

Report Part Title: Business: e-commerce, the platform economy and digital payments

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# 3 Business: e-commerce, the platform economy and digital payments

Looking at the business side of digital connectivity – the global digital economy – three prominent elements need to be discussed: e-commerce; the platform economy; and digital payments. Global competition for innovation and the commercialisation of research and development (R&D) in the high-tech sector are relevant to each of these fields.

Remarkably, EU member states have the talent to compete with the United States and China on AI and [rank high on research](#), but [lag in commercial AI adoption](#) and funding. Hence, they now need to catch up with the US and China, which are homes to the big technology players: Google, Apple, Facebook, Amazon and Microsoft (GAFAM); and Baidu, Alibaba and Tencent (BAT), respectively. Following a discussion of where Europe stands in this field, including in comparison with like-minded countries, this section explores international efforts to level the playing field, as well as promising areas for cooperation by the EU with like-minded partners.

## 3.1 E-commerce

The European market has become [deeply integrated](#) into global markets through digitalisation, modern transport and communication means. Home to more than 500 million consumers with high purchasing power and looking for quality goods, combined with a high level of both physical and digital connectivity, the EU harbours great potential to develop competitive e-commerce businesses. Internally, the EU has made efforts to create a Digital Single Market and improve regulation concerning e-commerce since 2015.

For e-commerce to be successful and efficient, both physical and digital connectivity and data are crucial. Users have to be connected to the internet and willing to shop online.<sup>9</sup> In the EU, [more than](#) 85 per cent of households had access to the internet in 2018, and 60 per cent of individuals aged 16 to 74 ordered goods from the internet in

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9 Majcherczyk and Bai (2019). 'Digital Silk Road: The Role of Cross-Border E-Commerce in Facilitating Trade Global Economic Governance'. *Journal of WTO and China*, 9(2), p. 109.

2018 across the EU. For scaling up e-commerce businesses, physical connectivity may be just as important as digital connectivity, because without a good logistics system, companies cannot deliver goods to their customers on time and up to standards. Within the EU, the logistical systems [are satisfactory](#), but the complexity of cross-EU member state ordering and shipping restrains companies from growing European-wide. Moreover, data is the intangible resource without which e-commerce companies cannot provide high-quality and personalised service to their customers.

Noteworthy in e-commerce are the measures against [unjustified geo-blocking](#) (that is, prohibiting online customers from purchasing products or services on another EU member state's website), which entered into force in 2018. Unjustified geo-blocking reduces revenues for companies and choices for customers, and needs to be ended to unleash fully the potential of the Digital Single Market for European e-commerce companies. Also, the EU aims to create effective ways to regulate non-EU e-commerce companies that operate within the EU market, especially to [tax effectively all e-commerce companies selling in the EU](#). Current tax rules are outdated for the digital age of the global economy and fail to ensure fairness of competition. Multilateral efforts on new tax regimes will be detailed in section 3.4 below.

The largest e-commerce marketplaces in Europe are Amazon, E-bay and AliExpress – that is, US and Chinese companies. These companies are both e-commerce providers as well as comprehensive platforms offering a wide array of services, such as video and music streaming and payments. The largest European e-commerce business is German web shop Otto, part of Otto Group, which offers approximately 1.8 million items from about 6,800 brands in various categories. Otto's online turnover was approximately €13.7 billion in 2018 – still [less than half](#) of that of Amazon in Europe. The biggest challenge for European competitors from the US and Chinese marketplaces is their [national focus](#). Consider, for example, Allegro, which is the fifth most visited marketplace in Europe, but mostly focuses on Poland; and Bol.com, which was voted most popular retailer among Dutch consumers but does not operate beyond the Netherlands and Belgium.

The Franco-German initiative [GAIA-X](#) (described in detail in section 4.2 below) acts on this challenge of a splintered European market. This Cloud computing initiative aims to develop a secure data infrastructure that also allows for the development of innovative products and helps European companies and business models to scale up and be globally competitive. As well as furthering data sovereignty by offering European Cloud service infrastructure, GAIA-X increases the availability of large data sets in Europe. This, in turn, facilitates the scaling up of European companies and business models, and a strengthening of their innovative edge.

Hence, the global and even European presence of EU member states' e-commerce companies is negligible compared to Amazon, E-bay and AliExpress. The nationally

popular e-commerce companies are vulnerable to these global competitors that are slowly but steadily entering the European market. National e-commerce companies such as Allegro and Bol.com have already gained the trust of national customers, and experts therefore expect a switch of preference only if new e-commerce companies offer [at least a 10 per cent price drop](#) compared to the national alternatives. To protect homegrown companies, European regulators – led by the EU's competition commissioner Margrethe Vestager – are looking into anti-trust concerns about Amazon. The question of whether Amazon [uses sales data](#) from third-party merchants to adjust and boost the sales of Amazon's own products is particularly worrying for the EU. [Italy and Germany](#) have also announced anti-trust investigations into Amazon, also over concerns that Amazon would favour third parties using Amazon's logistical services over third parties that use their own.

Concerns about the rise of large foreign e-commerce players also led to pushback beyond the EU. The Indian e-market remains nascent, but it is expected to rise from US\$38.5 billion in 2017 to [\\$200 billion in 2026](#). India is thus a country of interest to many foreign e-commerce companies such as Amazon and Flipkart, a dominant e-commerce company of which US firm Walmart acquired an 81 per cent controlling stake in 2018. Especially after Amazon abandoned the Chinese market, the Indian e-market grew in importance. To address [concerns](#) about predatory pricing and deep discounting by US big technology companies, the Indian government introduced new laws in 2018. [These laws](#) are centred around limiting the power of companies that were then dominating the Indian digital economy (Flipkart and Amazon) and protecting new domestic firms by [following China's playbook](#) of successfully nurturing domestic giants. The Indian government [considers](#) data to be a national asset, so it introduced new data localisation measures. India's relationship with the EU is complicated by Delhi's new data-protection proposal, which calls for data localisation, requiring companies to store all critical data within India. One of India's most influential businessmen, Mukesh Ambani, is strongly in favour of this move, [arguing](#) that India needs to act collectively against data colonisation. In a way, this resonates with the EU's [new digital strategy that advocates for data sovereignty](#) and a process of [digital decolonisation](#) to become less dependent on US and Chinese technology companies. Nevertheless, India's way of trying to achieve this goal is diametrically opposed to that of the EU, which strongly opposes data localisation.

Hence, while coming from different viewpoints, both the Indian and European pushbacks against large e-commerce companies are motivated by the (mis)use of data by businesses. Creating more synergies between perspectives and approaches may lead to increased global leverage by the two partners. After all, the European and Indian e-commerce markets are important battlegrounds for US and Chinese e-commerce companies, and a strong stance to push for shared values will protect domestic e-commerce companies from unfair foreign competition.

### 3.2 Platform economy

The emergence of e-commerce, daily e-services (such as Uber, Airbnb and Deliveroo) and digital payment services (discussed in section 3.3 below) are resulting in an online 'platform economy', wherein [big technology companies offer](#) a wide range of online structures with a relatively low number of employees. For example, [Uber](#) has just over 22,000 employees, while working with 3.9 million drivers who complete more than 14 million trips per day.

While many emphasise the opportunities of the platform economy, the disruptions to regulation, uneven power structure between platforms and their workers, and the responsibility of the ecosystem beyond the enterprise are in some ways [problematic, as they may ultimately undermine the regulatory power of a government, and thereby democracy as such](#). The platform economy changes ways of working, socialising, value creation and competition for profits. The [vast social and economic impact of online platforms](#) ranges from human health, polarisation and misinformation, to economic competitiveness, consumer privacy and public services. The EU is only slowly catching up with this reality – a reality that is complicated by the fact that US (and increasingly more Chinese) big technology companies (so-called Big Tech) have developed a strong presence on the European continent.

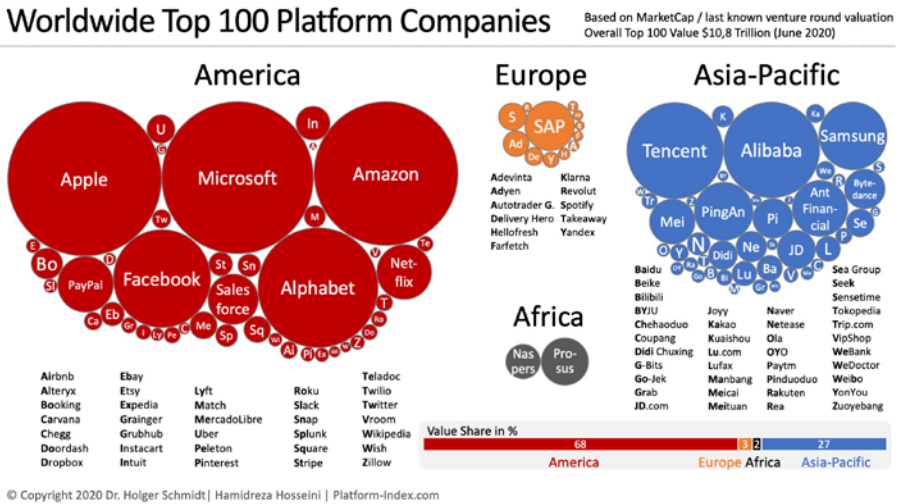
The traditional 'platforms' – that is, social media platforms – were once scattered among the EU member states, but increased globalisation and people-to-people exchanges resulted in a dominant position for Facebook and Twitter, at least in Western markets. National alternatives, such as [Tuenti](#) in Spain and Hyves in the Netherlands, have all been forced out of the markets or were bought by competitors once users started to switch to Facebook and Twitter.

The European Commission aims to [foster](#) a 'trusting, innovation-driven online platforms' environment in the EU', underpinned by a level playing field, responsible behaviour, transparency and non-discriminatory markets. To regulate platforms operating within the EU, the European Commission drafted the [Digital Services Act \(DSA\) package](#). This creates a legal framework for digital services based on clear responsibility and ex-ante rules covering large online platforms.

The European Commission is thus battling to limit the power of these companies, which have come to set the rules of the game, imposing their business standards on their users and competitors. It is acting against so-called Big Tech '[surveillance capitalism](#)' – the process of commodifying personal data with the core purpose of profit-making. At the same time, the EU several years ago started a process of '[digital decolonisation](#)' by nurturing European technology giants and protecting European data.

It is facing an uphill battle, as only 12 out of the [worldwide top 100 platform companies](#) are European and those together account for a mere three per cent of value share (see Figure 3).

**Figure 3 Worldwide top 100 platform companies**



Source: Dr. Holger Schmidt / Hamireza Hosseini, [www.platform-index.com](http://www.platform-index.com)

Just a few days before the publication of the EU digital strategy in February 2020, an informal group of European companies and trade unions published a set of ‘[Platform Fairness Principles](#)’. These principles correspond with EU efforts to keep dominant digital platforms accountable and to ensure fair competition, transparency and data privacy. The DSA’s public consultation period ended in September 2020 and is one of the stepping stones towards European digital sovereignty.<sup>10</sup> While limiting the power of digital giants has been lauded by the European public, [European technology nationalism](#) and the draft DSA have also been portrayed as the foundation of the European great firewall.

### International efforts on e-commerce and platform regulation

Asian countries like Singapore, India and Japan have their own approaches to limit dependence on US and Chinese foreign companies. These provide valuable reference points for the EU and its member states as they reconsider [strategic autonomy in the digital age](#).

10 The complete control over stored and processed data and also the independent decision on who is permitted to have access to it.

Singapore has taken a unique path to protect local vendors and platforms by way of a strong digital industrial policy. In the digital economy, the first-mover advantage is crucial, as markets quickly become saturated and second or third movers are challenged to gain market share. Since 2017, the Singaporean government has started to develop in-house technical solutions and purchase services from technology start-ups rather than offering grants to support them, through its [Smart Nation Initiative](#). Government-owned initiatives include the Networked Trade Platform ([NTP](#)) that connects industries digitally; the Industry Transformation Maps ([ITMs](#)) programme that addresses issues within each industry and deepens partnerships of the government with firms, industries, trade associations and chambers; and the Financial Technology ([FinTech](#)) that innovates the financial sector. In doing so, the Singaporean government has successfully nurtured its own digital businesses before foreign companies were able to win over Singapore's market.

As noted above, the Indian e-commerce market, albeit still nascent, is expected to rise to [200 billion US dollars in 2026](#). This has triggered the attention of large global technology companies, [seeking to attract](#) new users for their e-services as well as to gather demographic data on online behaviour and spending habits. The United States' presence is mostly observable in Amazon's [30 per cent market share](#) in India and Walmart's majority stake in Flipkart. In addition, for several years China was able to develop a significant position in India. [Filling the gap](#) created by a lack of Indian venture investors, Chinese companies became investors to eighteen of 30 Indian 'unicorns'. While the Indian government publicly opposed China's Belt and Road Initiative, it was generally welcoming in the digital field. This began to change in 2019 when the [Indian government](#) started to adopt protectionist policies and foreign online retailers were restricted by, among other measures, demands to store data locally. This approach aimed to support Indian e-retailers and high tech companies at the expense of foreign competitors, as foreign companies would experience rising costs. Recently, amid the Sino-Indian border conflict, India has moved to [ban 59 Chinese apps](#), including the widely popular TikTok and WeChat apps. Differences notwithstanding, the EU and individual EU member states have an interest in broader and deeper engagement with India in the digital domain – to discuss openness, transparency and inclusiveness against a shared concern about growing Chinese influence.

Lastly, Japan has often been [overlooked](#) by companies searching for e-commerce opportunities. Nevertheless, its highly urbanised population and developed economy have been among the fastest-growing e-commerce markets globally. With excellent infrastructure and an internet penetration rate above 93 per cent, the EU may want to engage with Japan when exploring options to counter the influence of US and Chinese e-commerce companies and platforms. Aiming to nurture and retain (problem-solving) businesses, both the EU and Japan are devising policies to assist promising start-ups, also to avoid losing them to US or Chinese giants during the scaling-up. The EU and

Japan stand to benefit from [more engagement](#) with each other's strategic thoughts and best practices.

### **The EU's turn from defensive to offensive measures?**

The main difference between Singapore and Japan on the one hand, and the EU on the other, has been the origin (key driver) and the approach of measures taken domestically. The EU has been primarily acting from a defensive standpoint, trying to regulate already established e-commerce companies and platforms, and thereby enforcing new rules in a game that started over a decade ago. Singapore and Japan, on the other hand, observed the growing influence of US and Chinese companies and acted upon this by nurturing and supporting national alternatives. India was a latecomer, but implemented strict regulations to limit the influence of foreign companies.

Moving forward, the EU and individual EU member states can explore Singapore's approach in their attempts to nurture and maintain European e-commerce companies and platforms, especially promising start-ups. While hiring engineers to develop further digital technologies within the government may be too far-reaching for most Europeans' liking, elements of Singapore's approach will prove valuable as the EU strives to strengthen its digital autonomy. Moreover, the EU might want to create a dialogue with India and other Asian partners concerning their experiences with US and Chinese influence (attempts), but also to discuss possibilities to join forces and create viable, reliable and transparent alternatives to US and Chinese companies.

### **3.3 Digital payments**

As e-commerce, platforms and internet banking became more popular, e-payment systems also grew. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is the international organisation managing most international bank-to-bank payments, by way of the Business Identifier Code (BIC). In the last decade, various alternative systems known as '[digital wallets](#)' have entered the market, of which US-based PayPal is the most known in Europe. A digital wallet makes carrying an actual wallet obsolete, by facilitating customers' online payments.

Since 2018, Alipay has been [finding its way](#) into Europe, partnering with companies in Italy, Norway and the United Kingdom. [Over 50 countries](#) now accept Alipay, of which 29 are European and a handful are South Asian. Alipay's electronic payment platform also offers foreigners visiting China the option to download Alipay's [Tour Pass](#). This feature allows them to use Alipay as a prepaid card service to which money can be transferred, whereafter the app can be used to pay in Chinese shops. Alipay and WeChat Pay also faced global [controversy](#) during the COVID-19 pandemic because of the released QR code system that reads the smartphones and determines whether or not a



user poses a health risk. From a privacy perspective, this new feature caused concerns among policy-makers in Europe.

[Big Tech firms](#) including Google, Apple, Facebook and Amazon have successfully developed financial services during the last decade. While services of large technology companies such as Apple and Microsoft generally lack interoperability, the digital payment sector has a wide array of suppliers that are highly interoperable to transfer cash smoothly on a global level. Most e-commerce websites or digital services offer multiple payment options, [ranging](#) from Alipay and WeChat, to PayPal and direct payment systems through customers' own bank accounts by using, for example, Swish (in Sweden) and iDeal (in the Netherlands).

The financial sector may be an example for other digital services, such as operating systems, to become globally interoperable without losing their competitive advantage. Nevertheless, concerns remain about dominant companies forcing competition out of the market. China's top anti-trust agency is now looking into the possibility of [launching a probe](#) into Alipay and WeChat Pay for this matter in the Chinese market.

For Europe, it might be interesting to look beyond the now emerging financial payment methods to digital currencies (so-called 'cryptocurrency'). Bitcoins have been the first publicly known [cryptocurrency](#) and alternative digital currencies, using Blockchain and distributed digital ledgers, are now underway. Since 2014, more than 500 digital payment systems and currency companies have been [founded](#). Some are even considered as challenging financial systems at their core. Facebook's Blockchain-based digital currency Libra has permission to be developed and its [launch](#) is still planned for 2020. The Chinese government also started a pilot programme for an official [digital renminbi \(RMB\)](#), and it is expected that the currency will be used during the Beijing Winter Olympics of 2022.

EU member states need to step up their efforts in supporting their own new and upcoming initiatives. Private US or Chinese state-led initiatives are highly competitive in adopting and funding new initiatives. Singapore is able to out-compete the large scale of those initiatives, yet the EU and Japan, while ranking high on research and development, seriously lag behind in commercial adaptation of their research. In order to overcome this challenge, the EU and Japan can benefit from [more engagement](#) with each other's strategic thoughts and best practices in emerging digital fields. Digital payments may be the first new field that the EU and Japan can discuss.

A separate but clearly related subset that also deserves mention here is digital financial inclusion – efforts that may be labelled '[digital official development assistance \(ODA\)](#)'. India stands out as having clear potential in this field, largely thanks to its domestic experience with the use of digital tools to spur development. India has had remarkable success with its efforts to enhance digital financial inclusion through digital payment

systems, which raises the question of whether this success can be exported to other developing countries, either by India as a development player on its own, or in a trilateral format with European partners. Trilateral cooperation with Indian companies with a proven track record could facilitate improved access to countries, particularly in Africa. Cooperation may be sought with India's Centre for Digital Financial Inclusion (CDFI), which promotes the use of technology to support its welfare programmes and financial mainstreaming for the poor, with a valuable track record on digitising the delivery of benefits, from implementing data-driven frameworks from governance to farm services and promoting basic financial literacy using digital communication tools. For now, the CDFI operates only within India, but its experiences could be of benefit to individuals in many other developing countries.<sup>11</sup>

### 3.4 The multilateral context: the WTO and OECD

#### The World Trade Organisation

The rulebook of the World Trade Organisation (WTO) was largely created before the internet revolution, leaving states dependent on a patchwork of bilateral regulation rules on e-commerce rather than a comprehensive global framework. To address this flaw, the WTO [in 1998](#) established an e-commerce initiative to connect international trade rules with digital trade, including e-commerce, goods, services and the transmission of information and data across borders. From 2001 to 2016, twelve so-called Dedicated Discussions have been held under the auspices of the General Council. Central to the discussions were effective ways to include less-developed countries and [concerns](#) about the digital gap, where developed economies are the main providers of digital services and developing countries are users of these services, further exacerbating global horizontal inequality.

It was only in 2019 that [76 WTO members](#) launched negotiations on the trade-related aspects of e-commerce. [The WTO aims to](#) create a multilateral legal framework that consumers and businesses can rely on to improve trust, tackle barriers, guarantee validity of e-contracts, ban customs duties on electronic transmissions and address forced data localisation requirements. The EU has been one of the initiators of this dialogue.

While the protection of customers and companies is gaining momentum, especially because of increased e-commerce and platform transactions during the COVID-19 pandemic lockdowns, the WTO is having a hard time [regaining](#) its credibility. The US blocking of the two new members of the WTO's Appellate Body has paralysed the

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11 Author's interview with CDFI director Krishnan Dharmarajan on 17 January 2020, Bangalore.

WTO's ability to rule on new trade disputes between member countries since then. Additionally, the candidates now in the running to become the new WTO president cannot take a strong stance, as the [vital challenge](#) remains to keep the United States and China on board while simultaneously defending the logic of multilateralism. Nevertheless, the WTO may take on an influential role, as it is the only international organisation that can bring 164 countries together to discuss new e-commerce and digital platform regulations.

## The Organisation for Economic Cooperation and Development

Another organisation focusing on the digital economy is the Organisation for Economic Cooperation and Development (OECD). During the 2016 Cancún Ministerial on the Digital Economy, OECD members [recognised](#) digitalisation as a catalyst for innovation, growth and social prosperity, and thus the need for a holistic and whole-of-society approach. In the OECD's 2019 report, in which the OECD [unpacks e-commerce](#), it identified gaps between older and younger e-commerce users, higher and lower levels of education, and also differences between rural and urban areas. These differences are often referred to as the 'digital divide', in a broader context than just e-commerce. In 2020, the OECD [addressed](#) a report to the G20 Digital Economy Task Force on how a common framework could be established.

Within the OECD, platforms and platform regulation are key topics under discussion in the digital domain. This includes rewriting tax rules to better regulate tax payments by [Big Tech companies](#), most of which are based in the United States. [About half of the European OECD member countries](#) moved ahead with new tax rules, with France being the first in Europe to introduce its own [digital tax](#). Italy, Hungary, Poland, the United Kingdom and Austria also [implemented](#) a Digital Services Tax. Spain, Belgium, the Czech Republic and Slovakia have also proposed concrete steps to implement a Digital Services Tax. The United States responded with [retaliatory threats](#), including trade tariffs. In July 2020, the OECD released its global tax-reporting framework: the Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy ([MRDP](#)). This framework requires platforms to [report](#) to tax authorities the income they realised by offering accommodation, transport and personal services.

OECD members have already established a train of thought together on platform regulation, so a leadership role by the OECD in pushing for increased regulation appears to be appropriate. The main pitfall of the OECD becoming the lead organisation in shaping the framework of the platform economy is the [exclusion](#) of all African and most Asian countries, other than Japan and South Korea. After all, close cooperation with huge digital economies such as China, but also emerging (digital) economies in South-East Asia and Africa, is of paramount importance to create a global perspective, instead of a Western perspective, on the regulation of e-commerce.