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This is what it takes

Unprecedented cooperation is essential to maintain the EU's competitiveness. Will Draghi's vision be a wake-up call?

The challenges Europe is facing are clear; the foundations on which the European Union has built its peace and prosperity have been shaken. Its economy is not fit to cope with growing global competition; geopolitical instability is on the rise; and the EU's dependencies have turned into vulnerabilities. But how can the EU navigate these (new) realities? To answer this pressing question, European Commission President Ursula von der Leyen assigned former Prime Minister of Italy Mario Draghi the task of defining the keys to a sustainable, competitive European Union.

Draghi was very clear when he presented his report on the future of European competitiveness on 9 September: The time to act is now. It's either do the work or condemn the EU to 'a slow agony'.

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As then-president of the European Central Bank, Draghi once managed to save the euro with a clear message against financial market speculation. Now he presents his 400-page vision for a sustainable and competitive European Union, describing the measures as concrete and urgent. The publication is so dense with proposals, that it is clear that there is no easy answer to Europe's multi-faceted problems. But it can – and should – serve as a wake-up call.

'We will not be able to become, at once, a leader in new technologies, a beacon of climate responsibility and an independent player on the world stage. We will not be able to finance our social model. We will have to scale back some, if not all, of our ambitions' — Draghi provides a number of economic indicators to prove what is well known: The EU is lagging behind and can no longer build on a favourable global environment. Low productivity has led to lower real wage growth and the EU-US gap in the level of GDP (at constant prices) widened from 17 per cent in 2002 to 30

per cent in 2023.

Less talking and more listening

At the beginning of the new term for the European Parliament and the Commission, the report came at a perfect time, as it can serve as a to-do list for the newly formed institutions. Von der Leyen is in the middle of writing the mission letters for the new Commissioners, and it is confirmed that there will be a dedicated Commissioner for Competitiveness. Still, it remains to be seen how – and if – the concrete proposals will be translated into action. After all, the EU does not need any more proof that it is lagging behind, but the political will to drive change.

Draghi's report is a plea for a true European industrial policy, combining competition and trade policy. The strategy for this new industrial policy is built on three pillars – innovation, decarbonisation and security – and covers a wide range of industrial sectors from automotive and computing to pharma and defence, to name but a few. This comes with the challenge that industrial policy is fragmented across the Member States and even within the EU institutions themselves, preventing coherent strategies.

Trade and economic security are also part of the dense package of proposals. Draghi sees the EU on the right track, for example with its strategy for economic security or its efforts to further expand its network of bilateral and preferential trade agreements, particularly with resource-rich countries to secure supplies. In addition, he would like to see some 'rethinking': Rather than 'generic stances towards trade', a 'careful, case-by-case analysis' is needed to ensure that trade policy is fully aligned with the EU's industrial policy. This also concerns the use of defensive measures and the degree of openness towards trading partners in specific sectors. Moreover, the use of such measures should go hand in hand with the overarching goal of increasing productivity in the EU.

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Nevertheless, the output of agreements in recent years has shown that countries are not waiting for the European Union and that the EU is no longer an exclusive partner. It is certainly necessary to secure the supply chain, but this is not possible without an attractive offer, including corresponding investments in the partner countries. Their concerns and wishes are well known, be it better market access, but also the development of industries and the creation of added value in their own

country. If the EU wants to conclude trade deals in the next legislative period, it needs to do less talking and more listening.

On defence, Draghi's analysis reveals little that isn't already known. The European defence industry is too fragmented to meet the demand for capacity and innovation that has arisen since the Russian attack on Ukraine. Faced with short-term needs, EU Member States are increasingly spending their funds on procurement outside the EU instead of investing in the European Defence Industry. The chance to pool resources and consolidate an EU Defence Technological and Industrial Base (EDITB) is being missed.

To overcome structural weaknesses, Draghi pleads for the implementation of the European Defence Industry Strategy and the European Defence Industry Programme, published in March this year. In the long term, he calls for cross-border integration of the defence industry in the interests of scale, standardisation and interoperability. But whether the Member States will be prepared and willing to give up their national companies to consolidate the EU's defence industrial base is questionable. To generate more funding for the defence sector, Draghi advises lifting the restrictions set by the European Investment Bank and the EU taxonomy. A proposal that underlines the report is not shy of provocative approaches.

Unprecedented cooperation is needed.

A particularly controversial topic that the report addresses is that of financing: To meet the objectives set out in the report, a minimum annual additional investment of €750-800 billion will be needed. This is nothing less than at least 4.4 per cent of EU GDP. As a comparison: Investment under the Marshall Plan was equivalent to 1-2 per cent of GDP in the recipient countries. Mobilising private capital alone is not sufficient to meet this financial need; the strengthening of the Capital Markets Union would only be a drop in the ocean. According to Draghi, the issuance of common debt, building on the experience of the Next Generation EU recovery instrument, is a mandatory next step. This requires finance ministers who are willing to integrate further and invest in the future of the Union.

Unprecedented cooperation is needed. Will Draghi's vision be a wake-up

call? So far, there has been no cheering from Member States since the report was published. Understandable, perhaps, since policy coordination at the EU level will require Member States to give up some of their power. The keys are there. Ursula von der Leyen will present her proposal for the portfolios and structure of the new Commission to the European Parliament in Strasbourg next Tuesday.

Draghi's report is an invitation to those in power. Ultimately, however, it is up to the Member States to decide which path they want to follow: Reform and further integration or slow and steady decline for Europe.



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