

## Connecting Europe: sizing the internet economy

8 September 2011

The Boston Consulting Group analyzed the current and project size of the internet economy in 13 countries as part of an initiative commissioned by Google.

The internet is nowadays a significant contributor to the economy and could boost growth in the countries that encourage its development. The report shows that the impact is sizeable although there is a wide heterogeneity across the thirteen markets. For the purpose of the report, the BCG e-Intensity Index was created to compare different measures of Internet activity in fifteen countries (OECD countries, BRICI nations, Hong Kong, Saudi Arabia, Singapore, and South Africa). It measures three things: (i) enablement, ie quality of infrastructures (50 percent weight) (ii) internet expenditures, how much is spent on online retail and advertising (iii) engagement, ie how actively are businesses, governments and consumers embracing the Internet. According to these indicators, Hong Kong is the most enabled country, Denmark leads the expenditure index and the US has the highest score for engagement. Based on the level of digital activity and the GDP per capita, five clusters emerged among the nations: (i) natives: Their intensity score is much higher than one would expect (UK, Sweden, Denmark, South Korea, etc...) Those countries have absorbed the internet strongly in their economy. (ii) Players: it is the largest group with western European countries such as Germany and Finland which are exactly where you expect them to be. The US is also in this group partly because of its weak infrastructures. For this group, the main challenge is to be homogeneous with respect to the three indicators. (iii) Nascent Natives: The Central and East European countries have some potential to develop even though their intensity index is relatively low. They generally underperform in at least one of the three dimensions. (iv) Aspirants: Physically large countries with inadequate infrastructure. They are the ones that set ambitious goals with respect to Internet (Malaysia, China, Indonesia, Egypt, Russia, etc...) with vast experimentation, innovation and imitation. Laggards: Countries like Italy, Greece, and Saudi Arabia well below the line with respect to where they should be. These countries could perform much better and exploit fully the Internet with focused effort.

The report also looked at the macroeconomic impact of Internet (size of the Internet sector as a percent of GDP) and the ability of the Internet to enable and strengthen SMEs. According to the study, the size of the Internet in 12 European countries, Egypt, Hong Kong ranges from 7.2 percent of GDP in the UK to 1.2 percent in Turkey. According to projections, the size of Internet is supposed to increase in those countries by 1 or 2 percent in 2015. There is a positive correlation between the clusters based on the BCG index and the size of Internet, thus suggesting that Internet could indeed meaningfully contribute to GDP in the future. The caveat of this sizing based on GDP is that it does not take into consideration the beyond GDP impact of Internet such as online advertising ROPO effect (research online, purchase offline) or the households savings due to internet or the consumer surplus or the improvement in productivity through e-procurement. For example, in the UK, ROPO is estimated at £40 billion in 2008, cost savings from online shopping are estimated at £18 billion (££1,000 per online household annually), consumer surplus from free online content is about £5 billion annually. Finally a 10% increase in e-procurement leads to a 2.6% productivity increase. Regarding Internet activities of SMEs, BCG conducted a survey on 9000 SMEs divided in three groups: low web companies with a website or a social networking site, high web companies that sell goods or services online and no-web companies with no websites. The main finding is that Internet is contributing to the turnover and growth of SMEs and is not sector specific.

Fabio Colasanti gave a few remarks on the report. He acknowledged the difficulty to size the importance of Internet. Nevertheless, according to him, the figures are in line with expectations. Perhaps, the surprising high figures for the UK should be attributed to the significant amount of online sales in the country. The fact that these studies have been conducted in a consistent way for various countries is very useful and the local case studies highlight the differences between countries as well. Moreover since it is very difficult to sell studies on ICT and its impact on the growth of productivity, the simplified choice of measuring the impact of internet through GDP is helpful although it is an underestimation. According to him, the laggards are not aware that they are not using ICT in a proper way. These countries can do a lot of catch up but under certain conditions that should be fulfilled: ICT is not an alternative to structural forms but could enhance them.

The audience raised several issues on the conclusions of this report. A participant suggested that a strong government intervention could play a role although in the EU context a joint approach is preferable especially for banking regulation, education, and telecoms regulation to boost the internet economy. Another participant underlined the fact that a regional index for infrastructures could be interesting to see whether the Internet economy creates inequalities between urban and rural areas. Moreover, the rationale for the weights attributed to each component should be explained since it does have a strong implication on the ranking. The fact that the data is mainly extracted from OECD could also lead to some biases since there are a number of local studies with different results on the same subject. Some participants highlighted also the importance to encourage people to use internet for example via e-government. Cultural factors do also play a role; some countries are more open to change than others. The author agreed with the suggestions and mentioned that they did look at regional differences for large countries such as Russia and Spain.