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The Borderless Digital Economy

Based on the briefing note “Le numérique. Comment réguler une économie sans frontière ?” by Julia Charrié and Lionel Janin (France Stratégie)

The impact of the online world on the economy is continually on the rise. It is increasingly intertwined with the brick-and-mortar economy, so much so that it is effectively borderless.

Digital technology is set to continue to reshape our societies. The Internet of Things (IoT) of tomorrow, where countless objects collect and exchange data in a seamless network, is already a reality today.

REGAINING LOST GROUND

Though Europe is well positioned with respect to the Internet of Things (IoT) - with projects like Industrie 4.0 set to revolutionize manufacturing - overall it lags behind when it comes to the digital economy, the France Stratégie authors point out in their note. According to the European Commission, the EU digital market can be broken down as follows: 42% online national services, 4% cross-border online services and 54% online services from the US.

Given this, now is the **time for Europe to create a common framework for digital policy**. It must be adapted to a world where global companies run their businesses with continents and not nation states in mind, providing electronic services that straddle borders.

With this in mind, the European Commission presented its strategy for a common digital market in May 2015, with a series of actions it aims to undertake by year-end 2016.

There are four key areas in which the EU can work towards building a common digital market: regulating internet companies, taxation, the data economy and the IoT. These initiatives can be undertaken either on a European level or among different groups of member states. In particular, the **Franco-German partnership** can provide a key role in driving the project forward.

This idea was articulated in the November 2014 report by Henrik Enderlein and Jean Pisani-Ferry, which advocated forging a common approach **to regulating the digital economy as a way of fostering growth**.

GERMANY AND FRANCE SPEARHEADING A COMMON APPROACH

In the wake of the report, the German and French Ministers of the Economy, Sigmar Gabriel and Emmanuel Macron, issued a joint declaration in March 2015 on the economic integration of their markets, in particular their online sectors.

Three of their key regulatory proposals were: allowing firms selling goods or services via an online platform (e.g. Zalando or Price Minister) to maintain contact with the end user, providing the latter with access to content of their choice (i.e. information, services, applications, etc.) and ensuring websites selling goods and services are transparent about links to their services or those of sponsors.

REGULATING INTERNET COMPANIES

As mentioned above, the authors stress that **central to a flourishing digital economy is protecting businesses that sell their goods and/or services via online platforms** (e.g. Google, Amazon and Uber) and ensuring fair treatment. Moreover, consumers must be able to access the content and services they chose, and their services, content, and data must be portable.

A European consensus is needed on a possible regulatory framework regarding these issues, and a Franco-German initiative can and should be able to spearhead this process. One thing is clear: there is a pressing need to reach an EU agreement on regulating Internet companies.

TAXATION

The question of taxes is, unsurprisingly, a thorny issue when it comes to business done online. Cross-border transactions, the central role of websites selling goods and services, network effects and the use of data are all aspects that set the digital economy apart from the traditional economy.

EU fiscal integration can resolve these issues. It entails measuring profits made by companies on a European level, taxing them uniformly across the EU and then dividing the receipts up according to the value created in each country (based on the number of users, the volume of data collected or the money spent by advertisers, for example).

THE DATA ECONOMY

Data is, of course, central to the digital economy. Their **free circulation** is absolutely fundamental to online commercial activity. However, this openness must be balanced with the protection of private data and data that is in the public interest.

France Stratégie proposes adopting the German approach to personal data and allowing individuals to decide for themselves on how they are used (*informationelle Selbstbestimmung*), with a clear framework on how businesses can use them.

With respect to the public interest, the EU can create a common data repository - initially limited to France and Germany - to ensure everyone can access information that benefits society as a whole.

THE INTERNET OF THINGS

The development of the IoT is well underway across Europe. However, different countries are advancing in different areas. To cite three that are mentioned in the note, the UK is focusing on entrepreneurship and finance, with a recent project on smart cities; Germany is concentrating on reshaping its manufacturing, namely the automobile industry, with its Industrie 4.0 plan; and France is developing projects in fields such as electronics, computing, design and finance, with several world-renowned companies having emerged and strong support from government.

European businesses, however, are at risk of falling behind in the **all-important process of standardizing the IoT**. The EU must ensure openness with respect to the dominant standards so as to favour competition. At the same time, it must limit the number of standards it backs to prevent a fragmentation of the sector in favour of, say, US or Asian standards.

One thing is sure, a strong EU policy in favour of the IoT can serve to boost European industry and allow world-class companies to set the new standards for the digital economy of the future.

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