Strategic autonomy and openness: how the digital revolution is shaping up in Europe

Blog post by Peter Mandelson, Chairman of Global Counsel, 4 December 2020

As the digital revolution enters a new phase, policymakers across the world must work out what it means for their old assumptions about how to run their economies and conduct their economic relations with others. This is particularly acute for mid-sized developed democracies, the biggest group of which lie in Europe. They cannot follow the Chinese model and they face an agglomeration of tech dominance and power emanating from the US, which is both invigorating but also potentially suffocating.

Historically, European countries have been among the most open in the world and the UK perhaps the most open of all. In many countries, who owned a company was thought not to matter. What mattered was where its economic activity took place: location. That is what brings benefits for citizens from remunerative employment and spurs the growth of ecosystems of supporting businesses. So, for policymakers who have believed in this openness, the policy challenge has been how to make a city or a country attractive enough to lure business to locate there.

But is this still valid for digital products and services where we are seeing huge accelerated growth across the economy?

The current European Commission, in its appointments and in its work plan, has clearly decided there is something special about digital technology. There is a clear and consistent implication that ownership and nationality do matter – and that we need to provide more policy carrots and protections for what is home grown, using sticks against what is not.

What is driving this approach is anxiety about the implications of Europe's failure, to date, to build tech companies comparable in size to those in the US and China. The view is that exceptional gains and spill overs accrue where tech companies are owned and run. And there is the further question of whether digital 'big' tech has inherent characteristics that tend to concentration and the erection of barriers to challengers which, whether by accident or by design, are anti-competitive and must be addressed by public policy.

With the rise of AI, the Internet of Things and the rest, as digital technology becomes ubiquitous to most economic activity, the consumer-driven power of tech platforms could spill over into industrial markets, reshaping the whole economic landscape. As a matter of observation, tech today shows remarkable concentration in the hands of a few US businesses that have global reach. These businesses often absorb potential challengers in the US and overseas while developing strong clusters around where they are owned and run in the US.

This policy challenge feeds straight into the EU's new doctrine of open strategic autonomy. One of the interesting aspects of this doctrine is that it partly awaits definition. It certainly means giving Europe the ability to defend its economic interests – as defined and negotiated in the EU institutions - against those who stretch the rules of international trade or use their economic clout for political ends. But the EU has not yet come to a consensus beyond that. Some are concerned that openness and autonomy contradict each other, that it is the path to protectionism that will ultimately harm consumers and productivity. Others fear that without pro-active public policy, the EU will become a done-to, not a doer.

I put the question of what strategic autonomy, and digital sovereignty in particular, might mean to my friend Olaf Scholz, the German finance minister, earlier this week. For him, there is no contradiction between strategic autonomy and free trade. Rather it is the European answer to globalisation, to ensure that it does not come at the expense of the labour and environmental standards European citizens want to advance.

He sees the goal as being the nurturing of European companies that are active on the world stage but not to the exclusion of competition from others. That requires a proactive role from the state: at the European level to build out European markets with common standards in areas like AI; action to create infrastructure which, by itself, the market will not supply, whether for telecoms, electrifying road transport or the hydrogen economy; and using public procurement to develop an ecosystem of innovative companies.

This is a sensible evolution of industrial policy that can help the EU's digital sector grow. But will it be enough to create well-functioning markets in digital technology, and in ways that continue to expand consumer choice?

My argument is that we need effective competition policy as well. Part of the problem is Europe's failure to generate its own large tech companies. But the problem is also the speed at which new forms of market power have been created. The role of digital 'gatekeepers', concentration of data ownership and access, and other associated issues are not a problem of nationality. The answer to them is new, tougher competition policy tools. These can contain the market power of dominant players so that challengers and competitors are not blocked, while the wider, overall business environment fosters them. The containment of dominant market players would also further the EU's digital sovereignty by opening opportunities for new market entrants.

The UK faces exactly the same challenge as its former partners in the EU. It has chosen to forgo the ability to use the single market's mass to further its interests. It hopes to gain greater nimbleness in designing and executing policy. It must make intelligent use of it in competition and investment screening if it is to be a player in the new digital world.