Keeping Europe Competitive

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SUMMARY AND TAKEAWAYS

Europe finds itself in a less secure and more competitive world while it attempts to steer a green transition and adapt to disruptive technological innovation. The scale of the challenges has pushed the EU Commission to look for answers, to identify what it will take for the bloc to keep "its competitive edge". The sense of urgency is not limited to Europe. It is shared and spurred on by a suite of sweeping US policies to meet the triple challenge of digital innovation, the green transformation, and the contest with the People's Republic of China (PRC). US and, increasingly, European leaders argue that prioritizing and safeguarding democratic values will require novel approaches to trade and global investment.

Between November 2023 and January 2024, the German Marshall Fund of the United States (GMF) and its partners, convened stakeholders—representatives from small to large enterprises and startups, as well as investors, policymakers, and researchers—in seven European cities (Berlin, Copenhagen, Düsseldorf, Madrid, Paris, Rome, and Warsaw) for frank conversations on maintaining Europe's future as a global economic leader.

One sentiment echoed across the gatherings: Complacency is a major threat.

Europe's choices today "are crucial for the future". It cannot boast one company in the top tier of Big Tech, and it lost some early pole positions in, for example, harnessing solar energy. But there is still room for Europe to take a strong position in green technology and industrial artificial intelligence (AI) applications, and quantum. To stay vibrant and premier, policymakers, business, and technology leaders realize that they need to work with more agility and coordination. The leaders who participated in GMF's pan-European discussions identified four key elements to European competitiveness:

Cost and Resilience: A narrow focus on low prices can prevent the growth of European champions, but overly expensive and inefficient resiliency measures could make climate goals unaffordable. Policy needs to incentivize a balance.

Capital: The lack of a capital markets union is one of the biggest challenges to EU firms. More pooling of efforts might be even better. Reforms to unlock private capital should be considered.

Talent: To stay at the forefront of ideas, European firms will need to keep the continent's best talent, attract global knowledge workers, and retrain existing workforces for new industries, particularly for the green transition.

Regulation: Brussels' commitment to sustainability can force EU firms to be ahead of the curve and set global standards, but stakeholders across the continent are concerned about the heavy regulatory burden, especially for smaller enterprises, and uneven enforcement.

What can the EU do to confront these competitiveness challenges? The stakeholder convenings elicited ten takeaways.

01 | Do Not Miss the Next Big Thing

It is not too late for Europe to establish itself as a pioneer in burgeoning fields ranging from sustainability to space exploration. Europe could not retain its early market leadership in the solar industry and is not the base for any Big Tech company, but it can still become a leader in other critical sectors. Green energy and quantum technologies or AI industrial applications are just three examples.

02 | Harness AI

The United States and the PRC lead AI investment and research, but Europe can still innovate in applications, such as those for industrial AI, and leverage new technologies to increase efficiency.

03 Balance Price Criteria and Resilience

European competitiveness should be viewed through the prism of resilience, not just price. Photovoltaics and 5G are examples of how cost-focused strategies undermined the potential to create European champions. Resilience should consider safety, sustainability, innovation, and diversification. Expanding supply chain partnerships will help Europe be agile and avoid future vulnerabilities.

04 Tap Capital

In the absence of a capital markets union, the EU should strengthen mechanisms to mobilize investment. The NextGenerationEU Fund reflects Brussels' capability to muster necessary financing, which can be used as venture capital rather than for propping up existing business. Public and private research and development funding must remain robust, and the EU cannot afford to trim spending on innovation-boosting instruments such as the STEP or Horizon Europe. Moreover, concentrating investment at select universities that collaborate across the continent in innovation clusters may better foster the next breakthrough and offer the scalability that Europe lacks.

05 Reeducate and Retain

There are concerns across Europe about a lack of skilled workers amid a global race for talent, especially as the pace of technology transforms the workplace. Plans for reskilling workers should be underway so that they can fill jobs in a growing green and data-intensive economy. Similarly, a concerted effort to link science, technology, engineering, and mathematics (STEM) university graduates with businesses to nurture talent and spur innovation is needed. Income incentives and creating better conditions for entrepreneurship could help Europe retain knowledge workers.

06 Resist Right-Wing Populism for Skilled Migration

Europe's demographic trajectory demands immigration to offset an aging population. Although the current environment does not lend itself to campaigning for skilled migration, policymakers and business leaders need to make the economic case for attracting workers from non-EU countries. Enforcing border security and clamping down on irregular migration are necessary, as is pushing back against the far right so that Europe can attract skilled migrants and investment.

07 Reduce Red Tape

A plea for streamlining reporting requirements and eradicating red tape was made in most stakeholder discussions. Small and large companies feel burdened with time-consuming, tedious, and complex forms. Simplifying and focusing on efficient regulation to affect behavior and achieve goals would allow companies to be more agile and concentrate on core competencies. The regulatory environment must offer a sense of certainty yet be flexible to keep pace with the speed of technology.

08 Gain Technology Knowledge for Brussels

The rapid pace of transformation calls for policymakers in Brussels who are well versed in technology and geoeconomics. The EU should try to recruit the best and the brightest to contribute to positive outcomes and share information, rather than add layers of bureaucracy. Knowledge exchanges among Brussels' regulators and European innovators will also contribute to nimble and forward-looking policymaking.

09 Promote Multiple Growth Engines in Europe

Current debates about Germany being the sick man of Europe mask the positive outlook for other EU member states. Europe's largest market fears deindustrialization due to high energy costs for heavy industry, rigid labor rules, and bureaucratic bottlenecks. Germany is undoubtedly a motor within the EU, but other member states are feeling bullish.

10 Think Shared Prosperity

The United States' IRA initially caused much consternation in Europe, but there is a growing realization that the legislation is a false threat. The act can instead help push Europe to join the United States in a drive toward spurring growth and reducing carbon emissions. Crafting tax incentives and deploying funds faster to boost green investment while keeping energy secure and affordable will help maintain European competitiveness. But in a fracturing world, Europe, the United States, and their partners should remain aligned in their efforts to reinforce innovation undergirded by values such as freedom and the rule of law, economic security, and continued prosperity.

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