



The New Great Game



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The New Great Game

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Executive Summary

101,36,18. These figures represent the huge challenges facing Europe today, stemming from the digital sphere but affecting almost every other. 101 is the number of start-ups valued at over \$1 billion in the USA, 36 in China and just 18 in Europe. As digital radically redefines and redistributes economic and political power on an international scale, we enter into a new game with new rules. In response to a recognition that Europe must engage in digital developments to ensure its continuing importance in the global arena, the European Council on Foreign Relations launched ‘Europe’s Digital Power’, a project aimed at highlighting the challenges confronting Europe and finding the solutions.

The digital revolution has ushered in a new era in which power, and the means of acquiring and retaining it, has been drastically redefined. As digital inexorably transforms every facet of communication and organisation, it dramatically reconfigures the political and the socioeconomic spheres. Traditional actors vying for power in this uncharted territory continue to employ traditional Great Game geo-political and geo-economic strategies in the digital world.

This scramble to master an entity with no centralised governance nor international standards or policies for access and

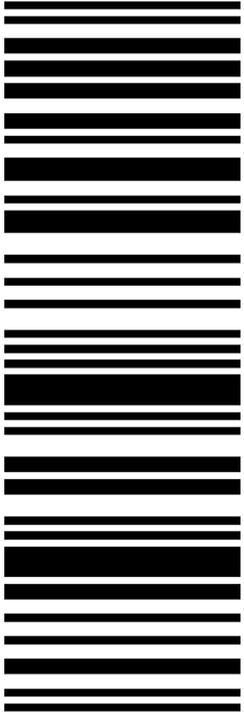
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usage is redefining the very nature of the internet. Initially conceived of as an open model and developed in the libertarian tradition, it is increasingly dominated by a desire to assert national sovereignty, the creation of firewalls, information wars, surveillance, and cyberattacks. States increasingly try to subordinate the internet and digital domains for nationally strategic purposes while a handful of economic actors swell with unrivalled market capitalisations.

Europe is conspicuously absent in the battle, looking on as the internet is increasingly carved up and distributed. A fragmented internal market, inconsistent and reactionary regulation, and political disengagement are some of the many obstacles to Europe becoming a player in the digital world. It is essential that Europe now enters the fray to challenge attempts to impose antiquated machinations of geo-political and geo-economic control, and ensure its open society values govern the digital realm.

Two major challenges for Europe consist in accessing the digital market and in ensuring that the market remains open and governed by diverse stakeholders. Market access hinges on the EU's ability to effectively create a Digital Single Market in which digitisation is uniform across member states and an entrepreneurial environment is fostered with the attendant venture capital. In terms of internet governance, the EU must take an active role in shaping the structures and standards that are to oversee digital architecture. This must be cautiously carried out to avert a potential transatlantic rift of which there are already hints, spurred by cyber security and industrial disagreements.

In order to achieve this, Europe must build a virtuous alliance between the private and public sectors, engage its political elites, develop a strategic relationship with the USA, and must create and promote its own vision of the internet based on its open society values. Europe, traditionally a strong soft power actor, is uniquely placed to prosper in the digital world, a world in which soft power mechanisms excel. It is essential that Europe rapidly takes advantage of this, and acts to limit the outdated Great Game geo-political and geoeconomic manoeuvres that are fundamentally undermining the internet infrastructure. It is the New Great Game and Europe, with its twenty-first century vision, need not only play but change the rules of the game itself.



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The digital revolution

The digital revolution is the most transformative force of our time, effecting seismic changes on politics, economics and social relations. It heralds the transformation of communication and the reconfiguring of organisational structures. It is a set of tools and an environment, an actor and a site. Its very nature will profoundly reshape how governments operate and relate to citizens, how industries develop and relate with consumers and how individuals relate with one another.

Digital developments offer a colossal opportunity for governments, economic actors and individuals to advance their goals but also represent a threat for those who fail to embrace this new wave of innovation. History dictates that revolutions reorder politics and society, empowering some actors and institutions at the expense of others. The Mongols were overtaken by the advent of gunpowder and the Chinese failed to keep up with the first Industrial Revolution. The digital revolution will be no different and represents disruption and turmoil as much as progress.

The major powers now appreciate the significance of the internet as a site of geopolitical competition, collaboration and confrontation. From being seen by its libertarian developers as existing outside of politics and for the benefit of all, it is now steeped in politics of the most traditional kind. These struggles are being waged across a number of fronts: from intellectual property theft to DDOS attacks, and from weaponised viruses to demands to establish a global regulatory body for the internet. If politics is both a normative dispute about which values should prevail in a community and a negotiation about “who gets what, how and when”, it is undeniable that the digital revolution has become politicised, both at home and globally.

Thus ‘The Great Game’ continues much as it did before. The phrase itself originated in the nineteenth century, used to describe the intense conflict between the Russian and British Empires over the fate of Asia. Russia’s ambitions to radically expand its sphere of influence provoked British fears that such an expansion into Central Asia threatened its hold on India. This gave birth to the Great Game period, a century of complex geopolitical maneuverings between two of the great powers vying to maintain and further expand their empires. Henceforth, the phrase is generally applied to describe the geopolitical chess games played by nations or regions in the pursuit of power and influence in a certain area. Accordingly, the geopolitical jostling for control over the digital ambit can be referred to as ‘Great Game’ machinations.

Meanwhile, a different battle of the geo-economic variety is being waged. With some countries and regions poised to reap the monetary benefits of the digital revolution and others tipped to sustain major losses, the distribution of global power is expected to alter as the cards are reshuffled along economic lines. Meanwhile, a small number of global tech companies with market capitalisations larger than many medium-sized states, dominate the digital market, and threaten to stifle competition by virtue of their technical aptitude, capacity to fund research & development and increasing ability to shape the digital ecosystem in their favour. Market logic continues to govern in this ecosystem, from battles between regulators and tax smart global companies to the battles waged by entire economic sectors and professions in danger of disappearing.

Geoeconomic winners and losers

For many major industries such as transport or hospitality, the cards have already been shuffled by sharing networks like Uber or Airbnb who do not own the assets their businesses are based on. Or take the print media or telecoms companies, overwhelmed by new digital media outlets and communications platforms such as Facebook, Google, Skype or Whatsapp.

These highly disruptive changes pale in comparison with the impact digital will have on manufacturing. Coined by the German government, 'Industry 4.0', involves the application of increasingly sophisticated technology to production processes, generating hyper-connected, decentralised and streamlined products. Simply put, this means that industrial production machinery no longer simply 'processes' the product, but that the product communicates with the machinery and instructs it. Industry 4.0 will span everything from artificial intelligence to the internet of things and wearable health technology.

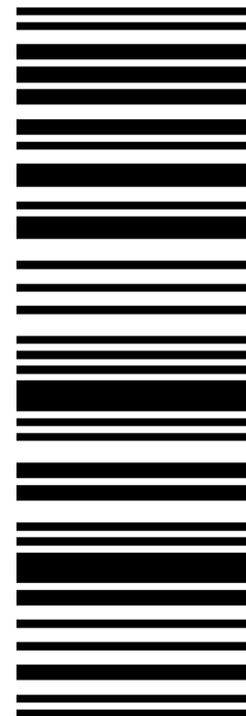
The social and political impact of these changes on industrial societies will be dramatic as the workforce is radically reshaped. While the future may see the creation of high-end digital and "persuasion-based" jobs (in marketing and sales, for example) it may also witness the erosion of middle ranking jobs, particularly in transportation, logistics, manufacturing as well as office and administrative support, and their substitution by low paid and low fulfilment jobs, with the ensuing socio-political consequences as societies become more dual and unequal.

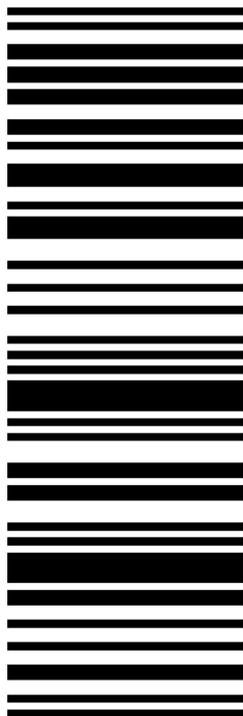
Meanwhile, in so far as the US capacity to exploit non-conventional energy (shale oil and gas) has led to energy independence and is already reshaping global power and economic relations, particularly those of the US with the Middle East,

the application of digital developments to traditional occupations will have a profound impact on the power and economic relations that have so far underpinned the current wave of globalisation. In enabling global manufacturing firms to reabsorb global supply chains and relocate them in countries where consumers are located, it fundamentally undermines sweatshop countries banking on cheap labour and raw materials.

For developing economies struggling to catch up on manufacturing and job creation, the impact could be devastating: countries such as India and China are already expressing concern about how the introduction of robots in manufacturing industries may, by making skilled workers redundant, trump the emergence of a middle class and block the country's progress to the upper tier of per capita income. This particularly threatens Chinese aspirations to match the US as a superpower, as it is uncertain as to whether the Chinese will succeed in transforming their manufacturing industry into a 4.0 one. Meanwhile, Narendra Modi, India's tech-savvy Prime Minister, has voiced similar fears and accordingly launched a 'Digital India' campaign in 2015.

This offers an immense opportunity for countries theoretically bound to be the losers of the twenty-first century, a century presumed to be entirely Asian. Due to its capacity to innovate, and to fund innovation, the US stands to gain the most, and so is poised to remain the dominant superpower for the foreseeable future. For all the talk about American decline, the US is leading the digital revolution on the economic front with its firms being able to create much more value than any others. Only two decades ago, seven of the world's top ten companies in terms of market capitalisation were Japanese and just three were US based. Now in 2015, the top ten are all US companies,





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with technological change catapulting the US far ahead of Japan.

Just a cursory glance at the start-up scene points towards the US as the main source of innovation globally. Of the 174 venture-backed private companies valued at almost €1 billion worldwide, 101 are in the US, 36 in Asia, and just 18 in Europe¹, the latter's market valuations falling well short of their US and Chinese rivals. Outside the start-up world, the picture is very much the same, with Amazon, Apple, Facebook and Google's market capitalisations now greater than the GDP of South Korea.²

Facilitating this is the unrivalled availability of venture capital in the US. According to the National Venture Capital Association, US venture capital funds have invested \$160 billion since 2012, with \$70 billion of that alone directed at Silicon Valley. Meanwhile, venture capital funding for European digital groups in 2014 was a fifth (\$7.75 billion) of that of the US (\$ 37.9 billion).³ The World Economic Forum IT Report for 2015 ranked venture capital availability in countries around the world and those emerging at the top are (in order): Qatar, Malaysia, USA, UAE and Hong Kong. Note the conspicuous absence of Europeans in the list.⁴

1 The Unicorn List, Fortune, last updated on 31st of March 2016, available at <http://fortune.com/unicorns/>

2 Denning, Steve, The Future of Amazon, Apple, Facebook and Google, Forbes. 9th of April 2015. <http://www.forbes.com/sites/stevedenning/2015/04/09/the-future-of-amazon-apple-facebook-google/#543c4f313cf1>

3 Ahmed, Murad, European tech: In Silicon Valley's shadow, Financial Times. 21st of July 2015. <http://www.ft.com/intl/cms/s/2/d1507b96-1b24-11e5-8201-cb-db03d71480.html#axzz3gReGrg1o>

4 World Economic Forum, The Global Information Technology Report 2015. http://www3.weforum.org/docs/WEF_Global_IT_Report_2015.pdf

The new great game has already started

The US has been similarly savvy in applying geopolitical logic to the digital domain to further its strategic objectives. It has defined its digital infrastructure as a "strategic national asset" and Obama was quick to appoint a former head of security at Microsoft as his cyber-security advisor. Recognising cyberspace as the fifth military domain after land, sea, air and space, it has doubled the NSA's budget since 2001 and quadrupled the personnel assigned to its new US Cyber Command in two years, now standing at somewhere between 3,000 and 4,000 cyber soldiers. As such, the US has effectively incorporated digital developments to bolster its military capacity, thus being able to prolong military superiority over eventual challengers for longer than expected.

The very architecture of the internet is shaping by US ideology and interests. As the place where the internet was built from a desire to construct a communication network resilient enough to survive nuclear attack, and now home to some of the most powerful and wealthy companies on the planet, it has long been the dominant power online. It also has every interest in maintaining the status quo as long as possible and it is likely its political, business, and free speech culture will continue as the dominant ideology of the internet.

Compared to the US, China is more focused on establishing a state-centric model of internet governance whilst using the internet to project itself internationally. Xi Jinping has taken direct control of digital policy with the aim of shifting China from being a "large internet country" to a "strong internet country" which equals greater national command over the internet and more active foreign engagement. Becoming a cyber power is now a key element of the 'China Dream'

goals. The Chinese government is increasingly dominant in international debates about internet governance, deploying soft power initiatives, like the World Internet Conference to bolster China's push for internet sovereignty rather than the open multistakeholder approach advocated by the West. These moves are not only explained by fears of unbridled internet but also by China's wider aim to take an active role in shaping and establishing international rules.

As for Russia, it is also concerned with securing control over the global architecture of the internet to further its domestic and foreign policy. On the national level, the Kremlin seeks to assert Westphalian notions of sovereignty over the internet, particularly following the street protests against Putin that gave rise to serious alarm that the internet was being used as a channel of subversion by the US, undermining the Kremlin's variant of democracy.

On the international level, the Kremlin understands the internet as a foreign policy tool with borders that correspond to physical state borders. This represents a huge challenge for both NATO and European governments as Russia is targeting some member states, such as the Baltic countries, with asymmetric digital criminal activities, espionage and propaganda aimed at bullying and destabilising them. In May 2014 Russia announced the creation of its rather revealing named 'information troops', employed to carry out such information wars. Russia, on the other hand, due to its focus on information security, has a lower dependency on information systems than the West, which has afforded it greater protection from cyber threats.

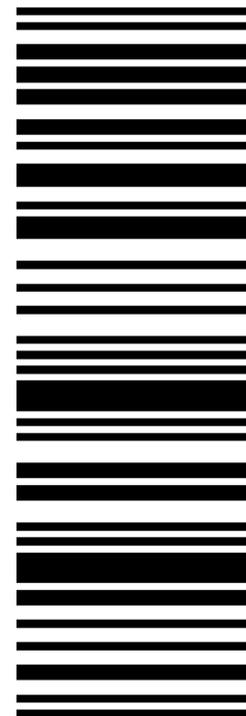
Other examples of how the digital revolution is disrupting politics abound in the Middle East. It is widely recognised that the immolation of Mohamed Boua-

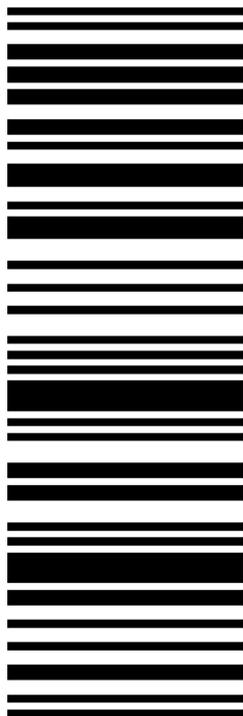
zizi in Tunisia would not have had such a rapid and massive effect had the youth in these countries not had access to Facebook, Twitter, Youtube and other social media which allowed the protesters to organise and share videos and information. But the digital playing field is one in which all actors can play. As exemplified by Daesh, the Internet has also allowed jihadists to significantly reduce the time and distance required to recruit new fighters to their cause, very effectively using the Internet for propaganda purposes. Whereas in the past, foreign intelligence services would tap the physical networks created around mosques in European cities to infiltrate and deactivate terrorist cells, today jihadist recruitment has gone virtual, making counter-terrorist efforts much more difficult.

What Daesh's use of the Internet reveals is how hyperconnectivity is reconfiguring power relations, hard or soft, economic or military, and also politically. Across the world, hyperconnectivity is empowering non-state actors, opening new channels of direct people-to-people communication, undermining citizen trust in authority and making it more difficult for governments to pursue diplomatic goals. This can work to the advantage of human rights activists, now able to stay online and connect globally 24/7, 365 days a year, but also for governments, democratic or not, who can monitor to the same effect and eventually repress.

Challenges for Europe

Europe faces two fundamental challenges. The first is market access, relating to its capacity to take part in, and benefit from, the digital revolution. The second concerns the nature of the internet itself, and the need to ensure that the right conditions continue to prevail without provoking transatlantic tensions. However, for these





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challenges to be efficiently confronted, the European Union needs to understand the geopolitics behind the digital revolution in relation to its own digital ambitions.

A Digital Union

The European Union has been working on a more coordinated and common approach towards the digital revolution for years: a Digital Agenda was presented by the previous European Commission and is one of the seven pillars of the Europe 2020 strategy while the current President of the European Commission, Jean-Claude Juncker, presented in 2014 'A Connected Single Digital Market' as one of the ten policy areas that the new European Commission would undertake. However, more than a decade later the EU's digital economy continues to be fragmented, signaling the need for Europe to get its act together and achieve genuine digital integration, or what we have labeled, a Digital Union.

To achieve a Digital Union, a truly integrated zone and not just loosely coordinated positions on digital matters are needed. However, Europe also needs to take into account the failures that preceded the creation of the Monetary, Banking or Energy Union, which should serve as a caution. In these three cases, individual reactionary responses and a lack of coordination at the European level meant that EU member states had to confront these challenges separately and through costly measures. This resulted in a loss of credibility, internal tensions, lack of solidarity and external weakness, which other geopolitical rivals have exploited well. Now, instead of learning from the failures that preceded the creation of the Banking Union and Energy Union, the EU is once again failing to understand the geopolitical and geo-economic consequences of its inadequate, slow and fragmented res-

ponse. But well understood and played, geopolitical pressures could add the sense of purpose, the strategic vision and the cohesion which Europe currently lacks.

Europe does not need to be a loser in this game. Many have stated that the 21st century belongs to Asia. However, the 21st century will be, rather than Asian, digital. Anyone, large or small, mastering the algorithm, as it has been put, can thrive. Whoever misses this revolution will be sidelined and become irrelevant in economic and security terms.⁵ This should come as a relief to Europe as it will be much easier for it to compete in the digital sphere. Europe clearly cannot compete with Asia's cheap labor and manufacturing, but it can compete in the digital arena if it ensures that a Digital Union will be the result of a strategic vision and not a reactionary response to the rise of geopolitical challenge.

Take Germany. Its investments and advances in the digital sphere have been impressive in the last few years and the presentation of its recent Digital Strategy for 2025 which creates, among other things, a 10€ billion fund to finance future digital projects, demonstrates that strategic digital visions are present in Europe. It is also necessary to highlight that not only is the Digital Single Market one of the current European Commission's principal policy areas but also that the European Commission has set aside a large chunk of its 315 billion euro Fund for Strategic Investments for the digital field: 8% for digital infrastructure and 4% for innovation.

⁵ Valladao G.A., Alfredo, Masters of the Algorithms: The Geopolitics of the New Digital Economy from Ford to Google, German Marshall Fund. 2nd of May 2014. <http://www.gmfus.org/publications/masters-algorithms-geopolitics-new-digital-economy-ford-google>

Improving market access

With regards to the first challenge, Europe must rapidly address its absence in the digital market. A comparison of the EU's global economic position and its presence in the digital economy reveals a striking disjuncture. In the World Bank's global GDP rankings, four European countries are present in the top ten; Germany, the United Kingdom, France and Italy. Meanwhile, in the World Economic Forum's Global Competitiveness Index for 2014-2015, six European economies are present in the top ten; Switzerland, Finland, Germany, Netherlands, United Kingdom and Sweden. It is of note that only the UK and Germany are in the same list. Yet of the twenty internet companies with the greatest market capitalisation, just one is European.

Europe is in a precarious position, currently lacking key tools to survive the digital revolution: a single digital market, venture capital investment of the requisite scale, appropriate regulation on openness and platforms, resilient broadband telecom networks and infrastructure and security integration. It also suffers from a huge digital divide between its members. Europe remains 28 separate markets, some looking east, some south, with different levels of concern. To avoid such a digital divide, Europe should set its eyesight on achieving similar levels of common regulation as the ones achieved through the Banking and Energy Unions. According to the Digital Economy and Society Index (DESI) developed by the European Commission as a means of evaluating Europe's digital performance and tracking the development of digital competitiveness, member states are at very different stages and rates of progression (Romania with a 0.35 DESI score, half that of Denmark which leads on 0.68).

It is little wonder that in an interview with Spiegel, former Digital Agenda

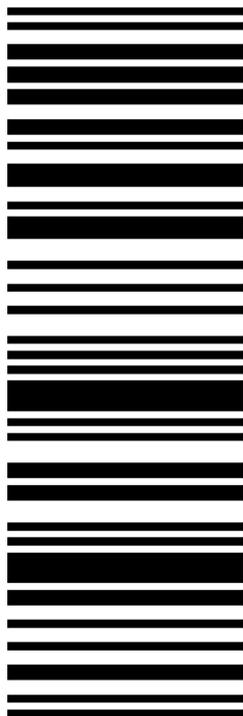
Commissioner Neelie Kroes, revealed: "When I took over the digital portfolio in Brussels, many people offered me their condolences". While Germany, already poised to progress to Industry 4.0, is well qualified to weather the storm, other European countries may not prove capable and sink. This may in turn open yet another wealth and productivity gap between Northern and Southern parts of Europe which would make the EU project very difficult to sustain.

Despite these asymmetries, Europe does not need to fall on the loser's side of the digital revolution. It is worth remembering that the top US internet companies are not infallible. In terms of retail, Macy's, which initially sustained major losses with the advent of Amazon, has far outstripped its competitor in terms of stock returns over the past 5 years. Meanwhile, Google is being chipped away at by Facebook and the burgeoning app culture. Also, while some say barriers to entry are increasing due to increasingly feudal nature of the internet, it could be argued that innovation is becoming more inclusive. Many of the important inputs for startups are migrating online, e.g. venture capital and computing capacity, mentorship and collaboration. This creates possibilities for entrepreneurship to expand beyond the traditional boundaries of high-tech clusters of Silicon Valley for example.

With the appropriate incentives, Europe's huge and wealthy internal market, comprising more than 500 million people, may provide seamless opportunities for creating value. Even its welfare state, which it's usually described as a remora preventing Europeans from competing efficiently with others across the globe, could turn into a goldmine if Europeans were able to successfully apply the digital revolution to healthcare, education and ageing.

However, Europe's entry into the digital market would not be solely a self-ser-





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ving endeavour as it is essential there is healthy competition to safeguard against monopoly control over the internet. The energy market is an instructive example of the benefits of having many players involved. This prevented Chinese or OPEC attempts to entirely control it and create a global web of debilitating dependence on a few monopolistic actors. This model should be replicated for digital market, ensuring an openness and competitiveness that preserves its nature.

Maintaining an open internet and fostering transatlantic cooperation

This brings us to the second challenge facing Europe, ensuring that the internet does remain open and free while averting a potential transatlantic rift from developing. The international rules governing the internet have yet to be fixed and the process of doing so provides fertile ground for conflict. Currently, the US based Internet Assigned Number Authority (IANA) oversees global IP address allocation, Domain Name System root zone management and other technicalities for the functioning of the internet. Much of the international community sees US monopoly on IANA functions as undemocratic and open to abuse and there have been widespread calls for IANA functions to be transferred to a more representative body. This transition to a multistakeholder international framework is currently taking place but fears abound as truly international internet governance could be dysfunctional or dominated by anti-freedom of speech countries.

Surveillance revelations and cyber security threats pose another danger for both internet openness and transatlantic relations. The adept use of the internet

by transgressive actors from criminals to terrorists is increasingly preoccupying policy makers. A medium that should be open, free and secure is becoming closed, weaponised and constantly monitored. There is a risk that the mistrust arising from surveillance and hacking of telecommunications could lead governments and publics to push for a more protectionist and a closed internet. Revelations concerning the US and UK intelligence services caused outrage in Germany (even though the BND collaborated with the NSA) and prompted three separate intelligence reviews in the UK. Meanwhile, the recent Schrems decision by the European Court of Justice invalidating the Safe Harbor Agreement between Europe and the US had added another layer of conflict to transatlantic relations. This could impede much needed cooperation on cyber security against Russia, China and ISIS (in areas of critical infrastructure and terrorism for example).

Simultaneously, another risk is that the battle being waged between Google and the European Commission escalates into political tensions and rising protectionist instincts in Europe. In an essay published in the Frankfurter Allgemeine Zeitung newspaper, former German Economics Minister Sigmar Gabriel drew attention to the “brutal information capitalism” of the leading US internet companies. In his essay he claims “only the European Union has the power required to change the political course and rewrite the rules”. This was echoed by Mathias Doepfner, chairman of Germany’s biggest media company Axel-Springer SE, when he wrote an open letter to Eric Schmidt in which he confessed his fear of Google and accused it of acting in an uncompetitive fashion.⁶

6 An open letter to Eric Schmidt from Mathias Döpfner. <http://www.axelspringer.de/dl/433625/LetterMathiasDoepfnerEricSchmidt.pdf>

Much as in the nineties saw transatlantic tensions emerging when Brussels' competition authorities started to take on American companies (Boeing, Microsoft), a new wave of transatlantic mistrust is emerging precisely at a moment in which Russia and China are growing more assertive and the Middle East and North Africa risk spilling out of control. The overall picture is one of transatlantic digital rifts due to lack of mutual trust, different industrial visions and contrasting regulatory preferences.

While China, Russia and their allies represent a genuine threat to an open interconnected internet, it would be fatal for the US and Europe to fail to work together to defend those core principles globally. As with other geopolitical issues, the positions adopted by the G77 group could be decisive internationally. Europe needs to leverage its own diplomatic outreach to the countries of the global south to ensure they support an open and interconnected world.

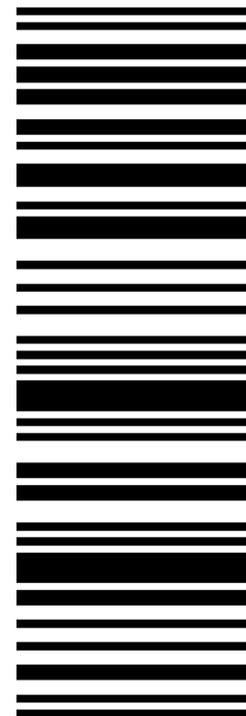
Conclusion: What should Europe do?

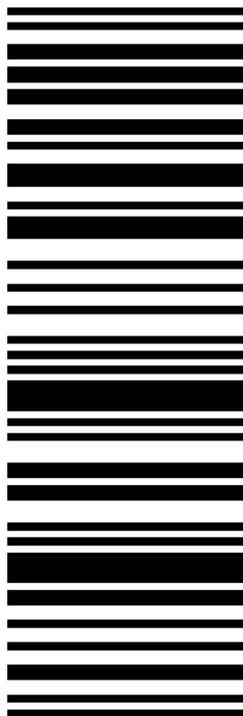
Much as in the 1980's when Europe remedied its poor economic performance via further integration and the creation of a single market, what is again required is the removal of all barriers to achieve another major boost in competitiveness. In the late 1980's European actors mobilised to tackle an economy plagued by huge unemployment, rising inflation and declining growth. The famous Cecchini reports of 1983 and 1988 that estimated 'The Cost of Non-Europe' put the figure at 200 billion while the construction of a single European market would produce a 4.5 per cent increase in GDP and create two million jobs. Coupled with the correct economic policy measures, these benefits could total a GDP increase of 7

per cent and five million jobs.

Today, the European Commission has estimated that the construction of a digital single market could contribute €415 billion per year to the economy. A successful market necessitates improved access for consumers and businesses across borders, an environment in which digital innovation can flourish, and a society and economy equipped with the tools to maximise the potential of the digital economy. The enhancing of a resilient broadband telecom network as a means to reinforce net neutrality is also fundamental as it will help avoid certain discrimination regarding data and traffic flows. It is essential that Europe meet the transitional challenge of analogue to digital. For the successful establishment and functioning of the single market, integration of financial services is fundamental. Finance and payments underpin all sectors, and so the elimination of all barriers that hinder cross-border activity of the financial industry (via mechanisms such as banking and capital markets union or the establishment of the Service Euro Payments Area) is pivotal.

The economic misfortune of Japan provides a cautionary tale on the consequences of failing to make such a transition. As mentioned before, just two decades ago, seven of the world's top ten valued companies were Japanese, while only two were US based. In 2015, following the digital shift, the US has catapulted ahead of Japan, with the top ten companies now all US companies. It is an important lesson for Europe on the costs of remaining analogical, the costs of no-Europe. To truly engage in the digital world, Europe must build an alliance between the private and public sector, engage political elites and citizens, build a strategic alliance with the US, and change the rules of the game itself.





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Establish public-private partnerships

An environment that is inherently international and pervasive across both the public and private domains does not respond easily to traditional policy creation mechanisms. The internet's blurring of traditional demarcations renders a government-led, top-down approach anachronistic and unproductive. The digital environment demands a multistakeholder approach, defined particularly by an effective liaison between governments and the private sector. With the majority of digital infrastructure in Europe owned by the private sector, collaboration is not merely an option, it is a necessity.

In the area of cyber security, for example, public-private partnership is a vital instrument for securing cyberspace. As sponsored crime and cyber attacks increase, there is a heightened need to share intelligence between the two sectors and for the state to access the industry insight and financing of the business world, while the business world must access the European vision and public interest of the state and civil society.

The Internet Governance Forum (IGF) has taken significant steps in this direction. IGF is an open forum that brings together various stakeholder groups in discussion on Internet public policy issues. The debate outcomes seek to inform policymakers on how to maximise Internet opportunities while minimising risks. Participants take part on an equal footing and maximum representation of the diverse global actors embroiled in internet debates is sought. It is an instructive model for Europe.

Engage political elites and citizens

European political elites must grasp the size of the change ahead and the dis-

ruptive effects it will have, at home and abroad. And, in parallel, citizens must be made aware of the immense challenges and opportunities that digital developments present. Governments should promote the drafting of digital strategies to help raise awareness and to identify policy challenges, bottlenecks and openings. This should be an inclusive effort, bringing together industry, social actors, media, national parliaments and citizens.

For, understanding the changed nature of communications in the digital world is essential. We have lived through the Gutenberg era, from the 15th century to the 20th; an age defined by the authority of the written word. Many merely see this however, as an interruption in the broader arc of human communication that is oral and that the discursive architecture of the web is slowly returning us to a state in which orality (conversation, gossip, rumour, the ephemeral) all lacking in authority, define our communication culture. Such a culture presents a unique challenge to any policy maker and will require new tools to navigate.

Political elites must understand the scale of the organisational reconfiguring (moving from hierarchy to peer to peer models) that will be required to turn analogue state apparatuses and services into a shape appropriate for the digital age. Users, consumers and citizens expect to be involved in the way society is governed and increasingly we have the tools to reinvent government for the twenty-first century, if we have the political will and imagination. 'Estonia' has led the way with this, last year becoming the first country in the world to offer e-residency to citizens, providing digital identities that give Estonians access to services such as healthcare, education, and online banking. It is essential others follow.

Build a strategic relationship with the US

While commercial and privacy tensions with the US may be recurrent, the EU and the US cannot afford to become contenders in the New Great Game. In so far as they have maintained the liberal international order through both the Bretton Woods institutions and NATO, the US and the EU are key allies and must work together to ensure a digital divide does not open between them, neither on industrial nor security issues.

The EU must be very cautious in the setting up of its Digital Single Market. As a strategy that seeks to create the regulatory and market conditions in which companies can innovate and drive growth, it could well serve to align the EU further with the US. Reforms would foster a flourishing transatlantic digital economy in which both EU and US businesses could prosper. However, overregulation or targeted discriminatory regulation towards US companies will damage transatlantic relations and could lead to an insular and defensive digital economy in Europe.

Consequently, for the European Union to build a strategic relationship with the US, it must also have a discussion with itself on how it wants to go about in the setting up of its Digital Single Market and its digital business. There exist different positions on this; shelter the EU market for certain services to aid in the establishment of the EU's own capabilities and business in this sector or open up the market through a shock therapy approach? Protectionist and liberalization positions are quite clear between individual EU member states, however, Europe as whole has not embarked on a clear discussion on how to establish and ensure the sustainability of its digital industry.

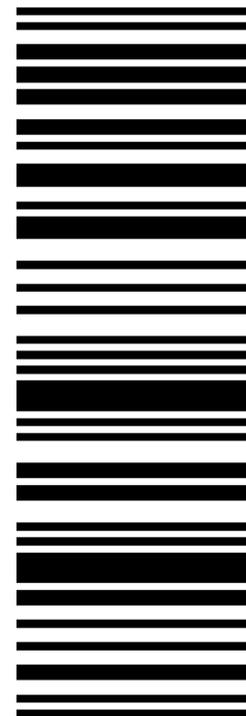
An ensuing potential Balkanization of the internet would not only render a

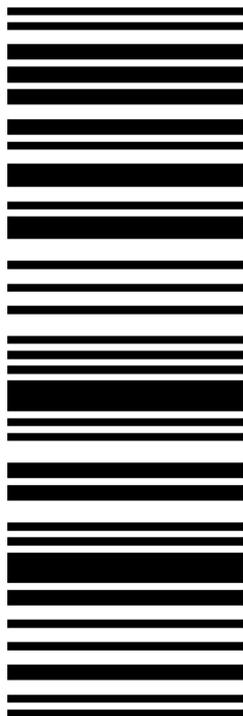
strategic relationship with the US impossible, but would also be in complete disagreement with the EU's vision of an open internet. Healthy competition must be fostered for a robust digital economy, and rhetoric must focus less on EU need to counter US technological might, and instead emphasise need to match it and find areas of potential cooperation.

Change the rules

Power has been redefined in the digital era and Europe is well poised to obtain it. As Moisés Naím observed in his recent book, *The End of Power*, 'in the 21st century, power is easier to get, harder to use – and easier to lose'. Recent developments, he argues, are undermining traditional sources of power, now vulnerable to attacks from smaller actors. The digital revolution has made it easier to achieve scale without mass as access to resources becomes more important than ownership of them. Ownership, in this new environment, provides uncertain and momentary advantage. This is particularly evident in cyber warfare, for example, where offence is easier and cheaper than defence. Geopolitically, this makes highly advanced countries more vulnerable to attacks from less developed states, particularly as the barriers to entry in cyberspace are very low. This redefines the very nature of power itself and the strategies that must be employed to maintain it.

It is likely that soft power elevates greatly in importance in this new era, with the ability to persuade and attract more significant than the ability to attack or control. This provides fertile ground for Europe to excel, traditionally strong in exercising and deploying influence via soft methods as opposed to harder methods of force and coercion. This does not signal the abandonment of hard power nor is soft power in this context merely





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traditional diplomacy. As UK House of Lords 2014 report, 'Power and Persuasion in the Modern World', explains, 'new and more subtle combinations of both hard and soft methods of power deployment are now necessary for national effectiveness and advancement on the global stage.' These combinations are 'smart power' and Europe is well poised to harness and implement it.

Digital power is now the underpinning of all soft power, both as an environment and a set of capacities, and so Europe's 'smart power' hinges on changing the rules of the game. It needs to develop its own vision of how it sees the internet developing, as a free, open and secure medium, one that supports post war European values based on democracy and human rights. It must stand for an open, multilateral, rule-based governance system, and fight attempts to nationalise, close or privatise the Internet. Europe is the embodiment of the concept of the open society and the internet must be used as a key tool for promoting European values across the world. A look at how China, Russia and other actors use the internet to promote their values and interests makes it palpably clear that the Internet is the place where the great ideological battles of our time will be won and lost: Europe cannot stay behind.

It is not 'The Great Game', but rather 'The New Great Game', only the problem is that the players are still playing by the former's rules. Europe, neither a state nor an integrated market, cannot hope to compete with 'Great Game' geopolitics nor geo-economics. What it can do is play by a whole new set of rules defined by a forward looking twenty first century vision far removed from the Anglo-Russian conflict of the nineteenth century.