



# Evaluating Estonian E-residency as a tool of soft power

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## Abstract

Estonia, a country well known for its digital savviness, introduced e-residency in 2014. The initiative, which allows foreign nationals to access the public and private services of Estonia with the use of a digital ID, is a positive example of how small states can build soft power. I argue that e-residency has attracted freelancers and entrepreneurs from around the world to state-projected values and beliefs, creating a network of individuals that admire and identify with Estonia. I also discuss how the concept and implementation of e-residency can undermine or boost a country's influence.

**Keywords** E-residency · Estonia · Soft power · Nation branding · E-governance · Digital services · Small states

## Introduction and motivation for research

This paper seeks to scrutinize the impact of Estonia's e-residency program on the country's soft power and to explore how the e-residency program may serve as a constructive model for other small states with constrained resources. Given that policymakers continue to praise e-residency as a success for Estonia in state propaganda, it is important to understand what the program has achieved in practice. Existing literature on e-residency has dissected the state-level motivations for the initiative, with few scholars writing about the real-time opinions of the e-residents themselves. Using data collected from an online survey of 177 e-residents, as well as qualitative analysis gathered through 25 in-depth, semi-structured interviews with e-residents, policymakers, and entrepreneurs, I assess whether the experiences of e-residents validate the narrative put forward by the Estonian government.

Since the December 2018 release of "E-residency 2.0," a white paper outlining 49 recommendations for revamping the initiative, the Estonian government has been open about their intentions to capitalize on the soft power potential of e-residency. The release of the 2.0 white paper, a signal that Enterprise Estonia is eager to repurpose the dynamic and flexible program, makes this investigation timely and

appropriate. Additionally, considering how the Estonian e-residency office has popularized e-residency and actively encouraged similar models like the one launched in Azerbaijan in 2018,<sup>1</sup> it is essential to ask whether the foundational ideas underpinning e-residency 2.0 are realistic. The research presented in this article verifies that e-residency has increased the soft power of Estonia by attracting foreign nationals to the values and ideals projected by the program but has fallen short in achieving some of the desired national security benefits espoused by the Estonian government.

The paper begins by contextualizing the rise of e-residency, a product of e-Estonia, and explaining the specifics of how the program functions. In "[The benefits of e-residency: Financial impact and soft power projection](#)" section, the paper continues by addressing why many in the Estonian government and research community consider e-residency a success, from the financial effects to the impact on the country's soft power, before outlining how the Estonian government hopes to use e-residency to ensure greater security. Then, in "[Results: The perspective of e-residents and the soft power of e-residency](#)" section, I discuss the results of the survey and interviews of e-residents, and how the e-resident perspective confirms the soft power value of the program. "[E-residency as a model for other small states: Benefits and](#)

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<sup>1</sup> Azerbaijan officially launched both e-residency (electronic residency) and m-residency (mobile residency) on October 24, 2018, when the Ministry of Transport, Communications and High Technologies presented the first Azerbaijani e-residency card to the Head of the EU Delegation, Kestutis Jankauskas. The Azerbaijan e-residency program relies on a government-issued electronic identity and is run by the Digital Trade Hub of Azerbaijan.



risks” section deliberates how e-residency serves as a model for other small states, while also acknowledging the limitations of the program. The section details the hypothetical faults of the initiative and real challenges surfaced during the course of the program.

## Contextualizing e-residency: The history of “E-Estonia”?

For Estonia, a small Baltic state of 1.3 million people, digitalization has been central to the growth strategy of the country. According to the website *e-estonia.com*, Estonia made the strategic choice in 1997 to actively “improve the competitiveness of the state and increase the well-being of its people” with e-solutions. As Estonia rebuilt itself after the fall of the Soviet Union, the country invested heavily in information communication technology and data infrastructure (Kattel and Mergel 2018), laying the groundwork for the beginnings of a digital state. The government eventually introduced a state-controlled distributed data exchange platform called X-Road that connects the e-service databases of the public and private sector (Kalja 2002; Hoe 2017). For the greater part of the early 2000s, Estonia strove for e-readiness, typically defined as the positioning of a society to utilize the opportunities provided by information and communication technologies (Alaaraj and Ibrahim 2014). Soon enough, Estonia demonstrated levels of e-readiness comparable to those of Norway and other Nordic countries (Infinedo and Davidrajuh 2005). For instance, the country boasts advanced e-notary and e-procurement solutions that allow citizens to notarize documents electronically and requisition goods and services over the internet (Kalja et al. 2011), opportunities that were not available to citizens of many other Western nations until recently.

While building their modernized e-governance system, the Estonian government spent considerable resources and time nurturing the perception of the country abroad as a digital nation. *Wired* labeled Estonia as “the most advanced digital society in the world,” a designation that the government has embraced and promoted. The *Wired* quote is prominently displayed on several government websites like *e-estonia.com*, and the President of Estonia often talks about the country’s technological achievements in her public statements.<sup>2</sup> Estonia made effective e-governance a central part of its agenda when the country presided over the European Council in 2017, clearly outlining their priorities for neighbors to see, and digitalization of governance has been converted into one of the key areas of Estonia’s foreign-development assistance (Jermalavičius 2018). In the midst of

long-term efforts to highlight the efficiency and effectiveness of its government services, Estonia introduced e-residency, a program designed specifically for the attention of the international community.

E-residency, along with the data embassy initiative,<sup>3</sup> is often characterized as the inaugural innovation of the third wave of e-governance in Estonia (W. Drechsler, personal communication, April 30, 2019), which follows earlier modifications like online tax filing and internet voting. Upon application and approval by Estonia’s Police and Border Control Agency, foreign nationals receive a digital ID, similar to the one used by Estonian nationals, that allows them to access select Estonian public and private services. However, the digital ID does not work like a passport; it is not valid for travel and does not endow visa status or physical residency. Instead, e-residency acts like a supplement to “classical nation-state citizenship” (Drechsler 2018, p. 11).

Estonia issued the first e-residency digital ID to British journalist Edward Lucas in December of 2014. By the start of 2019, the initiative had attracted over 50,000 e-residents from around 157 countries, forging an extensive network of non-citizens connected to and affiliated with Estonia. The e-residency program is run by an office inside of Enterprise Estonia, an agency established in 2000 to promote business and entrepreneurship in Estonia by providing financial assistance, counseling, research, and training. As a result, e-residency was specifically geared towards freelancers that might want to take advantage of the relatively efficient business benefits and services in Estonia. E-residents can, for instance, create and register businesses in Estonia online in three hours, while they can also open European bank accounts and access the European single market (Kotka et al. 2016). With no physical presence in Estonia, e-residents can conduct business worldwide as if they lived in Estonia, setting a unparalleled precedent for how individuals and organizations interact across borders.

## The benefits of e-residency: Financial impact and soft power projection

The early economic success of the e-residency program, detailed below, inspired the Estonian government to expand the intention of and rationale behind e-residency in the 2.0 white paper. E-residency, according to the Estonian government, also increases Estonian soft power and promises greater security to the country.

<sup>2</sup> The online archives of the President’s speeches in English can be found at <https://hoiameeestit.president.ee/>.

<sup>3</sup> Estonia opened the first “data embassy” in 2017 in Luxembourg, an out-of-country data storage center that serves to guarantee the digital continuity of the state if Estonian territory is ever threatened by climate change, invasion, occupation, or other external threats.



## Increased tax revenue and flourishing new businesses

Since 2014, e-residency has been a source of investment, tourism, private services fees, employment, and taxation for the Estonian people. Since many e-residents file corporate taxes in Estonia and do business with Estonian natives, independent analyses have espoused the financial impact of the program on Estonia. Consulting firm Deloitte, for example, estimated that e-residency brought Estonia 14.4 million euros in income, including 1.4 million euros in net income and 13 million euros in net indirect socio-economic benefits, by the beginning of 2017 (Cavegn 2017). The economic impact of e-residency on Estonia, a very small country with a GDP of about 25,627 million euros, has not been large, but it has still been significant.

According to the former director of e-residency, Kaspar Korjus, Estonia has also seen the establishment of over 6000 new companies by e-residents in four years. To put that in proportion, in the year 2017, according to news site ERR, a total of 21,947 companies were started in Estonia by Estonian nationals and e-residents alike. In addition to each paying the application fee of 100 euros, the burgeoning e-resident community has also generated revenue for Estonian consulting and financial tech companies, such as Xolo and Transferwise.<sup>4</sup> Although the moderate influence of e-residency on the Estonian economy deserves some recognition, arguably more important is how e-residency has contributed to and expanded upon Estonia's robust history of nation branding.

## The rise of Estonian nation branding and the role of e-residency

In the vacuum left by the departure of the Soviet Union from the international scene, many post-Soviet states, including Estonia, recognized the opportunity to “redefine and reposition themselves” (Jansen 2008). Estonia was the first former Soviet Republic to launch a nation branding campaign (Jordan 2014), setting the stage for the several marketing and publicity campaigns that followed. Many of the early campaigns to rebrand Estonia in the West were heralded as fruitful, from the decision to renovate Tallinn Airport to hosting the Eurovision Song Contest in 2002 (Saunders 2016; Jordan 2011, 2014). From 2007 to 2015, Estonia ran an extensive tourism strategy that relied on unofficial or nonstate actors like Enterprise Estonia to attract people to the little-known

country (Pawłusz and Polese 2017). Most recently, Estonia has fixated on and extensively nurtured the image of the country as a digital nation. Estonia's e-governance, from the wide uptake of electronic IDs to the digital administration of services, has been labeled by some scholars as a clear success story (Anthes 2015; Gat 2018) and as “the country's competitive advantage” (Kimmo et al. 2018).

According to government officials, the introduction of e-residency in 2014 fit perfectly into this history of nation branding. E-residency co-founder Taavi Kotka called e-residency, “The most influential and positive [branding] campaign for Estonia” (personal communication, December 12, 2018), while Jane Ester, from the Tallinn-based think tank Praxis, thinks of e-residency as part of “trying to find a good brand for Estonia, and how to sell it abroad” (personal communication, January 15, 2019). The initiative supposedly builds on Estonia's soft power, defined by Nye and Joseph (2004) as the ability to attract and persuade with values, culture, and ideals rather than coerce using military or economic might. E-residency co-founder Ruth Annus believes the initiative radiates political values of inclusivity and democratic global mindedness, adding to the soft power of Estonia:

I think the [e-residency] model can be used for empowerment and for decreasing poverty. It can be partly a solution to humanitarian issues. When you take migration policy and migration trends, people usually don't want to leave their state of origin, but they feel the only way to keep themselves alive is to move, so it's absolutely crucial to empower the states of origin so that people wouldn't have to move (personal communication, January 22, 2019).

Many researchers also agree that e-residency has already proven worthwhile as a soft power tool. Positive commendation from world leaders, such as Shinzo Abe of Japan and Angela Merkel of Germany, has boosted international awareness about e-residency and Estonia overall (Kimmo et al. 2018). E-residency proves the exportability of Estonia's digital solutions (Tammppuu and Masso 2018), and it plays into the aggressive promotion of Estonia as a digital nation. E-residency also builds on Estonia's soft power by encouraging values-based empowerment of citizens and advertising the guaranteed security and integrity of personal data (Hardy 2020). Through digital identity and business, e-residency links willing foreign nationals to the country of Estonia, creating an interconnectedness that fosters soft power.

The promise of soft power has even led the government to chart out how to capitalize on e-residency for national security purposes. The publication “E-residency 2.0,” in a section titled “Soft Power and Security,” explains:

<sup>4</sup> Xolo (formerly known as LeapIn) is a service provider that helps e-residents navigate regulations and accounting. Transferwise is an online money transfer platform based in London but founded by Estonians.



The ideas behind e-Residency are thus compatible with the fundamental principles of Estonian security policy, which emphasizes that close international relations and global awareness are essential to advancing national security. For Estonia, it is important to form alliances with other countries in the world and relations with their citizens, ensuring more people have an interest in Estonia's future. Through strong business and cultural ties, Estonia's importance in the world will grow. By the same means, the deterrent effect on potential aggressors and national security will also increase.

The 2.0 white paper shows that Estonia sees global consciousness, attention from the West, and positive reputation management as essential for providing security; a world that recognizes the unique contributions of Estonia may be more incentivized to guarantee their territorial integrity. The e-residency office seeks to build a network of friends that are affiliated with, tied to, and invested in Estonia. Adam Rang, the former Chief Evangelist for the program, claims "E-residency 2.0 is like we got a mandate to 'Estonianize' the program and bring e-residents more in touch with Estonia...it is an opportunity for Estonians to use this network of friends of Estonia around the world" (personal communication, February 19, 2019). Dr. Katrin Nyman-Metcalf, Programme Director at the e-Governance Academy, explains how the lack of any real action by the rest of the world during the Soviet occupation influenced the psychology behind Estonian nation branding and policymaking today:

In the rest of the world, there was no real interest, and hopefully this kind-of situation will never be repeated again. But Estonia still needs to be difficult to ignore. Maybe there is something subconscious in the Estonian psyche, where we know we are currently too small militarily and economically. We need to defend ourselves, and one of the ways to do it is to make it, in many people's minds, too difficult to forget about us. (Personal communication, November 19, 2018).

So far, I've shown that policy documents and policy advisors see the e-residency program as an effective soft power tool. However, given the ambitious and expansive motivations outlined in the 2.0 white paper, it is essential to understand whether or not e-residents do, in fact, respond to Estonia. Five years after the program was introduced, how do the experiences of e-residents reflect on e-residency as a soft power tool? In the Section IV, which follows, I discuss the results of the interviews and the survey of 177 e-residents, which was distributed through email and Facebook. In the survey, e-residents were asked to respond to 26 multiple-choice questions that assessed if and how e-residency has changed their image of and engagement with Estonia. While

the interviews revealed individual motivations at a detailed level, the survey provided generalized insight into whether e-residency can be effective at a global scale.

## Results: The perspective of e-residents and the soft power of e-residency

First and foremost, the in-depth interviews and survey responses show that e-residency has greatly improved the awareness about and perception of Estonia by e-residents. When asked how they would rank their feelings towards the country of Estonia prior to applying, 38% of respondents to the survey, the largest proportion, noted that they had "neutral" feelings towards Estonia. However, after deciding to apply and obtaining e-residency, 69% of respondents noted that they had very positive feelings towards Estonia. One e-resident admitted that, "My image [of Estonia] now is very positive. I have to confess that prior to looking at e-residency, I would have had difficulty pointing to Estonia on the map" (personal communication, December 14, 2018).

More specifically, the data highlighted three main themes that show how e-residents buy into the values and ideals represented by e-residency. I group and characterize the three themes as: faith in Estonia's vision for the digital future, identifying with the global nature of e-residency, and esteem for the particular paradigm of governance embodied by e-residency. After describing the three themes in Sections A, B, and C, the paper reviews how the e-resident responses reflect on the government assertion that e-residency will fortify Estonian national security by building a network of friends.

### Faith in Estonia's vision for the digital future

The soft power of the e-residency initiative is rooted in its symbolism, in how it represents and projects Estonian values, policies, and culture to draw foreign audiences to the country. Estonia stood out to e-residents for how it appeared to implement and offer e-solutions that promised a secure, efficient, and transparent digital future.

According to one e-resident, "Before I heard about e-residency, I knew nothing about Estonia. I knew of the country, but I didn't really know where it was on the map or what they did, or anything about it. Through e-residency, I started reading about Estonia and I learned they have a really nice infrastructure, like for digital infrastructure..." (personal communication, December 13, 2018). During interviews, the e-residents commonly drew a quick association between Estonia and digital infrastructure, a signal that the nation branding surrounding e-Estonia has been persuasive. Another e-resident expressed how it stuck with her that the e-residency process was extremely



simple and easy, especially compared to her original plan of establishing a Spanish limited company for her consulting business (personal communication, December 14, 2018). In the online survey of 177 e-residents, 52.53% of respondents recorded that their experience with e-residency was very positive, while only 5.06% of respondents said that their experience with e-residency was either very negative or slightly negative. The positive experience of the e-residents suggests that Estonia has built a constructive and productive initiative that adds to the reputation of the country.

“So, that’s what drove me to become an e-resident of Estonia, really just as an advocate for digital security and for the things like electronic signatures. I wanted to see what a future-looking country was able to offer,” explained one e-resident when asked why their decided to apply for e-residency (personal communication, April 24, 2019). For some, e-residency is illustrative of Estonia’s paper-free, environment-friendly attitudes, while others understand e-residency as a testament to Estonia’s commitment to data privacy. According to e-residents, running a business, encrypting and sharing files, and carrying out financial transactions with Estonia is quick, easy, and affordable. As a result, many e-residents shared both an admiration for how Estonia uniquely supports entrepreneurs and a positive image of Estonia as straightforward, reputable, and accountable, which may be considered exceptional in a post-Soviet region often plagued by corruption.

“Most country systems don’t have infrastructure in place for these kinds of workers, for this kind of self-employment, but in Estonia, there is the possibility to open a company there in a quick and easy way. That is really well-suited to my lifestyle,” remarked one e-resident when describing why he admires Estonian digital services (personal communication, April 23, 2019). The uniqueness of e-residency, and its ability to provide a formerly unmet need and previously unavailable opportunity for foreign entrepreneurs or digital freelancers, supplements Estonia’s self-constructed narrative of digital governance. Estonia stood out to one e-resident as setting the precedent on preventing digital crime and money laundering:

Of course, because it is a new type of thing, there will always be bad actors and fraudsters that will try to manipulate it and game the system to gain some type of tax advantage or way to evade anti-money laundering restrictions, but I think that the whole program is really designed to try to avoid those things: the fact that you are able to digitally identify yourself online, this is coming from a trusted certificate authority operated by the state of Estonia. I think that, ultimately, all of these things will help to reduce that and, later, as they’re more widely

adopted, will become the normal standards expected by all citizens around the world. (Personal communication, April 25, 2019).

### **E-residents identify with the global nature of e-residency**

E-residency is geared towards “digital nomads,” or individuals that hope to operate businesses without being tied down to one country or another. As a result, e-residency is seen by e-residents as an internationally available opportunity, as an attempt by Estonia to break down traditional borders and barriers. One e-resident, when questioned about the biggest advantages of e-residency in their opinion, explained “I think it’s very noteworthy that, as the program has grown and evolved, that it’s becoming more and more accessible to people around the world.”

The initiative is especially desirable for citizens of the United Kingdom, who feel cut off from the continent by Brexit. According to one e-resident, “[E-residency] was not just a practical thing, even though it enabled me to set up a bank account quite easily in Estonia, but there was also an emotional reason in that I wanted to have closer links with the country. That’s partly because I feel very upset with what’s happening in England at the moment with Brexit and I do feel European and, in a way, [e-residency] is enabling me to feel more European” (personal communication, April 25, 2019). For some, e-residency projects a symbolic power that allows e-residents to embrace global citizenship.

For those e-residents that operate a company using Estonian digital services, 39% of respondents to the survey indicated that it would not be possible to conduct their business without e-residency. The survey reveals that e-residency makes business possible for several individuals around the world that previously had no access to infrastructure or support, while it also implies that many respondents are fiscally invested in Estonia and dependent on Estonian e-services.

### **E-resident esteem for the e-residency paradigm of governance**

E-residency, unlike other Estonian e-services or initiatives, is available to non-nationals and non-residents of the country. States can altruistically provide (or selfishly benefit from providing) non-citizens with governmental services. The program represents a new extension of e-Estonia that shifts how countries can think about public services; no longer is the government mandate to serve solely its citizens and no one else. E-residency is the epitome of a cloud community, a form of non-territorial political membership, and “resembles a business model where states are service providers and ‘citizens’ are billed for the service” (Orgad 2018, p. 259).



E-residency relies on an expansive conceptualization of what constitutes a traditional state customer.

Therefore, e-residency puts forward a new paradigm on governance that helps the country breed symbolic power, a starting point for further attracting foreign nationals to Estonia. One e-resident admired what they labeled the “altruism” of the e-residency office and the Estonian government more generally:

Obviously, [Estonia] likes to benefit from whatever they do, but there’s also this equally altruistic aspect to almost everything that is done on a large scale here. So, even the idea of e-residency, I mean down to the way that they format the capitalization of their names, so that e-residency can someday be a standard term used by governments around the world. E-residency should be a new model for a future trend of governments competing for citizenry and for talent and for cooperation; [Estonia] will compete for the best talent to do right by your economy regardless of location, ethnicity, or native-born nationality (personal communication, January 26, 2019).

The interviews confirmed that e-residents see Estonia as “charitable,” for how it shares the country’s technical competitive advantage with others. In that way, e-residency has generated normative appeal for Estonia. Regardless of whether or not the Estonian public and the current Estonian government actually believe in a digital future, or borderless post-nationalism, or any of the other values projected by e-residency, what matters is that e-residents ascribe those traits to the country. The true soft power potential of e-residency is that it creates an Estonian identity that may or may not be authentic (a subject outside of the scope of this paper), but which attracts e-residents to an image of the country.

### **Forming a “circle of friends”: Can e-residency support Estonian national security?**

E-residency has prompted e-residents to seek greater cultural ties to their new digital host country. The blossoming relationship with Estonia played out in interviews, when e-residents discussed reading about the country’s history, enjoying the literature, wanting to travel to the country, and encouraging others to visit. For instance, one e-resident said, “Since I started to think about being an e-resident and opening a business, I definitely have spent more time learning about the culture, history, and the politics of the country” (personal communication, January 23, 2019).

The e-residents have converted into a significant and influential internet community, complete with Facebook debates about policies, online lobbying of private companies and banks, and growing touristic and personal relationships

with the “host” country. According to one e-resident, “I consider Estonia part of my identity; e-residency is a mechanism to facilitate my interaction with that identity and to promote that identity” (personal communication, January 26, 2019). Although many e-residents considered e-residency part of their identity, no other respondents went on to claim that that made Estonia part of their identity, as well. No e-residents made proactive mention of a need or desire to “defend” Estonia, protect Estonia against “aggressors,” or to serve as an “ally.” There was a noticeable lack of language and data to support the e-residency 2.0 white paper claim that the admiration and respect generated by e-residency would lead to a deeper alliance—by the defense industry definition of the word—with other countries and their populations. It is also important to note that, at the end of 2019, the total number of e-residents was around 50,000 individuals, a relatively small audience. This begs the question of how effective e-residency can be in swaying the populations of entire countries when it is only known to or used by a small subset of people. This paper does not go so far as to definitively say that e-residency could not lend itself well to national security strategy in the future, but the research collected on e-residents so far does confirm that e-residents do not currently see themselves playing the national security role envisioned by the 2.0 white paper.

### **E-residency as a model for other small states: Benefits and risks**

The symbolic and normative appeal of e-residency has generated soft power for the country and established a model for other small states that might seek to attract members of the international community to their figurative doorstep. E-residency highlights an underappreciated market of entrepreneurs or nomadic business people willing to invest in more robust and reliable digital infrastructure; the case study suggests that some members of the international community do not want to rely solely on national citizenship as their defining identity, and that citizenship may be an outdated label or product for countries to offer individuals. Soft power initiatives do not need to be directed at a diverse population but can be equally as effective when geared towards small subsets of the international community.

Compared to expensive nation branding campaigns or public diplomacy initiatives, e-residency is an arguably cheaper and more cost-effective means of generating soft power. E-residency is an exemplar of co-creation, or the phenomenon in which the consumers of the product are the same ones building and disseminating the brand identity. 62% of survey respondents communicate with their friends, family, or colleagues about their e-residency at least once a month, over such channels as social media and telephone, acting as



multipliers for spreading the word about e-residency and Estonia. Roaming entrepreneurs, or “digital nomads,” seem to be an especially useful means of communicating a country’s agenda since they have far-reaching, global networks. A majority of the e-residents that responded to the survey or to the interviews have more than one citizenship or have a residency different from their citizenship.

More importantly, e-residency promotes values that draw in foreign audiences, from data protection and privacy to transparency and ownership. Extensive interviews with e-residents indicate that the initiative built international confidence in the country’s model of e-governance. E-residency induces co-optation, as the government continues to build up the project over time and develop a reputation for credibility in the field of e-services.

Finally, the “country as a service” concept models an unprecedented type of soft power, where small states export their technical and technological capability. As co-founder Taavi Kotka explains, “It’s very logical, if you want to grow, you need more customers, so the question is, ‘Who are the customers?’ Normally, people say, ‘Citizens,’ and then I question them, ‘Tourists are not customers?’” (Personal communication, December 12, 2018). Estonia somehow manages to sell e-residency as a package with both economic benefits and cultural and historical charm, evidenced by the number of e-residents that named the practical advantages of e-residency alongside their curiosity for the small, somewhat-unknown country as their reasons for applying to the program. The culture of the country is good leverage, but only when there exists other advantages to tap into, a signal to other small states that soft power is best achieved through multidimensional, multiuse projects.

E-residency, though, is not without risks and limitations that can threaten the reputation of states. First and foremost, the scheme was adopted on the run, leading to a lack of sufficient legal basis (Kerikmäe and Sandra 2016). The adoption of digital technology and the encouragement of risks upfront by the public sector (Kattel and Mergel 2018) may also threaten state influence and reputation. Not only is the program inaptly named, given that the identification does not bestow any form of physical residency, often leading to confusion and misunderstanding, but the program has disrupted regional protocol on issues like double taxation and banking. E-residency may undermine the traditional European banking order since many e-residents have chosen to shift to financial tech banking or money transfer services. If e-residency alienates powerful banking institutions across Europe, it may erode Estonia’s partnerships and influence within the European Union.

The absence of any regional framework in Europe for confronting and implementing a program like e-residency may disturb any innovative country’s relationship with its neighbors and impair state-to-state diplomacy. The danger

that arises is not only when other state governments become suspicious of e-residency, but when foreign publics, correctly or incorrectly, sense that e-residency is dubious and cast the credibility of a country in doubt. Although it could be argued that it is impossible to foster creativity in the public sector without quick thinking and quick moving, it is also important that countries firmly ground initiatives like e-residency in legal precedent so that the government maintains their authority when they defend the respectability of the initiative.

Any lack of policy coherence can also pose problems for a digital cross-border identification initiative like e-residency. For example, the e-residency office claims to target the digital nomad community and to allow that community to run location-independent businesses from anywhere in the world. However, all e-residents that create and register Estonian companies are required by Estonian law to maintain an Estonian contact person and legal address in the country, suggesting that the national legal requirements for Estonian companies might be poorly adjusted for nomadic business owners and entrepreneurs. Estonian policymaking is one or two steps behind the fast-moving plans by the e-residency office, evidenced, for example, by the length of time it took the Estonian Parliament to amend the country’s commercial code to allow businesses registered in Estonia to use bank accounts in any European Economic Area country to register share capital. The lack of policy coherence could mar the positive experience of e-residents, thereby reducing the reliability and tenability of Estonia’s supposedly adept, nimble, and business-friendly environment.

The e-residency initiative also raises security concerns, a critical drawback in a time of increasing scrutiny over money laundering and criminal activity. With the recent scandals at Danske Bank<sup>5</sup> and Swedbank,<sup>6</sup> now is a perilous time to promote a cross-border digital identification initiative, so countries need to be careful about now attracting international attention unless completely confident in their innovations. Small states, especially, run the risk of being defined for years by one scandal or controversy. The money laundering scandals have raised questions about the actions and integrity of e-residents, since some officials in Estonia and throughout the European Union see the offshore companies of non-residents as high-risk for illegal activity (J. Ester, personal communication,

<sup>5</sup> Considered Europe’s biggest money laundering scandal in recent history, the Danske Bank scandal took place when €200 billion of questionable money flowed through the Danish bank’s Estonian branch from 2007 to 2015.

<sup>6</sup> An internal report in March of 2019 by Swedish broadcaster SVT revealed that about €135 billion of “high-risk, non-resident” money flowed through Swedbank’s Estonian operations over a decade, a major breach of anti-money laundering obligations of the Sweden’s oldest bank.



January 15, 2019). Critics of e-residency often point to the 2017 case of Jann Lope, a Filipino e-resident accused of company fraud according to the *Postimees* article published on November 29, 2017, as evidence that e-residents will use their digital IDs for crime and fraud that undermines the authority and credibility of Estonia's transparent business environment.

Some scholars believe the process of authenticating the identity of applicants to e-residency is not rigorous enough to prevent identity fraud (Sullivan and Burger 2017), thereby raising concerns about how e-residency may be manipulated to take illegal advantage of Estonian e-solutions. Others have pointed to the increasing burden on the Estonian departments and agencies responsible for background checks of applicants. For example, after the Estonian Foreign Ministry requested 770,000 euros more from the government coffers in 2018 to cover the costs of e-residency (Luts 2018), some respondents suggested that the e-residency program placed a financial burden on the Estonian government. In interviews, experts also voiced worries about how the rapidly increasing rate of applications may make it difficult for the Police and Border Guard, the agency in charge of reviewing applications, to hire staff quickly enough to prevent a breach in the high security standards for approving an application.

As discussed earlier in the section on “Forming a ‘circle of friends’”, the soft power potential of e-residency is currently limited to certain audiences. The e-residency office is not shy about the fact that e-residency is geared towards freelancers and entrepreneurs that do not want to be tied to one specific location (A. Rang, personal communication, February 19, 2019). As previous research has indicated, the current e-residency community is relatively non-diverse, engaging mostly middle-class individuals from digitally advanced nations (Tammppuu and Masso 2018), like Finland, the UK, and the USA. As a result, Estonia's e-residency program is still relatively unknown to a vast majority of the world, even in other parts of Europe such as the Balkans (P. Niokin, personal communication, April 23, 2019). The e-residency office has a recognizable problem with dispersion and distribution, hampered by the finite number of Estonian embassies and consulates. E-residents abroad are expected to pick up their digital ID cards at Estonian embassies, but the lack of pick-up locations in most parts of Africa, Latin America, and Asia proffers a financial and logistical barrier to some. That said, the release of the 2.0 white paper is a testament to the Estonian government's efforts to prioritize more pick-up locations and the e-residency office recently opened temporary pick-up locations in Singapore and Seoul.

## Conclusion

This paper has demonstrated that e-residency has worked as an effective soft power tool, with limited reach and implications, for Estonia. The program has attracted foreign nationals to the values and ideals represented by e-residency, and some e-residents have established stronger cultural and political ties with Estonia, as well. The release of e-residency 2.0 and the plans for expansion of the program show that the Estonian government believes the benefits of e-residency, from the cost effectiveness of the initiative to the impact on Estonia's credibility and authority in technology, outweigh the risks.

From interviews with policymakers and officials, it is clear that the Estonian government sees e-residency as malleable and opportunistic, shapeshifting to meet different Estonian public needs and strategically expanding to target fresh audiences. E-residency remains a tool of the virtual state, but it has also evolved as a multidimensional and intersectional policy initiative that can convert e-resident enthusiasm, partnerships, and money into political capital.

In the future, if more countries experiment with their own forms of e-residency, it will be useful to reflect on how the other forms may challenge or complement the Estonian model, or even undermine that unique soft power of Estonian e-residency. From an anthropological or sociological standpoint, future research should address differences in how individuals prioritize ethnic, religious, or national identity compared to their digital identity. In today's globalized world, digital identity is significant, but does it compete at all with other traditional identities or allegiances?

What are the implications of e-residency's impact on Estonian soft power? Estonia already wields significant economic soft power over its e-residents, which ensures financial and technological dependency on the digital continuity and function of the state. If more people buy into the Estonian model, into Estonian values and government integrity, then the country can be assured of a network of supportive allies and advocates. No one puts this better than Ruth Annus:

From the economic point of view, they can be huge help for Estonian companies...but from the state security point of view, of course, the more people there are in the world to whom Estonia really matters, the more people that consider it meaningful that the Estonian state should stay independent...e-residents are the people who know about Estonia, and they would be the ones who would say something. People should be culturally linked to Estonian society, so these people would feel that it's their Estonia. (Personal communication, January 22, 2019).





With the launch of e-residency 2.0, there is no telling how the program will shift, change, and expand in the coming years. Yet, given how much e-residency has made waves in its short four years of existence, the worldwide impact of e-residency is likely to grow.

**Data availability** The data that support the findings of this study are available from the corresponding author, AB, upon reasonable request.

## Compliance with ethical standards

**Conflict of interest** On behalf of all authors, the corresponding author states that there is no conflict of interest.

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