹ Filmed events available via <http://goo.gl/v7vTr7>

² Ian Traynor (2014) 'EU parliament gets behind Juncker's €315bn investment plan', *The Guardian*, <http://goo.gl/RCyDGO>



This paper outlines two recommendations to address this threat:

- **Europe should seek exponential growth rather than incremental growth.** The EU must transition from 0.8% GDP growth to a new normal of 10% growth, which would put it on a par with China in recent decades. In contrast, the US economy will grow by 2.5% to 3% (CNBC) in 2015.³ While 10% growth sounds like a stretch, this is an aspirational goal. It takes Europe towards a much greater rate of growth than today (which 'The Economist' estimated at 1.2% in first quarter of 2014).⁴ The Digital Single Market provides a top-down approach to accomplishing these goals. **Bottom-up initiatives driven by industry and stimulated by conditions conducive to greater investment are also needed.**
- **This growth can best be achieved via the Digital Single Market.** The Digital Agenda/Digital Single Market leans to Liberal values and is supported by young liberal-minded individuals. Thus, its success and the stronger economic growth that would flow from removing the barriers to internal trade and external investment would support the uptake of Liberal values.

³ Ansuya Harjani (2014) 'Crystal Ball: Top 10 economic predictions for 2015', *CNBC*, <http://goo.gl/dlw3hu>

⁴ *The Economist* (2014) 'European Economy Guide: Taking Europe's Pulse', <http://goo.gl/UYNZTT>

Innovation through Digitalisation

The Digital Single Market – Superhero to the Rescue?

The Digital Agenda and Digital Single Market are seen as the superhero swooping in to solve Europe's systemic problems. Against these are aligned the 'arch villains': underinvestment, fragmented systems and bureaucracy, amongst others. The payoff for getting it right is huge: high growth rates, billions in unlocked value and thousands of new jobs. But, are we at a risk of overselling the benefits since there are no quick fixes?

Technology platforms are multi-sided markets: there is no 'simple' regulatory fix. Not only must existing barriers be removed, new barriers must be prevented from appearing. Young people are leading the change at a faster pace than current fragmented regulation across Europe. They are used to a predominantly online life, a life and lifestyle that require access. In addition, the growth and dynamism in the 'app economy' and information and communication sector provides a possible solution to youth unemployment. All of this could be boosted by a European Digital Single Market.

The benefits of the Digital Single Market are obvious, but against these are aligned significant barriers. Barriers to digital growth also lead to barriers to prosperity, progress and jobs:

- **Consumers trying to buy online face endless barriers.** Almost half the EU population shop online. But, fewer than one in eight do so across borders. Online consumers are blocked from accessing services because of their location or residence. Outdated copyright rules prevent access and transfer of digital assets across borders (known as geo-blocking).
- **Small businesses trying to expand across the EU have had to battle** with 28 sets of rules for consumer protection, data protection, contract law and tax rates. They cannot scale up quickly.
- The problem comes down to **fragmentation of the market**. In theory, every company should be able to share and sell its wares to a market of 500 million, using seamless online channels. In practice, we do not yet have a single market that is ready for the digital age.



- **Digital governance** (such as e-invoices, e-procurement and e-signatures) do not yet feature in all European countries, but only in a handful of countries, such as Estonia.
- **The question of cyber security represents a significant barrier.** Confidence in the online world is not a reality in Europe today. Apart from large-scale cyber attacks, there are smaller cases of data theft, for example the theft of Michael Schumacher's medical records.

Immediate solutions required, include:

- **Building trust and security:** Confidence in the online world includes consumer rights, data protection rights and cyber-security. Online rights would be the same rights as consumers enjoy offline. Citizens want an internet that is safe and accessible to everybody.
- **Broadening access:** Guaranteed online access, connectivity and investment include the rollout of faster networks, such as 5G.
- **Sharing of ideas:** Create open systems and remove barriers so as to enable the free flow of ideas.

The numbers are changing – but only slowly. In Greece, 65 % youth unemployment is slowly being replaced by growth (0.6 %). In contrast, as discussed at the ELF roundtable in Athens, SMEs in the Netherlands have created 60% of new jobs. Also, in a speech in Riga on the digital economy, Andrus Ansip said that the digital economy is growing at seven times the rate of the rest of the economy.⁵ The quote by novelist and essayist William Gibson, 'The future is already here, it's just not very evenly distributed' appears to have become a reality. Furthermore, the Digital Single Market could unlock value and thus lead to exponential growth rates.

Recommendations

This paper argues that incremental economic growth is not enough, instead a disruptive rate of growth is required and the EU's Digital Agenda can only achieve this, if it is also underpinned by Liberal values. However, new thinking is needed to achieve this exponential goal.

Most people would agree that digitalisation would help to return jobs and growth to Europe. The digital economy is growing at seven times the rate of the rest of the economy. Much of the growth has been fuelled by broadband internet. Also, efficient rules, minimum burdens for business and consumers, high-quality services across pan-European markets would accelerate growth. This is the Digital Single Market in a nutshell. A Single Digital Market would help to achieve scale. This would imply challenging the existing comfort zones – which are well entrenched.

⁵ Andrus Ansip (2014) 'The Digital Single Market - Investing in the Future', <http://goo.gl/6qDCc2>

The Case for Exponential Growth

A number of specific areas would contribute to achieving exponential growth:

Competition – a bottom up approach: One man’s friction is another man’s business model

Why are barriers so hard to remove? This is because **one man’s friction is another man’s business model**. Not just for corporates, but also for countries. For example, **Spectrum harmonisation across the EU** would drive a Digital Single Market, but while individual countries benefit from spectrum allocation income (via spectrum auctions), they will be reluctant to let go of that income.

The friction is entrenched in the business models/practices of countries (spectrum allocation), companies (geo-blocking) and other cultural, historical and regional reasons. To achieve the goals of a Digital Single Market requires a regulatory top-down approach, but to accelerate the agenda a bottom-up approach is needed. **Effective competition is in fact a faster way to achieve the goal of the Digital Single Market**. Competition is linked with consumers, companies and governments being able to switch service provider and to have proper choice in a vibrant open market. In effect, the ‘Uberisation’ of the incumbent sectors. Thus, digitalisation can be seen as opportunity to remove obstacles. This is illustrated in a tweet from Andrus Ansip in his introductory Twitter session as a nominee for the European Commission, using the hashtag #AskAnsip: ‘**The territorial principle of commerce is outdated... removing borders will be my mission for the next five years**’.

Investment

Investment is another way to encourage growth. To stimulate growth, we can either pay by taxation or create a framework for greater investment. Most governments prefer the latter. Investments also need other policies: governance structures, business structures, immigration policies and increasingly the ability to manage faster rates of change.

Investment into infrastructure, specifically into broadband infrastructure, is a special case with a much wider impact.

Telecoms single market

There is a distinct and well-understood positive correlation between broadband speed and GDP.⁶

The development of high-speed networks has the same revolutionary impact as the development of electricity and transport networks had one century ago. Connectivity and access are the building blocks of the Digital Single Market. Hence, the EU will continue to invest in broadband and also in the development of new networks, such as 5G. Along with their own investments, policymakers also want to make it easier for the private sector to invest into broadband infrastructure. This could be achieved by removing barriers and making use of better regulation to stimulate the digital economy. **Thus, the Telecoms Single Market is an**

⁶ Ericsson (2011) ‘New study quantifies the impact of broadband speed on GDP’, <http://goo.gl/0VdsRr>



essential building block of the Digital Single Market. Without it, the other objectives of the Digital Single Market will not be met.

In practice, this means addressing issues like roaming, net neutrality and spectrum harmonisation. Consider the issue of spectrum harmonisation. It is a logical step for the Digital Single Market. It is a key part of EU President Jean-Claude Juncker's 315-billion euro recovery plan⁷ and the harmonisation of spectrum is a key priority⁸, but it will not be easy.

Indeed, despite the loss of flagship companies like Finland's Nokia, there are many European successes, such as Alcatel Lucent and Ericsson. Furthermore, two new innovative giants have emerged from Finland itself, Rovio (the developer of angry birds), and Supercell, in which Softbank took a 1.5 Billion dollar stake.⁹

Thus the telecom sector is important, both as infrastructure, but also as an avenue to foster innovation. The mobile internet contributes 92 billion euros to the economies of the EU5 (Germany, France, UK, Italy and Spain). Apps, content, services drove this growth. Mostly, these are small companies.

Start-ups

Start-ups, many of which develop apps, make up a vibrant ecosystem. Start-up networks are flourishing all over Europe (where there are around 100 start-up accelerators). The ELF roundtables featured considerable discussion of this topic. Start-ups are a very specific type of company, they are for example often based on an exit in a few years.

Major drawbacks include the attitude of European venture capital, which is more conservative, less business angel and more investment bank. There is definite need for a more open-minded approach to entrepreneurship where the goal should be to create an ecosystem for a 'thousand flowers to bloom'.

7 Loek Essers (2014) 'EU sees harmonizing telecoms and online content rules key to €315B economic growth plan', *PC World*, <http://goo.gl/IRsE2G>

8 Loek Essers (2014) 'New European Commission, approved by Parliament, will focus on the digital domain', *PC World*, <http://goo.gl/OfhAVg>

9 Sophie Knight, Ritsuko Ando and Malathi Nayak (2013) 'SoftBank buys \$1.5 billion stake in Finnish mobile games maker Supercell', *Reuters*, <http://goo.gl/tk5m4l>

Digital Single Market, Jobs and Liberal Values

The social implications of the Digital Single Market provide an obvious catalyst for Liberal values. The Digital Single Market is essentially underpinned by these values and is supported by the youth who also espouse these values.

What is good for consumers is also good businesses. If everyone 'thinks digital', behaviour will also change over time. This requires more emphasis on tech education. There is a competence framework for teachers underway to support training in digital skills and also to get coding on the educational curriculum and encourage girls and women to take up careers in information and communications technology (ICT).

The experience of Estonia has shown that both e-society and e-government work, and they are good for people and business alike.

Conclusions

To conclude, this paper argues that we should not just seek incremental growth, but rather a disruptive rate of growth. The Digital Single Market provides clear long-term thinking: to stimulate Europe's digital environment, to minimise legal uncertainty and create fair conditions for all. These are top-down initiatives. We also need more bottom-up initiatives driven by industry and stimulated by conditions conducive to greater investment.

Also, the Digital Agenda is underpinned by Liberal values and is supported by young people who predominantly hold Liberal views. Thus, the two could be interconnected.

Finally, the example of Estonia, which is the only country in the world where people compete to file taxes, mean the future we desire is already here. To paraphrase William Gibson, it is just not uniformly distributed in Europe yet!

About



Ajit Jaokar

Ajit's work involves applying machine learning techniques to complex problems in the IoT (Internet of Things) and Telecoms domains. His research is based on two courses he teaches – Big Data for Telecoms (Oxford University) and the Citysciences program (UPM – Technical University of Madrid). In 2009, Ajit was nominated to join the World Economic Forum's 'Future of the Internet' council. In 2011, he was nominated to the World Smart Capital program (Amsterdam). Ajit moderates/chairs Oxford University's Next generation mobile applications panel. In 2012, he was nominated to the board of Connected Liverpool – Resilient Liverpool programs – based in the city of Liverpool for its Smart City vision. Ajit has been involved in Internet of Things (IoT)-based roles for the webinos project (an EU-funded Fp7 project). He has also been an advisor to the European Internet Foundation on Technology and Policy issues since 2009 and is the co-author of 'The Digital World in 2030'. He is also involved in creating a community around the issues in this report in the tech/policy space. He has run the OpenGardens blog, which he founded in May 2005, and is widely respected in the mobile/telecoms industry.

European Liberal Forum

The European Liberal Forum (ELF) is the foundation of the European Liberal Democrats, the ALDE Party. A core aspect of our work consists in issuing publications on Liberalism and European public policy issues. We also provide a space for the discussion of European politics, and offer training for liberal-minded citizens. Our aim is to promote active citizenship in all of this. Our foundation is made up of a number of European think tanks, political foundations and institutes. The diversity of our membership provides us with a wealth of knowledge and is a constant source of innovation. In turn, we provide our members with the opportunity to cooperate on European projects under the ELF umbrella.

We work throughout Europe as well as in the EU Neighbourhood countries. The youthful and dynamic nature of ELF allows us to be at the forefront in promoting active citizenship, getting the citizen involved with European issues and building an open, Liberal Europe.

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