

# REWRITING THE PLAYBOOK: REFORMS FOR THE DATA + GENERATIVE AI ECONOMY

Policy Brief  
Center for the Governance of Change  
July 2025

## EXECUTIVE SUMMARY

The data-driven economy revolution has entered a second phase, driven by generative AI and marked by intensified global competition to dominate the new general-purpose technologies that it enables and to capture the economic rents these technologies generate. The first phase—based on predictive AI and the rise of superstar platform firms—was largely missed by the European Union and small open economies, leaving them fiscally weaker and exposed to technological dependencies and strategic vulnerabilities. Furthermore, the weaponization

of data escalates national security risks, especially for open societies, whose democratic processes and social cohesion are increasingly threatened by information warfare. To improve economic outcomes and reclaim strategic autonomy in the data + generative AI economy, this policy brief puts forward a two-pillar reform agenda. **Grounded in Dan Ciuriak's paper *From Gatekeeper to Gameplayer: Reclaiming Europe's Strategic Relevance in the Data-Driven Age*, it outlines:**

### PILLAR #1



#### INTERNAL EUROPEAN REFORMS TO RECLAIM STRATEGIC RELEVANCE AND REDUCE DEPENDENCIES

- 1) Adopt a firm-centric industrial policy to secure a footing for Europe in the data + generative AI economy, with a focus on firms with the capacity to scale
- 2) Develop palliative responses to backwardness in the data + predictive AI economy by regaining sovereign control of the digital infrastructure, prioritizing the cloud
- 3) Reconceptualize the value of data as a strategic asset

### PILLAR #2



#### REFORMS TO MULTILATERAL INSTITUTIONS TO SHAPE A FUTURE-PROOF GLOBAL ORDER

- 1) Safeguard and reinforce the technical institutional acquis for a full post-conflict reboot
- 2) Work towards identifying a viable "landing zone" for the new digital economy that includes a modus vivendi for the US-China dyad and provides for a fair sharing of participation in, and capture of benefits from, this new economy.

# BACKGROUND:

## STRUCTURAL DISADVANTAGES IN THE DATA + GENERATIVE AI ECONOMY

Throughout history, major revisions of the international order have been driven by the emergence of new productive assets that redistribute power both within and among nations: land in agrarian societies, the machinery of mass production during the industrial revolution, and intellectual property and human capital in the knowledge economy. Data, as a new factor of production, has played such a role.

In what amounts to an eyeblink in the life of nations, the transition to a data-driven economy has eroded the foundations on which Europe's postwar economic prosperity and influence was built – investment in human capital, traditional intellectual property, and regulatory leadership/the Brussels Effect. These tools – while still valuable – did not enable Europe to meaningfully capture value in the new data-driven economy:

- While Europe dominated a key node in the key hardware value chain for the data-driven economy – lithography through ASML – its global market share in the mass production of chips and ICT equipment shrank.
- While European cloud service providers grew their cloud revenues at double-digit rates, their share of the European cloud market has declined precipitously (from 27% in 2017 to 13% in 2022), leaving the two largest European cloud providers with only 2% each of the European market. In business terms, this is close to extinction.
- As regards business framework policies, the failure to adapt the frameworks developed for the pre-digital age meant that Europe acquiesced in the tax-free, royalty-free exfiltration of the most valuable asset of the age – data.
- In an age that enabled firms to scale at the global level – and indeed demanded that firms scale to capture value from data – European firms famously failed to scale.

**Without homegrown technology champions and a sovereign data infrastructure, Europe will remain dependent on foreign digital infrastructure, capital, and hyperscaler platforms** – especially from China and the United States – which will be positioned to continue to capture Europe's data rents tax-free and royalty-free. This external dependency will not only limit Europe's growth and ability to fund the social frameworks that will likely be needed to cope with the age of machine knowledge capital, but also will compromise Europe's strategic autonomy and essential security interests.

**To address these challenges, Europe needs a new policy playbook.** This will have to be developed from the ground up through a fundamental rethinking of policy design fit for the conditions of the age of data and generative/agent AI, reassessing what is economically valuable today, understanding what is technically essential and recognizing new geopolitical power dynamics.

**To start with, the economic objective must be refocused on the central battleground of the data-driven economy: the capture of data and AI rents.** Strikingly, this term does not even appear in the European Commission's *Digital Decade* strategy. Yet, it is precisely these rents that determine who benefits from the digital economy. Accordingly, economic policy must shift its focus to where these rents are actually captured: by firms that operate at scale and control the digital infrastructure – namely, the cloud.

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As the Draghi report highlighted, the **first** – and arguably existential – policy priority must be to dismantle the barriers that prevent EU technology firms from scaling. Scale is what enables firms to capture and exploit data at volumes that generate real economic value. Without it, even the most promising technological breakthroughs remain trapped in fragmented markets or absorbed into dominant foreign ecosystems.

**Second**, as underlined in the Eurostack report, the European cloud services sector is facing a systemic collapse – an extinction event – that must be reversed both for economic and national security reasons. While mobilizing investment is necessary, is not sufficient. The EU already poured substantial resources into datafication – the capture and curation of data assets – throughout the first phase of the data-driven economy in the 2010s. However, this effort appears to have yielded modest, and possibly even negative, returns. The new policy playbook must navigate this complex terrain, recognizing that past investments did not translate into lasting strategic capabilities.

**In the previous phase, the lion's share of the value from data was captured by a small group of “superstar” firms headquartered in just two countries: the United States and China.** These data-rich hyperscalers maintained virtual presence across Europe but minimal physical infrastructure, allowing them to exploit outdated tax regimes based on “permanent establishment.” This eroded Europe’s ability to tax the digital economy and weakened the fiscal capacity of small open economies. Attempts to introduce digital services taxes — aimed at recapturing some of these data rents — triggered retaliatory threats, particularly from the United States, fueling tensions between allied nations and revealing Europe’s structural vulnerability.

**Now, the transition from the “data + predictive AI” era to one defined by “data + generative AI” introduces an entirely new layer of geopolitical and economic complexity.** This new phase centers on machine knowledge capital — AI systems that can displace skilled human labor, but which require enormous computational power and capital investment to build and operate. In this landscape, population-small but energy-rich countries like Saudi Arabia and the UAE have emerged as unexpected power players. Meanwhile, the European Union — rich in human capital but poor in energy and committed to decarbonization — finds itself structurally disadvantaged.

**Finally, the dual-use nature of data and AI overlays national security considerations on the economic rivalry issues.** Data’s ability to act as a force multiplier in information warfare, to compromise privacy, and to shape public opinion gives it the characteristics of both weapon and infrastructure. In this environment, open societies like the EU are not just economically exposed — they are geopolitically transparent and increasingly vulnerable to hostile actors with superior data exploitation capabilities.





# TOWARDS SOLUTIONS: STRENGTHENING PARTNERSHIPS AND INTERNAL CAPABILITIES

What steps can small open economies take to reduce their vulnerabilities and improve their economic outcomes in the data + generative AI economy? The recommendations that emerge from this review are structured around two interrelated pillars of action:

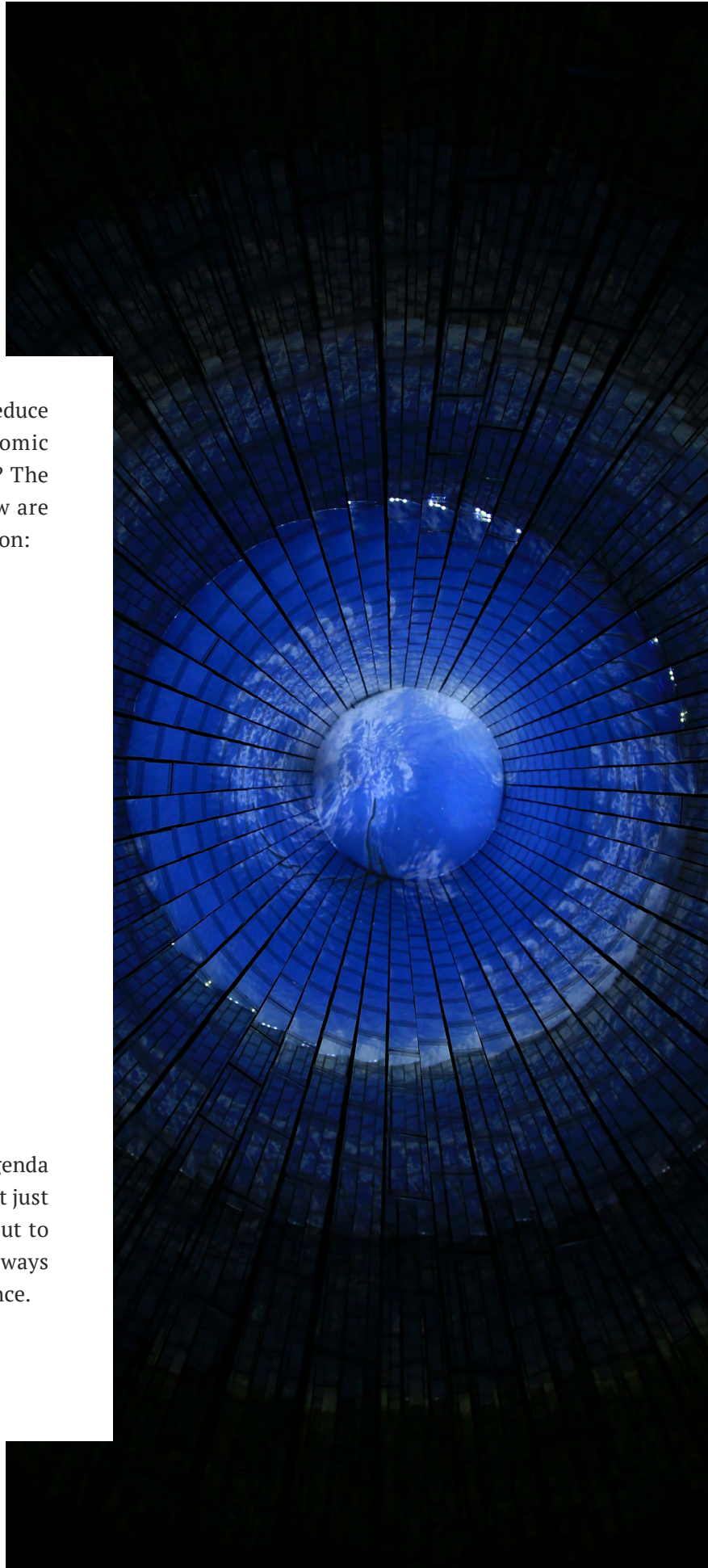


**PILLAR #1:**  
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**PILLAR #2:**  
**REFORMS TO MULTILATERAL  
INSTITUTIONS TO SHAPE  
A FUTURE-PROOF  
GLOBAL ORDER**

Together, these two pillars outline a proactive agenda for small open economies—especially the EU—not just to adapt to the data + generative AI economy, but to help shape its structure, norms, and outcomes in ways that reinforce democracy, prosperity, and resilience.





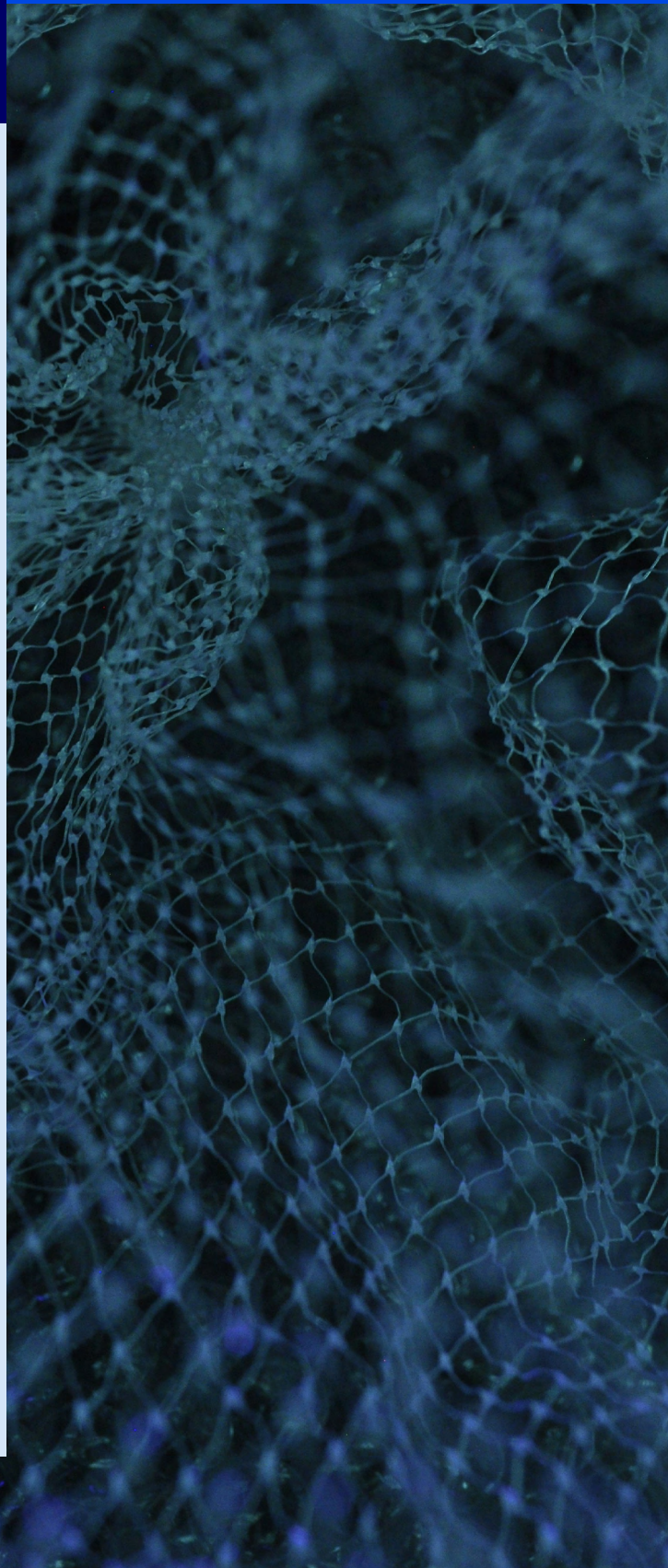
# PILLAR #1

## INTERNAL EUROPEAN REFORMS TO RECLAIM STRATEGIC RELEVANCE AND REDUCE DEPENDENCIES

### #1 Support domestic firms in the data and generative AI economy with the capacity to scale

Recognizing that the locus of societal capabilities is the firm, the EU should adopt a firm-centric industrial policy to secure its position in the data + generative AI economy, with a focus on firms with the capacity to scale. Public policy should shift from fragmented support for innovation inputs to targeted interventions that enable the emergence of European industrial champions/superstars in AI by:

- ✓ **Refocusing industrial and digital strategies on scaling firms** by shifting performance metrics from inputs (e.g., support for research or infrastructure funding) to scaling outcomes, such as numbers of firms meeting high-growth criteria. The tracking of unicorns in the European Commission's *State of the Digital Decade report* is a start.
- ✓ **Supporting the creation of AI consortia, joint ventures, and strategic mergers** among Europe's fragmented industrial AI start-up ecosystem through regulatory reforms (e.g., competition policy flexibility for strategic sectors, a refocus of the EU FDI regulation on the economic impact of M&A activity on the European population of AI firms) to prevent the absorption of EU generated rents generated by foreign platforms.
- ✓ **De-risking private investments** by signaling clear national and EU-level priorities through large, visible public sector investment commitments (e.g., InvestAI's €200B fund is a step in this direction) in strategic sectors to reduce scaling bottlenecks







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### #2 Develop palliative responses to backwardness in the data and predictive AI economy

As Europe positions itself in the emerging data + generative AI economy, it must also address legacy vulnerabilities created during the previous phase, which left it dependent on foreign digital infrastructure and software ecosystems by:

- ✓ **Prioritizing the reversal of the decline in Europe's share of its domestic cloud market** to increase Europe's capture of its data and AI rents, attenuate its growing strategic vulnerability, and pre-emptively reduce the frictions from attempts to claw back data and AI rents through taxation of foreign platforms. This can be jump-started through increased public procurement of EU-based software and cloud services, justified on essential security grounds to create demand-side pull for domestic alternatives.
- ✓ **Advancing initiatives like DNS4EU** to strengthen capabilities within other layers of the digital stack, aligning with the advocacy of the EuroStack initiative.
- ✓ **Framing these efforts around cybersecurity, rent capture, and strategic autonomy** — not protectionism — to avoid the geopolitical friction created by digital services taxes and competition policy penalties.

### #3 Reconceptualize the value of data as a strategic asset

To capture the full value of data and enable a competitive, scalable innovation ecosystem, the EU must rethink both its economic and governance approach to data by:

- ✓ **Shifting data valuation frameworks used by national statistical authorities and tax systems** from cost-based methods (i.e., cost of datafication) to value-based approaches that reflect the economic rents data enables once embedded in AI models, platforms, or analytics to prevent misguided policy.
- ✓ **Building a secure, industrial-scale European and allied data-sharing space** to reach the scale that is essential to effectiveness and the generation of economic rents. Leverage the GDPR's adequacy framework to extend the data-sharing zone to trusted partners — such as Canada — with aligned governance standards.
- ✓ **Establishing clearly defined regulatory sandboxes for high-impact, high-reward AI applications**, acknowledging that risk and reward are inseparable, and enabling experimentation with use-cases like autonomous vehicles that support value capture through deployment.



## PILLAR #2

### REFORMS TO MULTILATERAL INSTITUTIONS TO SHAPE A FUTURE-PROOF GLOBAL ORDER

#### #1 Safeguard and reinforce the technical institutional *acquis* for a full post-conflict reboot

In an era marked by intensifying geopolitical competition and institutional erosion, the EU must act decisively to preserve the integrity of global technical institutions and prepare the ground for a functional reboot of international order by:

- ✓ **Mobilizing coalitions of small open economies to defend the neutrality and continuity of global technical institutions**—such as IEEE, ITU, and ICANN – which are essential for the long-term viability of the digital economy.
- ✓ **Continuing to respond to geopolitical trade disruptions and unilateralism by the leading powers using WTO-legal instruments** (e.g., situation complaints, Article XXVIII renegotiation of tariff commitments) and other multilateral mechanisms, rather than unilateral retaliation.
- ✓ **Collaborating with groups of small open economies such as the Ottawa Group to advance 21st-century trade reforms** that reflect the realities of AI, data and platform economies – drawing on work from the OECD (“Going Digital”), the WTO (“Trading with Intelligence”), and the broader epistemic community.

#### #2 Work towards identifying a stable “landing zone” for the post-Pax Americana digital economy

Recognizing that political institutions are creatures of their age and that the current global system no longer reflects technological and geopolitical realities, the EU should lead efforts to lay the conceptual and diplomatic groundwork for a rebalanced international order by:

- ✓ **Launching a Track 2 process to articulate interim cooperative frameworks**—such as an *Interim Solution on Tariffs and Trade (ISST)* and an *Interim Solution on Money and Exchange (ISMX)* that offer the basis for short-term governance while establishing the intellectual foundations for a new political architecture into which both the United States and China could conceivably buy into, while also seeing to the interests of the small open economies.
- ✓ **Convening a multilateral dialogue to define a shared “landing zone” for the digital economy.** This would involve an inclusive, forward-looking conference, modeled on the 1933 London Conference organized under the auspices of the League of Nations, focused on addressing today’s equivalent systemic breakdown: the lack of consensus on trade and bilateral trade imbalances, exchange rates and payments systems, and the governance of the digital economy – including data and AI rent-sharing and trade in connected devices.

**This policy brief was produced within the framework of the Center for the Governance of Change's research program *The Digital Revolution and the New Social Contract*, and in particular its third work package, which studies the geopolitics of the digital era, and how the technological race is changing the power relations between states and between states and companies.**

It is based on the third policy paper of the package:  
Dan Ciurak, *From Gatekeeper to Gameplayer: Reclaiming Europe's Strategic Relevance in the Data-Driven Age*.  
IE CGC, June 2025

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Design: epoqstudio.com



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