
EXECUTIVE BRIEF:

Challenges and Opportunities

Challenges

- » The U.S. and Europe each faces a divide between economic sectors pushing towards the digital frontier and those lagging behind. The same industries tend to be at the frontier — ICT, media and finance. The same industries also tend to lag behind — hospitality and construction.
- » A second common digital divide is that between large and small firms in the U.S. and Europe.
- » Europe's fragmented markets and regulatory heterogeneity not only hamper its digital potential, they hold back the full promise of the transatlantic digital economy.
- » E-commerce within individual European markets is growing exponentially, yet cross-border e-commerce within Europe still accounts for only a small fraction of the total.
- » Localization requirements are another prominent hurdle, reducing market access, increasing costs to firms, resulting in less efficient business processes, and presenting consumers with fewer choices at higher prices.
- » ECIPE estimates that if these localization measures were removed, EU GDP would increase by €8 billion a year, which is on par with the gains of recent EU free trade agreements.
- » The EU Digital Single Market still faces hurdles to its realization, costing up to €18 billion in the shorter-term and up to €134 billion in the medium and longer term.
- » The Digital Market strategy is focused almost exclusively on tackling digital barriers, yet the main obstacles to the EU's digital future are its non-digital barriers.
- » A narrow focus on digitization also forgoes the opportunity to use the digital transformation to open up EU services markets, the EU's biggest untapped source of jobs, economic growth, and digital transformation.
- » Europe and the U.S. are vulnerable to a breathtaking set of cyberthreats, many of which can only be addressed if tackled by Europeans and Americans together.
- » The transatlantic digital economy is also held back by basic EU-U.S. differences on a range of issues, including privacy and personal data, rules regarding hate speech and fake news, and intellectual property protection.
- » Perhaps the most significant challenge facing the U.S. and Europe is the potential impact of the digital economy on jobs and the nature of work, accentuated by widening skills gaps and concerns about growing income disparities.

Opportunities

- » The digital transformation is becoming the single most important means by which both sides of the Atlantic can reinforce their bonds and position themselves for a world of more diffuse power and intensified competition.
- » The digital economy is both strengthening the transatlantic economy and transforming it. It is lowering marginal production and distribution costs, reducing the cost of participating in cross-border trade, helping to match supply and demand in real time, sparking innovation, and offering consumers more choices at lower prices.
- » Individuals are participating in the transatlantic digital economy directly, using platforms to learn, build personal networks, find and offer work, showcase their talent, and make more effective use of unused or underutilized assets.

- » Digital transformation is expanding the potential of many traditional jobs and creating new jobs that were unimaginable only a few years ago. Digital marketplaces for services are creating flexible work opportunities that could boost labor force participation.
- » Digital transformation is at the heart of a transatlantic economy that is stronger, faster, and more dynamic. McKinsey estimates that by 2025, digitization could boost EU GDP by up to \$2.5 trillion and U.S. GDP by up to \$2.2 trillion through changes in the labor market, improved capital efficiency, and greater multifactor productivity.
- » That's just the beginning. The digital transformation of the transatlantic economy is akin to a transatlantic "Big Bang," a game-changing dynamic that would propel growth and competitiveness in the United States and Europe, improve societal outcomes in areas such as health care, education, and infrastructure, and further deepen linkages between the two parties while strengthening their ability to remain rule-makers, rather than become rule-takers, in the economy of the 21st century.