

European Competitiveness and the Future of EU

“Between Two Titans: The Draghi Plan on the Recovery of Europe’s Economic Powerhouse Status”

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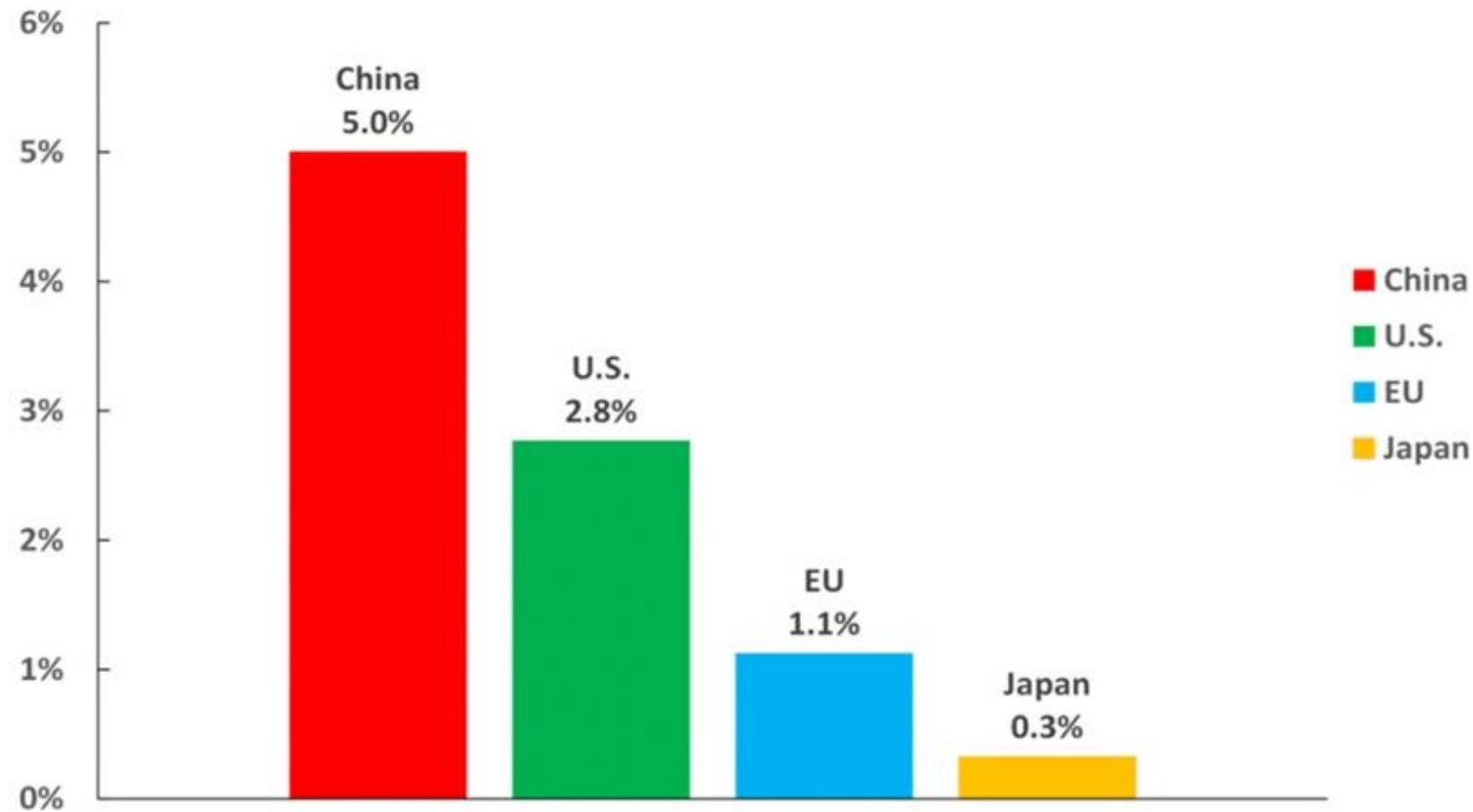
Overview of this Presentation (Before FRI 28 FEB)



- Draghi too late when problems apparent for last five years? China and US competition previously foreseeable
- EU has changed significantly but global trade changed even more
- What are policy objectives and intended effects – EU overall ‘Competitiveness Compass’ may not be best approach.
- EU has advantage in Clean Tech, which needs further support
- Is EU Commission’s broadbrush ‘Competitiveness Compass’ approach sufficiently focused and might some Member States be better placed to generate their own trade strategies?

Clear and Present Danger – US and China Competition

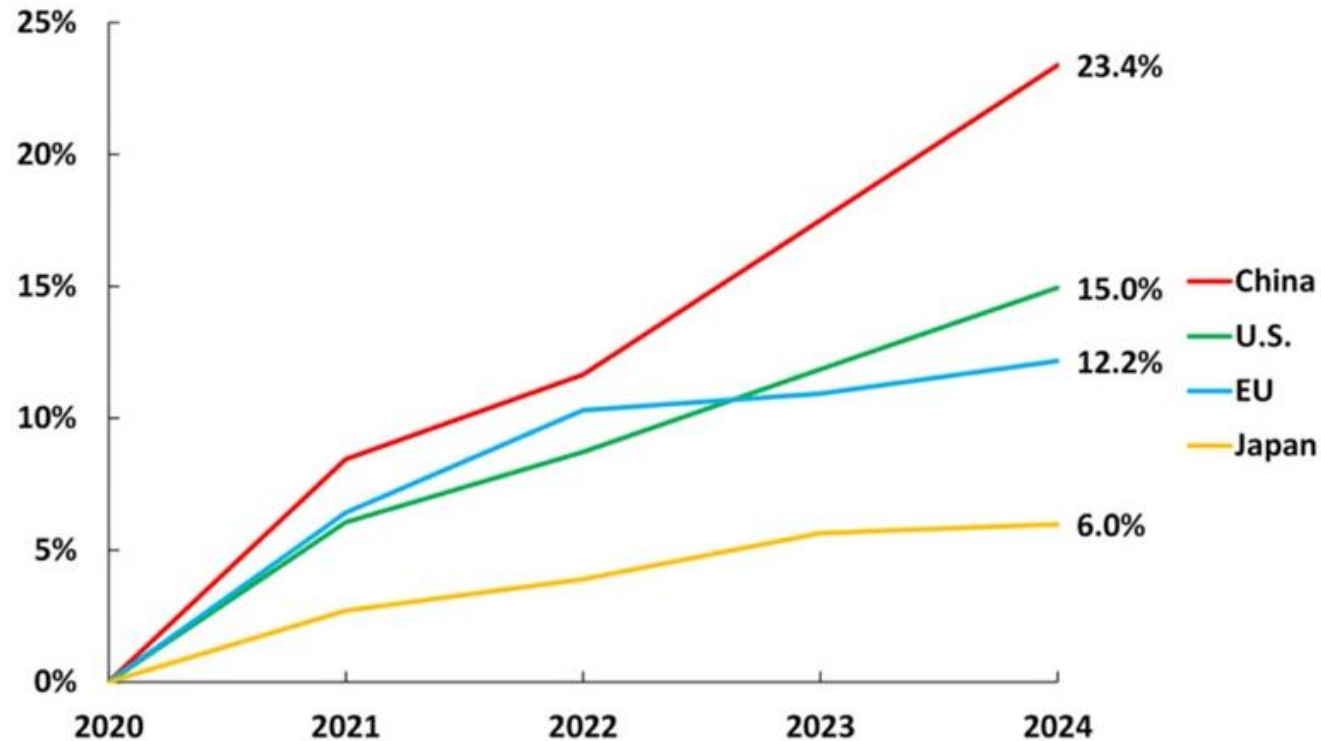
GDP Growth in 2024



Source: China - National Bureau of Statistics, U.S., EU and Japan IMF World Economic Outlook October 2024 database projections for 2024

Clear and Present Danger – US and China Competition

% Change in GDP Compared to 2020



Source: Calculated from IMF World Economic Outlook October 2024, except for China for 2024 which is from National Bureau of Statistics

Analysis

- Domination of US and China industrial strategies, especially US Inflation Reduction Act 2022 and Chinese production subsidies.

Late Beginning

- EU belatedly commenced own strategy in October 2024 with introduction of tariffs up to 35% on imports of Chinese vehicles.

Right Approach?

- This presentation questions whether the EU Commission's broadbrush Competitiveness Compass approach is sufficiently focused and whether devolution to regions and Member States might be more appropriate.

- **GDP: EU and US**
 - EU Same Share (17%) of Global GDP as China. USA has 26%
 - **EU Single market – 440m consumers; 23m companies**
- **EU World Leader in Sustainability**
 - EU world leader in sustainability and environmental standards and progress towards the circular economy
 - Most ambitious global targets for decarbonisation and can benefit from the largest exclusive economic zone in the world, covering 17mn square kilometres, 4 times the EU's land surface.
- **Europe Lagging**
 - EU range of ambitions – high levels of social inclusion, carbon neutrality and geopolitical relevance – all depend on maintaining solid economic growth.
 - EU economic growth persistently slower than US over past 2 decades, while China rapidly catching up.
 - **EU-US gap in level of GDP at 2015 prices widened from slightly more than 15% in 2002 to 30% in 2023, while on purchasing power parity (PPP) basis gap of 12% emerged**

- **The Competition: EU Position Declining**
 - “ECB: sectors where China directly competing with Euro area exporters now 40%, up from 25% in 2002.
 - EUs share in world trade is declining, with a notable fall since COVID.
 - Europe’s position in advanced technologies to drive future growth is declining.
 - Only 4 of world’s top 50 tech companies are European and EU global position in tech deteriorating: from 2013-2023. Its share of global tech revenues dropped from 22% to 18%, while US share rose from 30% - 38%.
- **Decarbonisation and Energy**
 - EU companies still face electricity prices 2-3 times those in US and natural gas prices 4-5 times higher. Decarbonisation could be opportunity for Europe, both to take lead in new clean technologies and shift power generation towards secure, low-cost clean energy sources.
 - Whether Europe can seize opportunity will depend on all policies being in sync with EU’s decarbonisation objectives.
- **EU Lack of Coordination Across Policies**
 - Industrial policies today – as in US and China – comprise multi-policy strategies, combining fiscal policies to incentivise domestic production, trade policies to penalise anti-competitive behaviour abroad and foreign economic policies to secure supply chains.
 - EU linking policies in this way requires high degree of coordination between national and EU policies.
 - Complex governance structure. Slow, disaggregated policymaking process - EU less able to produce response.

EU Decision on Tariffs

- Tariffs decision October 2024 major shift in EU relationship with China - auto sector now seen as threat to EU
- Chinese exports outpacing global trade.
- Chinese exports up 12% in volume terms. Global trade growing at 3%. Chinese export volumes are up 13% while import volumes are only up 2%.
- With exports 20% of GDP, 10 percentage gap implies net exports contribution to Chinese GDP growth of 2%.
- **Most of China stronger growth comes at the expense of Europe (Setser & Weilandt, 2024)**

Chinese Penetration

- European Commission found that the market share of Chinese-built EVs (including foreign brands such as Tesla) **rose from 3.5% in 2020 to 27.2% of all EVs sold in EU in the second quarter of 2024**
- **Chinese brands' share growing from 1.9% to 14.1% of all EVs sold.**

(Featherstone, 2024)

Germany Decline

- German industrial production (EU's largest economy) declining for 5 years - country where manufacturing contributes 5.5mn jobs and 20 % GDP
- “Germany starting to realise China’s new automotive, clean technology and civil aviation industrial base directly competes with Germany’s manufacturing. China’s macroeconomic imbalances now directly infringe on German industrial interests.

Change in China Production

- Previously China exports in consumer electronics, furniture, apparel and household appliances – not the automotive and engineering sectors at the heart of the German economy.
- No longer the case: China’s economy much larger. Industry now produces same goods as Germany and export-biased growth cutting into Germany’s EU and global exports.
- Cars significant. China not a net exporter of vehicles in 2020, the year of the pandemic. Now exports 5mn more vehicles than it imports. Comparable number for Germany is 1.2mn, down by half from pre COVID.

(Tordoir & Setser, 2025, p.1)

De Industrialisation

- EU firms, including VW, plant closures and layoffs - not from smaller global trade, as global trade continues to expand.
- China's growing imbalances, to which Germany is much exposed, are more likely to blame (Tordoir & Setser, 2025, p. 2)
- Previous China export success in sectors like consumer electronics, furniture, apparel and household appliances, and not as today in the automotive and engineering sectors which are at the heart of the German economy (Tordoir & Setser, 2025, p. 5).
- In 2023, exports of cars, machines and chemicals combined accounted for almost 40% of Germany's total exports, worth 15% of Germany's GDP (Tordoir & Setser, 2025, p. 10).

EU and German Politics Not Caught Up

- Until October 2024 EU imposition of tariffs on car imports from China, German car makers previously only willing to support a milder “de risking” policy.
- Until EU tariffs, EU previous “de risking” policy against China was “like bringing a knife to a gunfight”. What is needed is a muscular macroeconomic policy (Tordoir, 2024)
- Shows German and EU politics not yet caught up with the realities of Chinese and global competition?

- **US Funding: Inflation Reduction Act**
- “Extensive US support challenges for EU companies active in advanced digital technologies, given US Chips and Science Act, or in clean technologies, for which the US Inflation Reduction Act (IRA) 2022 is game changer.
- **Furman vs Sperling** (Furman, 2024; Sperling, 2025)
- **IRA financial volume huge (possibly \$1.2 trillion).**
- Generous for some specific sectors. **In multiple sectors, amounts significantly higher than available in Europe,** despite sizeable funds available via NextGenerationEU and Member State coffers.
- **Works through Tax Code** - support highly predictable over the Act’s 10-year time horizon and operationally very easy to access, unlike in EU.
- IRA substantially lowers production costs for a variety of products.
- Cost of US-manufactured solar modules expected to decrease by up to 60%, making them cheapest worldwide.
- **Italian solar panel factory 3Sun in Catania, Italy €188mn EU funds. But if 3Sun in US, in IRA’s lifetime could receive a \$1.26 billion in production subsidies**
(Lindner et al., 2023, pp. 2, 3)

Industrial Policy the new normal

- “EU institutions and national governments might have preferred less interventionist economic policy paradigm and strict state aid rules, but industrial policy “the new normal” internationally, Europe must respond in kind.

EU Doesn't Compete in Some Sectors

- “For some technologies EU wants to onshore with its proposed Net Zero Industry Act, without good economic or security-of-supply reason. For instance, Europe has almost no solar industry today so competing with foreign subsidies expensive for EU taxpayers.

R and D Spending % of GDP

- “US spending on R&D relative to GDP has outpaced European spending.
- 2010, US spent 2.7%, EU only 2%; in 2021, the US was at 3.5%, and EU at 2.3%. China overtook EU in 2019 (Lindner et al., 2023, p 3)

First China Shock

- US responded to first “China Shock” during 1990s and 2000s, when 1mn jobs lost, especially in Mid West.
- European manufacturers moved production to new Central and Eastern EU Member States.

Second China Shock

- EU could suffer more than US from second China Shock
- EU 30mn manufacturing jobs compared with US 17mn in 2000
- China’s manufacturing trade surplus as share of global GDP now twice as large (Tordoir, 2024).
- Until EU tariffs against China, EU previous “de risking” policy against China was “like bringing a knife to a gunfight”. What is needed is a muscular macroeconomic policy (Tordoir, 2024)

Industrial Strategies New Normal: IMF Report precedes Draghi

- Draghi’s Report and Competitiveness Compass belated entrants to world where industrial strategies new normal.
- Six months before Draghi, the IMF Regional Economic Outlook for Europe already focussed on need for reform – but at the level of Member States (International Monetary Fund, 2024, p. 19)

- Europe needs wider range of policies, many of which could be based on “Clean Tech”.
- “Chinese subsidies twice as high as EU in highly protected home market. US IRA is also providing substantial assistance so EU losing any cost advantage.
- Clean Tech an area on which EU has some advantages and on which should focus?
- “Shifts in geopolitical environment - Europe economic model and industrial policy on unsustainable trajectory.
- Greater geopolitical tensions now call for a re-think of the EU’s economic model, especially since in some sectors EU has better start.

(Lindner et al., 2023, pp. 6, 7)

- **Example** - EU could pass new directives to co-ordinate subsidies. **Germany already second largest exporter of low-carbon technologies among G7 and China.**
- **EU Policy Varied.** EU industrial policy at national level, but MS often act inconsistently: sometimes allowing companies to fail, at other times intervening; sometimes protecting domestic production with tariffs and standards, and at other times letting global competition – and China’s distortions – dominate

(Tordoir & Setser, 2025, p. 14)

- EU advantages in clean technologies. “These measures include twin proposal for a Critical Raw Materials and a Net-Zero Industry Act, to fortify value chains within Europe. And they span renewed efforts to forge economic relations with countries in Latin America, Asia, and Africa” (Lindner et al., 2023, p. 7)
- **Ample evidence which supports narrower EU focus.** Shortening of supply chains in production will work to EU benefit.
- “Across six categories of green goods that are at the heart of US, Chinese and EU green industrial policy (**electric vehicles, batteries, heat pumps, solar, wind turbines and electrolysers**), in almost all cases the negative impact of geographical distance on trade increased significantly between 2017 and 2022” (Springford & Tordoir, 2023, p. 1).
- **EU continue expansion of green technologies - supply chains shortening and trading distance a major factor.** Though less than China EUs share of global exports in Low Carbon Technology goods has grown, but much less – from 19% to 23% last year. The US is stuck on 13% of the global market”.
- **Central and Eastern European Member States have advantage.** “As measured by how Low Carbon Technology exports compared the global average, some EU member-states among highest scores in world - Germany, Slovakia, Hungary, Romania, Czechia, Denmark and, outside Japan” (Springford & Tordoir, 2023, pp. 2, 3).
- EUs decarbonisation goals more ambitious than competitors. Binding legislation to reduce greenhouse gas by at least 55% by 2030 compared to 1990. “Heavy industrial production so far covered by allowances under EU Emissions Trading Scheme (ETS), but phased out with introduction of Carbon Border Adjustment Mechanism (CBAM)” (Abel, 2024; Draghi, 2024, p.39).

- EU should focus its subsidies on sectors where short-term help needed to enable EU industries to scale up, and avoid dependencies on other countries in key goods” (Springford & Tordoir, 2023, p. 8)
 - Europe’s “Fit for 55” program, the US Inflation Reduction Act, the 2035 ban of internal combustion engine (ICE) vehicles in EU all support these EU policies.
 - “(G)rowth is expected to be highest globally in EU and US, driven by recent regulatory changes, as well as a general trend toward localization of supply chains.
 - **120 to 150 new battery factories needed by 2030 globally.....** EU and US companies are exploring new business models for the recycling segment. Together, these activities could help localize battery supply chains” (McKinsey and Company, 2023).
 - **Many of these developments are occurring in Central and Eastern European Member States.**
 - Global decarbonisation drive is also a growth opportunity for EU industry.
 - **EU world leader in clean technologies like wind turbines, electrolysers and low-carbon fuels**
 - **More than one-fifth of clean and sustainable technologies worldwide developed here.**
- (Draghi, 2024, p. 7)

“The Commission can implement the European Sustainable Product Regulation (ESPR) setting product standards that combine minimum quotas for low carbon components – such as green steel or efficient electrolysers – with emissions intensity thresholds (Tordoir & Setser, 2025, p. 14)

EU Carrot and Stick

- “EU should utilize toolbox, which unlike US consists of carrot (subsidies) and stick. Latter includes range of instruments: emissions pricing (ETS 1 and 2), Carbon Border Adjustment Mechanism, bans (like de-facto phase-out of combustion engine), or setting minimum requirements (eg. stipulating that certain % hydrogen in industry must be renewable). Combination of stick and carrot allows EU to design more effective and cheaper support.

Cheaper Energy Problem

- “Detrimental for EU competitiveness, cost gap will remain after clean energy transition. EU lower renewables potential than other regions with sunnier, windier and more space, renewable energy more expensive here.
- Political opposition and costs means likelihood of nuclear energy transforming EU as whole is slim. So soaring energy prices clearly pose competitiveness risk for EU producers of highly-energy intensive industries.
- “Even with cost reductions above, sizeable energy cost differences between locations will remain for foreseeable future. Permanently spending large subsidies to keep energy-intensive industries in original location not good. (Lindner et al., 2023, pp. 4-6)

Support for Companies: China Nine Times

Company – Size Matters

- “No EU company with market capitalisation over €100bn been set up from scratch in last 50 years.
- 6 US companies with valuation above €1 trn created in period.

Dominated by Auto Companies – where China is strongest

- EU companies specialised in mature technologies - potential for breakthroughs limited
- Spend less on research and innovation (R&I) – €270bn less than US counterparts in 2021.
- “EU top 3 investors in R&I dominated by auto companies for past 20 years.
- Same in US in early 2000s, with autos and pharma leading, but now top 3 all in tech. (Draghi, 2024, p.6)

China Government Support

- China public support for industry at least €221.3bn, or 1.73% of GDP in 2019
- Higher than support in other leading economies in absolute terms and in relation to GDP. Relative to GDP, public support 3 times higher in China than France (0.55%) and 4 times higher than Germany (0.41%) or US (0.39%).
- Large industrial companies in China may receive almost 9 times more government support (relative to company sales) than comparable companies in OECD.

(Bickenbach et al, 2024, pp 215, 216)

Coordination takes 19 Months

- “EU not coordinate where it matters. Industrial strategies as seen in US and China – combine multiple policies, ranging from fiscal policies to encourage domestic production, to trade policies to penalise anti-competitive behaviour, to foreign economic policies to secure supply chains.
- EU linking policies in this way requires high degree of coordination between national and EU efforts. But owing to slow and disaggregated policymaking process, EU less able to produce such a response.
- Europe’s decision-making not substantially evolved as EU enlarged and as global environment now more hostile and complex.
- Decisions typically made issue-by-issue with multiple veto players along the way.
- **Outcome is a legislative process with an average time of 19 months to agree new laws, from Commission proposal to signing of adopted act – and before new laws even implemented across Member States.**

Capital Markets Union: Public and Private Investment

- “While Europe must advance Capital Markets Union, private sector will not be able to bear lion’s share of financing investment without public sector support.
- More willing EU is to reform itself to generate increase in productivity, more fiscal space will increase, and easier it will be for public sector to provide this support. (Draghi, 2024, pp. 8,9)

- At the heart of Europe's failing position is its low productivity growth.
- Europe private Business Expenditure on Research and Development (BERD) grown from 1.36% of GDP in 2000 to 1.7% in 2021.
- South Korea (+2.33%)
- China BERD skyrocketed from less than \$24bn to staggering \$477bn in 2 decades.
- European public R&D spending, at 0.57% of GDP, does not compensate for the shortfall in business investment and remains below the 0.68% GDP from OECD countries.
- Europe industrial R&D biased towards established, "mid-tech" sectors like automotive parts, based on the transport industry in Germany, France, and Italy. In contrast, other advanced economies, including the US, have increasingly supplemented mid-tech R&D with high-tech efforts in sectors like software, computer electronics, and biotechnologies.
- These high-tech innovations offer broader applicability across various industries, unlike car-specific patents that remain largely confined to the transportation sector.
(Guinea & du Roy, 2024).

- Despite poor overall EU productivity performance, Member State governments spend record levels of state aid to own companies, with little evidence suggesting additional resources would make EU grow faster.
- IMF estimated that introducing EU version of US Inflation Reduction Act would reduce EU GDP by 0.6% because this would undermine Single Market

(International Monetary Fund, 2024, p. 19).

- Single Market completion already advocated in Enrico Letta's Report to the Commission in April 2024

(Letta, 2024).

- Economic weight of some regions “hinders the EU's overall performance. As result, prosperity gap between EU and the US expanded. If EU was a state in US, it would be third poorest state – trailed only by Idaho and Mississippi”.
- 2014 to 2021, average year-on-year growth in R&D expenditure in US twice EU - 5.6% against 2.7%.
- 2021 US R&D expenditure 77% larger than EU. “EU policy makers should put firm productivity at centre of thinking but avoid targeting in advance activities – let alone firms – more productive than others

(Erixon et al., 2024, pp. 7, 12)

Productivity Gap

- “Gap widened less on per capita basis with US faster population growth, but still significant: in PPP terms, risen from 31% in 2002 to 34% today. Main driver of diverging developments has been productivity.
- 70% of the gap in per capita GDP with US at PPP is through lower productivity in EU. Slower productivity growth associated with slower income growth and weaker domestic demand in EU: on per capita basis, real disposable income has grown almost twice as much in US as EU since 2000.

Energy Costs and Subsidies

- Europe previously able to satisfy demand for imported energy by ample pipeline gas - 45% of EU natural gas imports in 2021. But relatively cheap energy now disappeared at huge cost to Europe.
- EU lost more than year of GDP growth having to re-direct massive fiscal resources to energy subsidies and building new infrastructure for importing LNG.

What it Takes

- “Competitiveness today is less about relative labour costs and more about knowledge and skills embodied in the labour force. Beyond this broad objective, a focus on sectoral or industrial competitiveness can be particularly useful in situations where otherwise productive companies are disadvantaged by an unlevel global playing field, be it asymmetries in regulation or large subsidies abroad. In such scenarios, levelling the playing field may be necessary for continued productivity growth.

(Draghi, 2024, pp. 12, 13)

Clean Tech Support

- So while Europe must advance with its Capital Markets Union, the private sector will not be able to bear the lion's share of financing investment without public sector support.
- Integrating Europe's capital markets to better channel high household savings towards productive investments in the EU will be essential (Draghi, 2024, pp. 9, 18).

Financial Objectives

- The cost of implementing Draghi's recommendations is formidable. "A minimum annual additional investment of €750-800bn needed, based on the latest Commission estimates, corresponding to 4.4-4.7% of EU GDP in 2023.
- For comparison, investment under the Marshall Plan between 1948-51 was equivalent to 1-2% of EU GDP. Delivering this increase would require the EU's investment share to jump from around 22% of GDP today to around 27%, reversing a multi-decade decline across most large EU economies. (Draghi, 2024, p. 63)

Funds Allocated Elsewhere

- "EU annual budget is small, amounting to just over 1% of EU GDP, while Member States' budgets are collectively close to 50%.
- It is also not allocated towards the EU's strategic priorities: despite attempts at reform, the shares of the 2021-2027 Multiannual Financial Framework (MFF) allocated to cohesion and the common agricultural policy are still 30.5% and 30.9%, respectively. (Draghi, 2024, p. 64)

EU Borrowing

- Repayment of EU borrowing under NextGenerationEU (NGEU) programme will start 2028 and account for €30bn per year. Without decision on new own resources, effective spending power at EU level mechanically reduced by interest and principal repayments. (Draghi, 2024, pp. 63, 64)

Capital Markets Union

- “As key pillar of Capital Markets Union transform European Securities and Markets Authority ESMA into agency is modify governance and decision-making processes along similar lines to ECB Governing Council, detaching them as much as possible from Member State national interests. (Similar to US Securities and Exchange Commission) (Draghi, 2024, p.65)

Decision Making Rules

- “Crucially, Europe’s decision-making rules have not substantially evolved as the EU has enlarged and as the global environment facing Europe has become more hostile and complex. Decisions are typically made issue-by-issue in different sub-committees, with little coordination across policy areas. Multiple veto players can delay or dilute action.
- EU budget fragmented across 50 spending programmes, preventing EU financing from reaching sufficient scale for EU projects.

(Draghi, 2024, pp. 65-67)

- Strengthening the EU requires Treaty changes, but it is not a precondition for Europe to move forward: much can be done with targeted adjustments (Draghi, 2024, p.67)
- Even with assured majorities in the Commission and Council of Ministers (which she can no longer guarantee) Von de Leyen will find progress difficult. Following troubled passage of Lisbon (TFEU) in 2007, little possibility of any kind of treaty change.

EU Budget Small

- “EU budget of around 1% of GDP, and lack of industrial policy instruments, EU lacks resources and tools to directly conduct industrial policy in the short run. Industrial subsidies in EU primarily decentralised, funded through member-state budgets.
- “But EU does have a single market under one regulatory roof, making it easier to co-ordinate subsidies. (Draghi, 2024, p64)

Regulations May Compensate

- “Regulations like the European Sustainable Product Regulation (ESPR) can limit market access for non-European competitors failing to meet stringent sustainability criteria. The Commission can implement the ESPR using delegated acts. It could set product standards that combine minimum quotas for low carbon components – such as green steel or efficient electrolyzers – with emissions intensity thresholds. (Draghi, 2024, p14)

EU Directives

- “There may be sectors like non-greentech machine-building or energy-intensive chemical production where existing EU regulations (like the NZIA) or product standards (such as ESPR) are insufficient. EU could pass new directives to co-ordinate subsidies. Unlike an EU regulation, an EU directive is legislative act that sets out goal all member-states must achieve, but allows them to decide how to transpose into their national laws. (Tordoir & Setser, 2025, p.14)

- Centrepiece of Commission's Compass is a new "Competitiveness Coordination Tool to act together with Member States on common competitiveness priorities in selected key areas and projects deemed of strategic importance and of common European interest" (European Commission, 2025, p. 23)
- Will follow European Semester process which seeks to combine reforms and investments to implement EU priorities at national level and follows Draghi's recommended Competitiveness Coordination Framework to agree and execute medium-term "competitiveness action plans" to implement Draghi's proposals to extent they required coordination" (Zettelmeyer, 2025, p. 4)
- Based on Stability and Growth Pact, Macroeconomic Imbalance Procedure and Fiscal Compact to Europe 2020 Strategy and Integrated Economic and Employment Policy Guidelines, Semester cycle involves Commission and European Council setting priorities for Union; review national performance of each Member State, with budgets and reform programmes for Country Specific Recommendations (CSRs), backed up by possible financial sanctions" (Verdun & Zeitlin, 2018, p. 140).
- But European Semester process does not have good track record.
- "In terms of the implications for EU economic governance, our results cast serious doubt on the effectiveness of the European Semester and suggest that policymakers should reconsider it. We consider low effectiveness to be a result of the fundamental dilemma facing the euro area in particular" (Efstathiou & Wolff, 2018, p. 14).

- Attempts to coordinate structural policy through European Semester have been largely unsuccessful. “Overall, influencing national policy decisions via European Semester remains a challenge”
(Darvas, 2024, p. 7).
- “Making recommendations to countries does not guarantee implementation. From the beginning of European Semester in 2011, the Country Specific Recommendations implementation rate was modest.
- “It gradually worsened until COVID-19 pandemic and was not higher than implementation rate by EU countries of unilateral recommendations from Organisation for Economic Co-operation and Development”
(Darvas & Leandro, 2015, p. 1).

Questioning EU Integration

- “As headline economic growth slowed over time, EU unable to turn tide and EU policies were even criticized as exacerbating the economic challenges facing some EU member countries during European sovereign debt crisis

Structural Disconnect

- “(S)tructural disconnect has emerged between what needed to improve competitiveness across Europe and what EU offering.
- Composition of EU members and competitiveness issues they face fundamentally changed, yet EU approach toward enhancing competitiveness has not.

Moving to Micro Focus

- “Our research suggests that EU must move from a focus on broader more macroeconomic factors to enhance the microeconomic assets and capabilities that underpin firm-level productivity, growth and innovation.
- EU institutions can help but should encourage differentiation and uniqueness, not prescribe generic EU-wide policy priorities in areas where location-specific circumstances are critical.

(Ketels & Porter, 2020, p190)

- “Enhancing competitiveness in Europe no longer about harmonization and convergence around common standards but about creating context that enables specialization and takes advantage of each country’s unique circumstances. Europe must become more heterogeneous if Europe and all parts are to become more prosperous. Such heterogeneity is not an alternate to market integration and common “rules of the game” but a core element of improving value (Ketels & Porter, 2020, p199)

Rethink Institutions

- “Europe needs to rethink respective roles of European institutions and EU members, if Europe to raise economic performance. Europe also critically needs to encourage and support regions and member countries to become structurally more heterogeneous based on distinctive and differentiated strategies if many or all to become more prosperous (Ketels & Porter, 2020, p190)
- The EU needs to move beyond leveraging narrow set of EU structural funds, EU’s financial tool to address regional disparities across Europe, with a reorientation toward more direct financial engagement through EU policy tools, drawing also on support available from European Investment Bank.
- “European countries and regions must take responsibility for economic policy choices and their outcomes both locally and nationally. Sovereignty to make choices at the country and regional level requires a willingness to accept heterogenous outcomes across Europe.
(Ketels & Porter, 2020, pp. 200, 203)

- Draghi Report and European Commission's Competitiveness Compass represent a belated European recognition that world has changed.
- Faced with major funding and implementation difficulties, Ketels and Porter view that the emphasis on strategic decisions and action priorities need to be made in regions and at country-level.
- Inability of the traditional top-down, centralised EU policy approaches to deal with the fundamentally different competitiveness challenges Europe is facing today, due to the evolving global economy, the nature of the EU economy and the impact of EU policies (Ketels & Porter, 2020, p. 199)
- European countries and regions must take responsibility for economic policy choices and outcomes locally and nationally. Sovereignty to make choices at the country and regional level requires a willingness to accept heterogonous outcomes across Europe. (Ketels & Porter, 2020, pp. 199, 200, 203)

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