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Atlantic Council Webinar: "Digital Sovereignty or a Separate Way Forward for Central and Eastern Europe?"

Webinar

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In our reflection on potential cooperation in the area of digital policy in Central and East European economies it is a legitimate ask whether there is anything specific in CEE that would require from them a specific approach to the digital future. Companies everywhere need a digital friendly environment, reduced administrative and regulatory burdens, supportive education and availability of skills, no barriers to cross border activities, and strong mobility measures. In the EU all that can be delivered through the single market. Uptaking digital tools and technologies will transform foundations of CEE economies, their security, and social cohesion.

For the CEECs digitalisation means global opportunity but also global challenge. Their digital world must not become an inhuman new brave world as Aldous Huxley used to say. This dimension of the digitalisation can be more effectively pursued within the EU environment.

The EU consists of 450 millions citizens, a huge bargaining power if wisely used. It has great regulatory, standard-setting capabilities. It also puts emphasis on issues of integrity of digitalisation in terms of privacy protection, ethical dimension. It can, if we are determined, create global demand for ethical behaviour.

CEEs can be an important driver in this action of an EU for global good. Of course one cannot ignore the fact that this is not a homogenous group on many accounts. Five out of eleven CEECs share the common European currency within the euro area.

In addition, two countries, Bulgaria and Croatia, have joined the ERM 2 and the Banking Union. And it does not take a Nobel prize winner to realise that sharing the same currency and related institutions makes states more like-minded in strategic thinking and in policy-making. So only Poland, Romania, Hungary, and the Czech Republic remain outside the one currency family. And it so happens that in this group of euro outsiders we see serious issues linked with lack of respect for rule of law. We see authoritarian, semi democratic political forces. We see also materialising risks of exploiting the digital tools to effect political control over society, combined with a tendency to emancipate themselves from the EU. It matters because digital transformation is also about the rule of law. It is about a democratic and open society. About values related to social inclusion. It is also about open markets.

The modern history of this part of Europe, the bond with US might make these societies more open to seeing the US as a EU strategic partner in digital change. They might be supportive of common digital regulatory alignment and space for joint standards.

Accession to the EU boosted their capacities to plug into European and global supply chains. They are visibly present there. They would therefore lose if a complete European digital single market fails to emerge. They would become victims of regulatory arbitrage. And it is in their interest that mainstream industries that benefit from their contribution to supply chains grasp the digital momentum and maintain their global competitiveness. This in particular matters in the context of Brexit. The CEEs companies could benefit if they upgrade skills of their work force if they upgrade their positions in the European and global value chains through more assertive participation in research and technology development. And if the German motor vehicle industry does not catch the digital momentum, make itself competitive in autonomous driving or in electric cars, then also Polish firms will lose their chance. So we are all in one boat.

These member states do not have global bargaining power on their own, hence there would be no reason for them not to engage in the creation of enhanced digital EU single market. The real challenge for them is to become a more visible, assertive partner in the development of European legislative framework, fine tuned to their specificities and allowing the whole EU to benefit from their digital growth and competitiveness.

Their comparative advantages can be, however, undermined if the risk I mentioned, the political abuse of digital tools, materialises. Exploiting the full potential of the digital change is crucial for the modernisation of the CEEs as is avoiding the mid-income economies trap.

The European single market is where these economies belong and should impact its digital shape. This will be a big transformation of the single market. This time around, the EU cannot spend decades on shaping it. There is no time for sequencing; all crucial digital elements should come together as quickly as possible. Digital technology is a general purpose technology, affecting basically everything.

In the CEEs there are fast growing firms moving to new business models. There are many success stories already today. There are many firms belonging to the fastest growing companies in EU. Many reach the unicorn status with a valuation above US\$1 billion. This model fits the reality of CEEs better than the model of state supported champions.

Those companies can spread their wings to capture advantages in several new areas. We already see their success in creative industries, animation in particular, games, internet of things. So the digital as driver already works in CEEs.

These economies have been depending passively for far too long on a low cost labour force, early stage technology and FDI, exploiting their traditional comparative advantages.

However they continue to be seriously undercapitalised. Foreign investment is not always future-oriented. There is huge digital gap between them and the more advanced European economies. For digital to be used as an opportunity to upgrade their entire economies, a European regulatory environment is key.

Aiming at global competitiveness, the CEEs' companies need the European single market as a trampoline. While intensifying their regional cooperation they cannot move on a track parallel to the single market. They cannot go for national options and discretions in rules and emancipate from the EU digital single market. They would become immediately dependent on the Chinese expansion in their markets. Europe is about the single market and digital is about the single market. An open approach to digital change is in their interest.

They have to be involved and promote openness to a joint transatlantic digital strategy. Their companies will lose if they have to operate in different regulatory spaces. They should also put pressure on their governments to respect the rule of law.

Authoritarian regimes can contaminate the digital environment with nefarious goals, control society à la Chinese. An example can be the Pegasus system in Poland.