In collaboration with
European Council on Foreign Relations (ECFR)

Open but Secure: Europe’s Path to Strategic Interdependence

INSIGHT REPORT

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Contents

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Foreword

Børge Brende
President and CEO, World Economic Forum

Mark Leonard
Director, European Council on Foreign Relations (ECFR)

Arancha González Laya
Dean, Paris School of International Affairs (PSIA), Sciences Po

Europe is at a defining moment. The world's shifting power dynamics, the accelerating climate crisis and rapid technological change are testing the continent's resilience. More than ever, Europe must confront its vulnerabilities and rethink its role in this new global landscape.

The column of Russian tanks that rolled towards Kyiv in 2022 was a geopolitical awakening for Europe, shining an unforgiving light on debilitating dependencies in energy, security and supply chains that had been built up over decades. Meanwhile, structural challenges loom large: while Europe accounted for almost a quarter of global GDP at the beginning of the millennium, it is now at 15%. Mario Draghi, former Prime Minister of Italy and President of the European Central Bank, warns that unless decisive action is taken, Europe risks a "slow agony", with productivity growth stagnating at just 0.7% annually, far behind the United States (1.8%) and China (9%). At current productivity and demographic trends, Europe's economic output is forecast to remain the same in 2050 as it is today.

Relying on acute crises to overcome political deadlock might have been enough for the generations of leaders that followed Jean Monnet, a pioneer of European integration, but it is no longer enough in a context of chronic economic stagnation, a widening technology gap and Russia's creeping territorial ambitions. The concept of European strategic interdependence offers a pathway forward. It calls for embracing interconnectedness while building resilience and autonomy. To succeed, Europe must safeguard its sovereignty while fostering collaboration – balancing self-reliance with strategic partnerships in a world of shifting alliances and growing geopolitical complexity.

In 2024, the World Economic Forum, in collaboration with the European Council on Foreign Relations, convened the High-Level Group on European Strategic Interdependence, bringing together over 40 leaders from government, business and academia. Their deliberations in Madrid, Warsaw and Berlin focused on how Europe can navigate the world as it is. This report reflects the group's discussions and presents ways for Europe to achieve strategic interdependence and adapt to an increasingly multipolar world.

With unity and determination, the continent can confront its vulnerabilities and shape a clear, ambitious path forward to remain a decisive force on the world stage.

Introduction

By **Mark Leonard**, Director, European Council on Foreign Relations (ECFR)

Strategic interdependence is the right guiding principle for a Europe that must manage new vulnerabilities without closing itself off from the world.

The dashboard is flashing red. Donald Trump's second presidential election win[1] on 5 November 2024 marks a turning point for the North Atlantic alliance, probably one much more substantive than his first win back in 2016. It demonstrates the feeling among many Americans that the prevailing approach to globalization and international engagement demands re-evaluation. But it is also a symptom of something deeper: a shift from the traditional Western-led political, economic and security order to a more complex landscape characterized by increasing multipolarity and fragmentation.

The US withdrawal from the Iran nuclear deal in 2018 and the European Union's subsequent inability to hold up the deal on its own laid bare Europe's impotence.

Americans are not alone in wanting to revise the post-Cold War global order. China promotes what it calls a "dual circulation" approach to trade, focusing on boosting domestic self-reliance while safeguarding against American-imposed sanctions and tariffs.[2] Middle powers such as India, Turkey, Brazil and South Africa have sought to limit their dependence on the United States' financial system and have seen their regional freedom of manoeuvre grow exponentially.[3]

In Europe, where the shock of these changes has hit particularly hard, debate rages over how the continent should position itself. The European project, after all, was built on principles which may now seem anachronistic in a world of great-power competition; including the belief that pooling the coal and steel industries which had been used to wage war would create a common economic interest strong enough to render future conflict unthinkable. After the end of the Cold War, Europeans sought to extend this logic beyond their borders. They built up closer relationships with Russia and China in the hope they would become stakeholders in a new world order; and they continued to rely on the US for their security needs. But global events and power shifts have challenged this world view in recent times.

Great-power politics has become like a loveless marriage where the couple cannot stand each other's company but are unable to get divorced. As with any unhappy couple, it is the things that were shared during the good times that become the means to do harm during the bad ones. In a collapsing marriage, vindictive partners will use the children, the dog and the holiday home to hurt each other. In geopolitics, it is trade, finance, the movement of people, responses to pandemics and climate change – and above all the internet – that are being weaponized. And Europeans are uniquely intertwined with the rest of the world; be it economically, or on energy, technology or defence.

These dependencies came into sharp focus during Trump's first period in office. Although Europeans were subjected to various humiliations during his four years as president, the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) – also known as the Iran nuclear deal – in 2018 and the European Union's subsequent inability to hold up the deal on its own was a particular turning point. It laid bare European impotence and led to pained debates around "strategic autonomy" and "European sovereignty".

These debates only intensified during the Covid-19 pandemic in 2020 and Russia's full-scale invasion of Ukraine in 2022. As if constricted supply chain and energy dependence on Russia were not enough, Europeans must now also contend with challenges related to Chinese overcapacity and the possible loss of America as a security provider.

This economic and security crisis is taking place within a wider crisis of European identity. Europeans broadly acknowledge[4] that abandoning globalization in exchange for self-reliance, autarchy and decoupling is not feasible. Strategic autonomy, as coined by French president Emmanuel Macron, remains a divisive concept, viewed by many other European policy-makers as primarily anti-American.[5] But as Europeans reflect on the trade-offs between autonomy and interdependence, they risk succumbing to a sense of helplessness and a lack of unified agency, where each European country seeks its own path and ultimately resorts to placating the great powers.

They ought to remember that the EU still makes up about 15% of global GDP and is the world's second-biggest military spender.[6] Through concerted, united action, European cooperation and integration has the potential to be an extraordinary force multiplier, not only for its member states but also for its wider neighbourhood and as a contributor to global order. Achieving this vision requires both a clear strategy for engaging with the world and the political will to do so. It demands nothing less than an intellectual, political and institutional awakening.

Neither autarchy nor dependency

The concept of "strategic interdependence" presented across the following chapters offers a path forward. Instead of attempting to insulate themselves from the world, Europeans must accept the benefits of interdependence while working out how to structure and maintain it. The best hedge against dependence and insecurity is to foster more options and build more relationships. Paradoxically, greater interdependence — when strategically managed — can offer a defence against coercion and blackmail, just as a divorcing couple might find shared ground and stability as co-parents of their shared children.

The best hedge against dependence and insecurity is to foster more options and build more relationships. Greater interdependence, when strategically managed, can offer a defence against coercion and blackmail.

At the same time, Europe must be realistic about the vulnerabilities inherent in interdependence and take steps to protect itself against them. It is here that strategic thinking is most essential: Europe must organize its relationships in a way that avoids imbalances that could be turned against it. This means de-risking those relationships that are most unequal, to protect against coercion and blackmail from the outside.

On foreign policy and defence, the future of the conflict initiated by Russia will be the single most important factor in the years ahead. The EU must be ready to live up to its rhetoric of supporting Ukraine, even in a situation where support from the US starts to weaken. This means bolstering its role as a security provider and pledging 0.3% of GDP in support for Ukraine, while preparing for the eventuality of a complete drop-off in US assistance in the short term and ensuring that Ukraine, Moldova and the Western Balkans remain on the path to EU membership in the long term.

Europe also needs to embrace greater and more diverse engagement with the wider world: a more balanced transatlantic relationship with deeper European responsibility for NATO; a stronger voice on the Middle East; new trade deals in Asia; closer partnerships in Latin America; and a humble but ambitious approach to a rising Africa. This new engagement must be built on a realistic European approach to reforming the United Nations and Bretton Woods institutions and, most of all, on a new drive to reinforce the EU's defence in cooperation with crucial partners such as the United Kingdom.

On climate, European policy-makers should focus on expanding the union's green technological capacity. Rather than trying to reclaim leadership in sectors such as solar power, where China's dominance was decided a decade ago, the EU should prioritize emerging green technologies that are still in contention, like battery production. In addition, it must create a framework to manage unavoidable dependencies; for example, by establishing a critical raw materials (CRM) reserve as a buffer against supply disruptions.

Europe cannot reverse its relative decline compared with the US and China until it boosts sliding productivity growth, so leaders should focus on encouraging innovation in pivotal sectors.

Strategic interdependence also has implications for domestic policy. Particularly since the financial crisis of 2007-2008, the benefits of globalization have clearly not been shared equally. How do governments organize migration, the introduction of novel technologies and a renewed push for European competitiveness in ways that protect citizens who ended up on the wrong side of global interdependence — those who saw their jobs move overseas and, in certain sectors and geographies, saw migration drive down wages and strain housing markets and public services?

On migration, this means drafting a new social and political compact which takes into account economic and demographic realities while maintaining public buy-in. It means keeping open legal migration channels while continuing to combat irregular migration. Well-targeted investments in education and training in migrants' countries of origin can build trust and reduce brain drain, while European universities should collaborate to attract and retain skilled students and researchers through pathways to residence and citizenship. Integration strategies need local-level support and public engagement, and should apply best practices from across the continent.

On technology, Europe has long pitched itself as a regulatory powerhouse, setting important standards with global reach. But now it finds itself lagging behind in vital areas like artificial intelligence (AI). The rise of new big and middle powers reduces the imperative for the rest of the world to follow the EU's digital rules. Achieving both technological competitiveness and security, and creating European digital champions, will mean placing research and innovation, science and technology at the heart of the European economy. It will also mean cutting red tape, investing in digital infrastructure and building partnerships with the rest of the world on semiconductors and rare-earth extraction and processing.

None of these other forms of strategic interdependence can be achieved without an overall drive to restore Europe's economic dynamism. The bloc cannot reverse its relative decline compared with the US and China until it manages to boost sliding productivity growth. So EU leaders should focus specifically on encouraging innovation in pivotal sectors by supporting the development of an ecosystem of venture capital funds, scaling up the activities of the European Innovation Council (EIC) and addressing the fragmentation of Europe's innovation financing landscape.

In the following chapters, members of the High-Level Group on European Strategic Interdependence of the World Economic Forum — co-convened by the European Council on Foreign Relations — will explore in more detail what strategic interdependence means across six sectors: foreign policy, defence, climate, migration, technology and economic competitiveness. They offer concrete policy proposals for each, together comprising a roadmap towards a strategically interdependent future for Europe.

1 Foreign policy and defence: resilience through engagement

By **Carl Bildt**, Co-Chair, European Council on Foreign Relations (ECFR) and **Pekka Haavisto**, Member of Parliament (Eduskunta); Minister for Foreign Affairs (2019–2023), Finland

Europe must take more responsibility for its own defence and neighbourhood and build more coordinated alliances in the wider world.

> Interdependence is a reality for a bloc with a fragile periphery, on the doorsteps of both Asia and Africa, and deeply integrated into global systems of commerce and cooperation.

"War is the continuation of policy with other means", wrote the Prussian strategist Carl von Clausewitz. That clean contrast between diplomatic measures and military ones — the latter kicking in when the former fail — has long been particularly stark in the peaceful, secure European Union. But in a "lose-lose"[7] world of mounting crisis and insecurity, it is breaking down.

Survey the map. The most obvious priority for Europeans, Russia's full-scale war in Ukraine, tightly intertwines foreign policy and defence. Diplomatic manoeuvring, military supplies to Kyiv and the EU's own conventional and hybrid defence all condition each other. In Europe's wider neighbourhood, too, the divide between foreign policy and military matters is blurred, as wars and other violent crises encroach. Globally, the fragmentation of the post-Cold War system of multilateral governance intersects with mounting hard-power rivalries; and high geopolitics is increasingly difficult to separate from broader themes such as technology, climate and trade. The second Donald Trump presidency in the US is not likely to lessen any of these trends and in many cases will accelerate them.[8]

> A commitment by each EU member state to spend 0.3% of GDP on continuing to arm and support Kyiv should become a new yardstick.

Such circumstances make it tempting for Europeans to pull up the drawbridge; to seek autonomy and insulation from the wider world by withdrawing diplomatically and reinforcing their defences unilaterally. That would be a mistake. Interdependence is a reality; particularly for a bloc with a fragile periphery, on the doorsteps of both Asia and Africa, and deeply integrated into global systems of commerce and cooperation. The only sensible choice is to make a virtue of it; taking strength from those connections by deepening and diversifying them.

What would a European Union strategically interdependent in foreign policy and defence look like? Survey that map again. On the European continent itself, it would be deeply unstrategic to pursue or accept any sort of peace in Ukraine that is not fair and sustainable. That means continuing to arm and otherwise support Kyiv to give it the best possible hand in any negotiations. A commitment by each EU member state to spend 0.3% of GDP on this goal should become a new yardstick. Further priorities include a long-term plan to ramp up ammunition production, reinforce Ukrainian air and missile defence and supply the support and spare parts needed to maintain European military equipment already in Ukrainian hands.[9] It also means being ready for the new Trump administration's push for peace talks. The more the union establishes a strong common position, the less likely those talks will take place over European heads.

> A stronger European role in NATO is the strategically interdependent way forward; with the EU and close allies like the United Kingdom and Norway as sovereign partners to America, not free-riders or clients.

It would also be unstrategic to allow Ukraine, as well as Moldova and the Western Balkans, to stagnate or descend into greater instability on the union's margins, rather than offering them a clear path to EU accession, even within the timeframe of the next multiannual financial framework.[10] Equally, it would be unstrategic to overlook hybrid threats on European soil, such as GPS jamming or interference in energy and telecommunications infrastructure. That demands a whole-of-society approach to security challenges, taking in such "civilian" realms as logistics, telecommunications and healthcare.

Most of all, it would be unstrategic either to give up NATO or to take it for granted. The US may be pivoting towards Asia, but Europe will continue to depend on its nuclear deterrent, intelligence and continent-wide command and control abilities well into the foreseeable future. In that respect, "total autonomy" would spell insecurity. A stronger European role in the alliance is the strategically interdependent way forward; with the EU and close allies like the United Kingdom and Norway as sovereign partners to America, not free-riders or clients.

That means improving the union's ability to deal with more of its own problems — through structures like the European Defence Agency, the European Defence Fund and Permanent Structured Cooperation — while investing in domestic defence industries that can pull their weight in NATO and reduce over-reliance on the US. Those two goals are not at odds. There is a natural complementarity between NATO as a military alliance and the EU as a security alliance with a more muscular capacity for defence. That capacity should be channelled to areas complementing NATO's responsibilities: resilience and cyber defence, military mobility, research and development (R&D), and capability development and delivery.[11]

Looking farther afield, in the Middle East, a strategically interdependent Europe is one with a more unified position on the Israel-Palestine question. Historically the EU (or before 1993, the European Economic Community) has played an important role in the conflict, for example in the Venice Declaration of 1980.[12] But today it is a non-force in the quest for peace and stability in the region — a dismal record for one of the world's leading economies, in its own neighbourhood.

In Asia, a strategically interdependent Europe would continue to seek broad free-trade agreements with states like India, including building an alliance with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a regional grouping of 12 states (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United Kingdom and Viet Nam) that was created in 2018 following America's withdrawal from the Trans-Pacific Partnership.[13] Europe should tread a canny line with China: standing up to Beijing on cases that undermine Europe's security (such as Chinese support for Russia's aggression in Ukraine) while pursuing continued cooperation on shared interests like climate action. There is value in recognizing that China will remain a leading world power for the foreseeable future.

In the Middle East, a strategically interdependent Europe is one with a more unified position on the Israel-Palestine question.

Most important for Europeans, in the long-term, is Africa. Bilateral and mini-lateral formats may prove more fruitful than the endless circuit of "Africa conferences".

A similar but distinct approach applies in Latin America. There are obvious areas of overlap with Europe on topics including the green transition, multilateralism and technological innovation; but unlike Asia, the region is often overlooked on the world stage. Europe can make itself a natural partner, especially through its strategic relationship with Brazil[14] and the conclusion of the EU-Mercosur Association Agreement.

Most important for Europeans, in the long-term, is Africa. Europe is highly exposed to events, good and bad, on the continent. By 2050, two in every five children born on Earth will be Africans.[15] That demands of Europe both humility and ambition towards Africa: the humility to acknowledge the failings of its Sahel strategy[16] and its neglect of the humanitarian nightmare in Sudan;[17] and the ambition to deepen cooperation with promising partners such as Ghana, Kenya, Côte D'Ivoire, Nigeria, Senegal and Tanzania. Bilateral and mini-lateral formats may prove more fruitful than the endless circuit of "Africa conferences", which can seem patronizing.

De-risking interdependence

European Union leaders and governments must be pro-active about creating the tools and conditions needed for all this engagement. At home, that means revising its "strategic compass" roadmap agreed in early 2022, which is already ripe for revision and to do so before decisions are taken on the union's next seven-year budget — unlocking the additional resources needed for any realistic policy of strategic interdependence. The role of EU High Representative for Foreign Affairs could be bolstered with support not only from special representatives but also by groups of member-state foreign ministers. In addition, the EU should establish an informal security council, comprising the main representatives of the European Council and the European Commission, to coordinate external policies.

Globally, Europe's leaders will need to stand up for international law and multilateral cooperation — recognizing that this will at times put it at odds with the US administration. Much of the global governance system is deadlocked, but not all of it: Europeans can make pragmatic arguments for reforming United Nations agencies, the Bretton Woods institutions[18] and the arbitration and conflict-resolution system of the World Trade Organization. The EU is much more dependent than the US and China on external trade, so it is particularly in its own interests to uphold and where possible deepen open trading arrangements.[19] This is one of many areas where, even if a global or Western consensus is lacking, Europeans can help form smaller plurilateral groupings and coalitions of the willing.

Another area of interdependence is technological cooperation, where the EU should seek a digital alliance with the US — notably in the development and promotion of 5G and 6G technologies where Europe is still in a leading global position. To do this, the EU will need to address its own digital weaknesses and lagging competitiveness (as Eva Maydell and Agathe Demarais explain later in this report) and seek to be more active in discussions about regulating artificial intelligence globally rather than merely doing so at home. Space is a related realm of technological competition, where Europe will have to manage its exposure to the risks of slipping behind the US and China. Scale matters,

Europe needs a long-term plan to reduce European dependence on US military assets; including investments in air and missile defence, a drone fleet and European air transport and refuelling capabilities.

so the EU should merge its nascent space policies into the European Space Agency (ESA) as a new EU Space Agency (while retaining the ESA's broader membership).

To return to the underlying theme of this chapter: Europe's foreign-policy ambition is inextricable from the strength of its defences. Investment in defence must be the foundation on which all wider engagement is built. This chapter has already addressed the need for European governments to take more responsibility for NATO in order to rebalance the transatlantic relationship. Doing so means much more than saying the right words.

It means much deeper defence investments, with serious political effort needed to build long-term support for those costs among electorates. It means European militaries delivering NATO's leading land, air and sea forces. It means a comprehensive security agreement between the EU and the UK, restoring prior levels of intelligence sharing and treating the British defence industry as part of the wider European one. And it means a long-term plan to reduce European dependence on US military assets; including investments in air and missile defence, a drone fleet and European air transport and refuelling capabilities.[20]

Such investments will provide a resilient base for more active European foreign policies in the world, which should in turn reinforce Europe's security and its ability to build its hard power. As this chapter has argued, foreign policy and defence are intertwined. Recognizing this and acting accordingly is an essential plank of strategic interdependence.

Summary of recommendations

- Establish a common position on any Ukraine-Russia negotiations, set a 0.3% GDP target for Ukraine support and create a long-term plan to continue military support to Kyiv. The EU should also accelerate progress towards its next enlargement.
- Seek a common position on the Israel-Palestine crisis, push for new trade deals in Asia, tread a balanced line on China, position Europe as a leading partner to Latin America and treat Africa with both humility and ambition.
- Revise the strategic compass before the next EU budget negotiations, bolster the role of the High Representative for Foreign Affairs and create an EU security council.
- Recommit to realistic reforms to the multilateral system and pursue new plurilateral forms of cooperation, including a digital alliance with the US.
- Adopt a whole-of-society approach to defence that encompasses civilian realms such as logistics, telecommunications and healthcare. Build a long-term political base among electorates for higher military spending.
- Forge a comprehensive security agreement with the UK and initiate strategic investments that, over time, reduce Europe's defence dependence on the US.

2

Climate and energy: a strategically interdependent transition

By **Laurence Tubiana**, Chief Executive Officer, European Climate Foundation

Rather than trying to win green-tech races it has already lost, Europe should focus on those still in contention.

> Thanks to the Green Deal, Europe is further ahead in decarbonizing its economy than any other region. However, this success belies significant, interlocking vulnerabilities.

> The EU's 2013 tariffs on Chinese solar panels did little to protect domestic industry, while making clean energy more expensive for consumers and businesses.

The global energy transition is well underway, with record amounts of renewable energy added annually. Fossil fuels will peak by 2030, according to the International Energy Agency.[21] The main driver is the need to avert the ever-more obvious and severe effects of climate change – but economic self-interest is another, increasingly powerful force behind the transition. Most countries now recognize that geo-economic power in the 21st century will be closely tied to leadership in clean energy and the technologies that enable it. This is spurring a revival of industrial strategy and an intense race to secure a slice of rapidly expanding green industries.

Green industrialization is central to the US-China rivalry. China holds a significant lead, producing over 80% of global solar panels, 70% of batteries and a growing share of electric vehicles (EVs). It also dominates the processing of critical raw materials (CRMs) such as cobalt and lithium. The US Inflation Reduction Act has allocated over $370 billion to boost domestic production and reduce dependence on China, framing green tech leadership as a matter of economic and national security.

And Europe? Thanks to world-leading programmes like the European Green Deal,[22] the EU is further ahead in decarbonizing its economy than any other region. However, this success belies significant, interlocking vulnerabilities.

The EU is heavily reliant on external suppliers for crucial green technologies. Recent disruptions, such as its export controls on gallium (where China accounts for 98% of global production), highlight its dependency. Meanwhile Beijing's dominance and the US's muscular response are feeding broader anxiety about Europe's economic competitiveness.

This in turn is stoking concern among policy-makers about the political viability of overtly prioritizing the green transition at a moment when European voters are feeling insecure. The EU particularly fears its large automotive sector falling behind in the shift to electric vehicles; hence its recent, much-debated move to impose tariffs on Chinese EVs.[23] In a world where green industrialization and geopolitical power are mutually inextricable, Europe seems to be on the back foot.

A material world

Yet Europe should not be fatalistic. With the right combination of openness and partnerships on one hand and smart management of dependencies on the other — strategic interdependence at its best — Europe can plot a path to abundant renewable energy that overcomes its vulnerabilities.

The continent has made significant progress in reducing its emissions to date, by prioritizing efficiency over interventions dictating the origin or supply chains of the technologies in question. But in today's fractious geopolitical context, policy-makers are rightly concerned about the risk of simply replacing one set of dependencies (linked to fossil fuels) with another (linked to green energy). The EU's Net-Zero Industry Act rightly aims to meet 40% of its annual net-zero technology needs through domestic production by 2030. The union needs to accelerate progress towards this goal while ensuring that it has maximum leverage over the supply of net-zero technologies from abroad. In practice, this means Europe establishing itself as a more central player in green industrial supply chains.

However, in this new, more geo-economic approach, Europe should tread carefully in the area of tariffs. When targeted, these can be justified in cases of unfair competition or carbon-intensive imports (the aim of the EU's forthcoming Carbon Border Adjustment Mechanism). However, over-reliance on protectionist measures could raise the cost of Europe's transition, complicate political and economic challenges, and provoke retaliatory actions. The EU's 2013 tariffs on Chinese solar panels, for example, backfired as increased costs led to job losses in the installation sector and made it harder for European manufacturers to scale-up. Ultimately, the tariffs did little to protect domestic industry, while making clean energy more expensive for consumers and businesses.[24]

Instead of trying to reclaim leadership in sectors like solar power, where China's dominance was decided a decade ago, Europe should prioritize emerging green technologies that are still in contention. The battery market, projected to grow by 25-30% annually, is one such area. While China has a head start, with vertically integrated supply chains and advanced expertise, the technology is still evolving. That leaves room for Europe to catch up and secure a significant role. Poland is already the world's second-largest lithium-ion battery producer, showing that EU states can be major players in this sector.[25]

Doing so means marshalling resources on the scale required. As Mario Draghi's report on competitiveness made painfully clear: unlike China and the US, Europe lacks a truly unified internal market.[26] Fragmentation makes it harder for fledgling green technology businesses to scale-up and access affordable European finance. Policy-makers must confront this with ambition and urgency. That will require a subsidy framework balancing intervention with openness, greater involvement from the European Investment Bank (EIB), a capital increase to the EU Innovation Fund and EU-wide tax convergence. Every euro spent on clean technology R&D should be tax-deductible (subject to carefully calibrated constraints on technology transfer outside of Europe).

The forthcoming EU Clean Industrial Deal is the perfect pan-European framework to tackle these challenges, by reconciling industrial modernization and decarbonization, while avoiding a wasteful and divisive free-for-all. The deal should, among other things, establish special permits for ramping-up green technology production facilities to expedite their construction. These would enable companies to grow much faster and, in the process, reduce the costs of their products and make them more competitive in the global marketplace. A similar policy toolbox would allow Europe to speed up the urgent process of modernizing and expanding its energy grid infrastructure. Here, a thorough review of regulation regarding land use and local energy infrastructure development should help accelerate the deployment of renewables.

The concentration of CRM extraction and refining in one country poses a significant risk to Europe. The EU's CRM Act rightly aims to boost domestic mining, refining and recycling, but the bloc remains CRM-poor and will continue to rely on imports. There are nonetheless several steps it can take to secure access to CRMs for its green industries. The EU should establish a CRM reserve – inspired by the US Strategic Petroleum Reserve – as a buffer against supply disruptions. It could do so partly through joint EU-level purchasing. The mechanism could be opened to EU partners such as Switzerland, European Free Trade Association (EFTA) countries and the United Kingdom.

The Green Deal is Europe's greatest asset – but the EU has to rebalance the triangle between sustainability, competitiveness and security.

More importantly, the EU should strike new partnerships with resource-rich countries. That means overcoming the trust deficit in many developing economies – a deficit that has grown in light of Europe's handling of COVID-19 vaccines, ongoing difficulties with development and climate finance, perceived green neo-colonialism with the EU Deforestation Regulation (EUDR) and the anticipated impact of the Carbon Border Adjustment Mechanism (CBAM). To achieve this, the EU should revamp its Global Gateway initiative to offer more than rebadged budgets and an overly optimistic reliance on private finance. It should help partner countries move up the value chain, for example by investing in cobalt refining in the Democratic Republic of the Congo. It should also engage with emerging economies to help them adapt to the EUDR and CBAM.

Some politicians suggest that Europe can seek competitiveness and sovereignty through lowering climate ambitions. That would be a dead end. The European Green Deal is the continent's greatest asset, providing certainty for green businesses by guaranteeing growing demand for their products. It evokes China's EV success, which owes much to policies accelerating the switchover and thus driving domestic demand. Delaying Europe's 2035 phase-out of internal combustion engines would have the opposite effect, making it harder for automakers to invest in EV production.

If Europe can avoid such pitfalls and pursue a strategically interdependent green transition — expanding domestic production wherever possible and investing in secure, diversified partnerships where not — it can find a balance between openness and resilience that will serve it well. In a nutshell, the EU has to rebalance the triangle between sustainability, competitiveness and security.

Summary of recommendations

- Go easy on tariffs. The energy transition must be as affordable as possible if it is to command widespread support.
- Instead of focusing on technologies already dominated by other players, focus on those where Europe can still win a commanding position, such as battery technology.
- Use every available form of firepower to stimulate green industry – smart subsidies, a newly empowered EIB, an expanded EU Innovation Fund and new tax deductions for R&D.
- Establish a CRM reserve as a buffer. Source CRM imports through new country partnerships that are facilitated by a revamped Global Gateway initiative. Provide support for local value-creation and assistance in adapting to CBAM and EUDR.
- Both the EU and national governments should fast-track permitting and conduct a fundamental review of land use to expedite the construction of green infrastructure.

3

Demography and migration: a roadmap for renewal

By **António Vitorino**, Director General of the International Organization for Migration (2018–2023)

With Europe's workforce shrinking, a bolder approach to migration is key to turning its demographic crisis into an opportunity.

By 2050, Europe's 75- to 84-year age group will increase by nearly 60%, while its working age population will shrink by 20%, largely due to low birth rates and higher life expectancy.

Europe's demographic landscape is undergoing a seismic shift. By 2050, the 75- to 84-year age group will increase by nearly 60%, while its working age population will shrink by 20%, largely due to low birth rates and higher life expectancy.[27,28] The economic and social aftershocks will be felt across the continent, as an ageing population shrinks the labour market and increases strain on social welfare and healthcare systems.[29] The European Union urgently needs a strategic framework to be more resilient to the challenges of such sweeping demographic change.

There are policy options available. European leaders can boost economic incentives to increase the birth rate, tailored to the social preferences of each society. Governments could work to increase women's participation in the workforce as well as to supplement labour market shortages with automation, AI and digitalization, which will play key roles in securing the economic production of the future. But these measures are only part of the solution. To comprehensively address its demographic dilemma, Europe also needs a more strategic approach to migration.

While migration holds the key to securing Europe's economic future, it is currently the subject of heightened politicization. To date, there have been difficulties reaching a common European migration policy, as the recent conclusion of the Pact on Migration and Asylum has shown.[30] Having passed into force in June 2024, achieving the pact's objectives will now hinge on the mutual trust and cooperation of member states, as well as effective leadership and monitoring by European institutions.

Even if European governments can successfully implement it, the pact alone will not be enough to stymie the continent's ageing and shrinking workforce problem. To reduce this vulnerability and reap the economic and social benefits of migration, the EU should practice strategic interdependence by adopting a more comprehensive and granular approach to migration, based on stronger partnerships with origin and transit countries.

An effective European approach to migration requires a strategy of cooperation with partner countries that considers their needs and perspectives. It will also require a comprehensive set of policies that go beyond the scope of the pact and bring back to the debate several of the proposals put forward by the European Commission in its original initiative.[31]

Securing the future

Migration agreements can benefit from the comprehensive approach that European institutions and member states bring to the negotiation table, provided they integrate partner countries' aims to mitigate the impacts of "brain drain" as much as European concerns to curb irregular migration. To compensate for what origin countries perceive as a loss of skills due to migration of qualified citizens, the EU should invest in education, professional and vocational training systems in those origin countries. This would provide both a confidence-building measure and a tool that benefits both sides.

Promoting regular and safe migration flows requires strategic investments before and after migrants arrive at borders, including pre-departure programmes and immediate post-arrival integration plans. As most migratory flows are labour market-driven, Europe can address its own skills shortages by assessing the needs of the single market and coordinating national admission decisions at the European level. Governments, private sector and civil society, particularly universities and research institutions, will need to work more proactively together in identifying needs and opportunities to set up regular migration channels.

Pathways to permanent residence and citizenship can be tools to attract and retain workers that Europe needs, particularly students and researchers. Together with governments, European academic institutions can develop joint efforts to attract and retain the most promising students and researchers, as well as promoting regular pathways to permanent residence and citizenship for highly skilled workers. This should include a unified visa scheme for non-EU nationals, allowing free movement across EU member states. In the same vein, fighting irregular migration is as much about having robust border controls as it is ensuring effective labour market regulation by authorities, to prevent abuses and violence against migrants who are deprived of legal status.

Policy-makers should address head-on the challenges of integrating migrants in host societies, as they become more complex and diverse. While admission policies are largely the task of national authorities, the integration of migrants is a mostly local-level process. Local authorities and stakeholders are often left alone to address the needs of new migrant flows, which are difficult to plan for, especially when they occur quickly. Evidence shows there is no integration system that can fit all possible contexts.

European integration strategies need to incorporate an understanding of the diversity of migratory flows, including their distinct interactions with host communities, the differences between flows to urban and rural areas, and the increasing role of climate change in driving migration. In all aspect of migration, there is both scope and need for a joint European approach, based on sharing best practice, evidence and knowledge as well as financial tools to support national and local strategies of integration.

Lastly, but importantly, public opinion in destination countries is prone to disinformation and manipulation, largely due to the perception that migratory flows are out of control. This narrative

> The politicization of migration at national and European levels requires strong leadership to make the case for regular migration as part of the solution to – not the cause of – Europe's problems.

fuels negative reactions from host communities who are often confronted with housing shortages and already overstretched health, education and social services. The politicization of migration at national and European levels requires strong leadership to make the case for regular migration as part of the solution to – not the cause of – Europe's problems.

Migration represents a source of diversity and enrichment for communities. But it can also cause societal and political tension, in part due to the scapegoating of migrants by populist and far-right politicians. One fact should cut through the political cacophony: together with labour market reform, migration holds the key for Europe to address the demographic challenges awaiting it. Unlocking these benefits requires a new, more collaborative and evidence-based engagement from the EU, its member state governments and society.

Summary of recommendations

- Boost economic incentives at member state level to increase the birth rate and work to increase women's participation in the workforce. Supplement labour market shortages with automation, AI and digitalization.
- Adopt a more coordinated, comprehensive and granular approach to migration.
- Address origin countries' concerns around brain drain by investing in their education, professional and vocational training systems.
- Assess Europe's skills shortages at the EU level, so that national admission decisions are coordinated to secure the workers the economy needs. Attract key workers with pathways to permanent residence and citizenship. For highly skilled workers, this should be coordinated through universities and research centres.
- Adopt a common European approach towards the integration of migrants, which shares best practice, evidence and knowledge as well as financial tools to support national and local strategies.
- Cut through the politicization of migration, through strong leadership at national and European levels to make the case for regular migration as part of the solution to Europe's problems.

4 Technology and innovation: playing to Europe's strengths

By **Eva Maydell**, Member of the European Parliament

Europe's tech sector is playing catch-up, but with strategic investments, smarter regulations and bold innovation, it can sharpen its competitive edge.

80% of suppliers to European semiconductor firms are headquartered outside the EU. China produces 80% of the EU's solar panels and nearly 50% of its critical raw materials. The US's 7 largest tech companies generate 10x more revenue than the EU's.

When it comes to technology, the European Union is a long way off achieving strategic interdependence. Its industry lags behind the US and China and depends heavily on its global competitors. Nearly 80% of suppliers to European semiconductor firms are headquartered outside the bloc,[32] while its global competitor China produces 80% of the EU's solar panels and just under half of its critical raw materials.[33,34] Meanwhile, the seven largest US tech companies are 20 times bigger than the EU's, generating 10 times the revenue.[35]

The EU's technology sector cannot afford to be playing catch-up. The bloc desperately needs a secure and stable supply of critical technologies to realize its digital and green transitions. Being heavily dependent on the US and China reduces Europe's ability to act autonomously when those countries do not align with the EU's interests or values.

However, to achieve a more robust and resilient technology sector, Europeans have so far asked themselves the wrong question. Rather than trying to emulate US successes – for example with a European cloud or satellite constellation – they should be asking how to create an environment where European innovation and industry can play to its own strengths.

Building strategic interdependence should therefore begin with a frank assessment of where the EU's dependencies and vulnerabilities lie, where it has strong like-minded partnerships and where it can develop its leading edge in technologies of the future. The EU cannot create champions without the raw ingredients: the right regulatory space, financing, infrastructure and trade partnerships are needed to unleash Europe's technological potential and safeguard its competitiveness and economic security.

Greasing the gears

To begin with, the EU needs to rethink its regulatory approach. The bloc has pitched itself as a regulatory powerhouse, setting important standards to guide the development of technologies. In the 2019-2024 EU institutional term, 93 digital and technology regulations were adopted, including the General Data Protection Regulation (GDPR), the Digital Services Act (DSA), the Digital Markets Act (DMA), the Chips Act, the AI Act and the Data Act.[36]

To kick-start European industry and innovation, the EU should conduct a comprehensive review of its regulation and withdraw any unnecessary regulatory and administrative barriers.

But the "Brussels effect" – where other regulatory jurisdictions seek to align with the EU's regulations – is losing its potency as emerging technologies like advanced AI become more hotly contested geopolitically. The rise of technology sectors in other countries, especially new great and middle powers, dilutes the imperative to follow the EU's digital rules. Big technology firms, meanwhile, have consistently argued that overregulation has stifled innovation in Europe.

European policy-makers should not see it as a simple choice between regulation and innovation. Rather, a broader set of legal and institutional reforms are necessary for technology companies to innovate and for digital economies and societies to thrive in the global ecosystem.[37] To kick-start European industry and innovation, the EU should conduct a comprehensive review of its regulations and withdraw any unnecessary regulatory and administrative barriers. As part of this EU-wide review, it should consider creating one-stop shops in member states that could help companies navigate the complexity of digital regulations. This should be accompanied by a less fragmented approach to initial public offerings (IPOs) to start-ups and small and medium enterprises, as well as a more unified and straightforward legal framework for businesses.

Innovation also requires investment. European start-ups currently face challenges in accessing capital, as bank loans have become harder to secure and venture capital in the EU remains much lower than in the US, as Agathe Demarais details in the following chapter. With support from the European Commission, the European Innovation Council could tap into pension and insurance funds to fuel home-grown start-ups and high-tech companies. To entice more private sector funding, the EU could minimize investor risk by introducing robust de-risking tools, such as loan and guarantee programmes backed by EU institutions. The European Fund for Strategic Investments and the European Guarantee Fund can serve as valuable models for these initiatives.

To get the most value for money, the EU should make use of the tools already at hand, such as the scale provided by the single market. The completion of the single market should therefore focus on removing barriers in services, energy, defence, finance, electronic communications and digital technologies to make doing business and innovation across member states easier.[38] The EU could then develop schemes to coordinate investments across the bloc and help European companies scale-up into global players. This approach could benefit from tax incentives, such as stock options with deferred taxes to make it easier for innovators to work across Europe, as well as from accelerating permitting and improving guidance and support for implementing regulations.

However, developing a more resilient and competitive technological industry cannot rest on the private sector alone. The EU must play its part by increasing investment in its own infrastructure – especially water supply, hydrogen pipelines, charging points, renewable energy technologies and 5G networks. Securing critical infrastructure is an important priority, particularly Europe's subsea cable network, on which Ireland, Cyprus and Malta rely for digital connectivity.

Beyond foundational infrastructure, the EU could aim higher by expanding its supercomputing

Proposals such as a "CERN for AI" could pool resources into a European innovation hub to drive breakthroughs and establish the bloc as a global technology leader.

capabilities. Proposals such as a "CERN for AI" could pool resources – computing power, talent and infrastructure – into a European innovation hub to drive breakthroughs and establish the bloc as a global technology leader. Together, these measures would weave resilience, innovation and security into the fabric of Europe's technological future.

Until these domestic policies bear fruit, however, it is crucial to maintain a high degree of trade openness with key technology suppliers. Achieving this means navigating geopolitical challenges, including fostering a workable relationship with the US under a Trump presidency. Refining the EU-US Trade and Technology Council to focus on strategic collaboration on topics such as export controls, AI, semiconductors, biotech and defence technologies would be a pragmatic step towards fostering shared objectives.

These efforts should be complemented by an EU commitment to increase international alignment on trade, industrial policies, investment screening, market access and competition policy. As part of this, the EU should pursue closer administrative cooperation to reduce regulatory friction and streamline trade with partners. As discussed in Laurence Tubiana's chapter, the EU's Global Gateway investment initiative can be expanded to support high-tech cooperation in AI, rare earth extraction and processing, and semiconductors.

Together, these policies would reflect the EU's commitment to international collaboration, not as a passive actor but as a proactive architect of a multipolar global order. By integrating smarter technological investments, industrial policy and better trade relations into a cohesive strategy, Europe can foster a form of interdependence that strengthens both global partnerships and its own resilience. Indeed, the future of Europe's competitiveness and security hinges on placing research and innovation, science and technology at the heart of Europe's economy.

Summary of recommendations

- First, the EU should review its regulation and withdraw any unnecessary regulatory and administrative barriers, streamline member state policies (e.g. regarding funding) and help companies navigate legal complexities.
- To ensure competitiveness and security, the EU should rethink its approach to technology and innovation by playing to its strengths.
- To boost public funding for innovation, the European Innovation Council could tap into pension and insurance funds and develop schemes to coordinate investments across member states to unlock the advantages of the single market.
- To entice more private sector funding, the EU could minimize investor risk by introducing robust de-risking tools, such as loan and guarantee programmes backed by EU institutions.
- Greater investment in Europe's infrastructure is needed, especially in water supply, hydrogen pipelines, charging points, renewable energy technologies and 5G networks. Funding should be directed towards creating a European innovation hub to pool talent and computing power.
- To bridge the gap until these policies take effect, the EU should prioritize robust trade openness with technology suppliers (e.g. by refining the EU-US Trade and Technology Council), seek closer alignment with partners on technology policies and expand Global Gateway investments.

5

Europe in the global economy: driving growth through innovation and trade partnerships

By **Agathe Demarais**, Senior Policy Fellow, European Council on Foreign Relations (ECFR)

Europe's economic engine is sputtering. To stay competitive, the EU must turbo-charge its finance for innovation and support for start-ups, while building global trade alliances.

Since 2015, the EU's annual productivity growth has idled at 0.7% – nine times lower than China's. Europe's workforce looks set to shrink by 2 million people annually by 2040 and its share of global GDP, currently 17%, could nearly halve by 2050.

Start-ups in the EU often feel they need to move to the US to scale-up their projects. Nearly a third of the 147 unicorns to emerge in the EU since 2008 have relocated to American soil.

Economic might is the fuel of geopolitical influence – but the European Union's tank is running low. Productivity growth and demographics are two determinants of long-term growth, but the bloc is performing poorly on both counts. Since 2015, the EU's annual productivity growth has idled at just 0.7% – less than half the US rate and nine times lower than China's. At the same time, Europe's workforce looks set to shrink by 2 million people annually by 2040.[39] Meanwhile, the EU's long-term economic outlook is bleak: its share of global GDP, now at 17% (at current prices), could nearly halve by 2050.[40] This economic backsliding not only threatens Europe's ability to fund its social model, it also risks weighing on the bloc's global influence, leaving it even more dependent on the US and China.

As António Vitorino stressed earlier in this report, the EU faces significant hurdles to improve its demographic prospects. Short of overcoming these, the bloc's long-term economic outlook will depend on its ability to boost productivity, of which financing for innovation is a key determinant.[41] Policies aimed at boosting R&D and the growth of start-ups working on frontier technologies are critical not just to boosting the prospects of the EU's technology sector, as Eva Maydell has outlined, but also to firing-up the bloc's economic growth. By reducing Europe's economic dependencies on the US and China and fuelling its global geopolitical relevance, innovation financing can help lift the EU out of its economic doldrums and enable the bloc to make progress towards achieving greater strategic interdependence.

However, focusing on innovation financing alone will not be enough. Europe must also invest in building strong trade alliances, in particular with developing economies that hold vast reserves of resources critical for the global energy transition.

Money, money, money

Mario Draghi's report into EU competitiveness argues that the bloc needs to invest massively if it wants to avoid falling behind the US and Chinese economies.[42] This conclusion may be true overall, but the causes of Europe's financing woes vary depending on whether one looks at public or private innovation spending.

Take public innovation spending first. At 0.74% of GDP in 2022, EU public spending on R&D is already higher than in the US (0.62% of GDP).[43,44] This suggests that instead of spending more, European countries need to spend differently – in a less fragmented fashion. Member states account for 93% of European public innovation spending, but there is no EU-wide coordination mechanism to pick priority sectors for innovation financing.[45] As a result, member states shower many different projects with small amounts of money instead of going big at the EU level on a few frontier sectors.

The problem with this non-strategy is obvious: it hinders the emergence of EU champions in sectors that will be critical to tomorrow's economic success, such as AI or quantum computing.

The picture for private innovation spending is even bleaker. Data shows that European firms invest far less than their American counterparts: private R&D expenses represent about 1.2% of EU GDP, around half the US share.[46] Such anaemic spending affects nascent and well-established companies alike.

European start-ups often struggle to attract capital – since 2013, they have received only $130 billion in venture capital financing, around nine times less than their American competitors.[47] The underdevelopment of Europe's venture capital market is a serious issue for start-ups, as it means they have few options except turning to banks. Even then, Europe's financial institutions are reluctant to extend loans to initially risky and unprofitable businesses. In turn, start-ups in the EU often feel they need to move to the US to scale-up their projects. Nearly a third of the 147 unicorns (start-ups whose value exceeds $1 billion) to emerge in the EU since 2008 have relocated to American soil.[48] This fuels a virtuous cycle in the US: the concentration of flourishing entrepreneurs supports the emergence of tech clusters that further cement America's domination of the global technology landscape.

Meanwhile, well-established EU firms struggle with a different issue: they have missed the boat for the transition towards a high-tech economy. In the US, high-tech sectors such as software, computer services and biotech capture 85% of R&D expenses. Meanwhile, the bulk of European R&D spending is focused on mid-tech industries (mostly the automotive sector), missing out on sectors that will prove critical to tomorrow's economy.[49]

Europe will not likely manage to reverse its economic backsliding, but it can slow down its relative economic decline vis à vis the US and China and foster the emergence of start-ups in a bid to control access to some technologies. To achieve these goals, two priorities stand out: boosting the finance for European entrepreneurs and going all-in at the EU level in a few frontier sectors.

Increasing the finance available for EU start-ups should be the first step. This is not a money problem: each year, the EU posts a current account surplus of roughly 2.5% GDP.[50] This means the bloc has an excess of savings that it invests abroad – often, ironically, in the US. The problem is that the EU does not have the financial frameworks to utilize these excess savings.

To tackle this issue, the EU should consider boosting the amount of financing available to European venture capital funds. Two untapped pools of money stand out: insurance assets and pension funds. Insurance assets are the lowest-hanging fruit. The EU's current review of the

> Boosting the budget of the European Innovation Council (EIC) would be a first step towards building a European sovereignty fund – a beefed-up EIC could spearhead innovation financing on a few key tech sectors.

Solvency II agreement provides an opportunity to relax the regulatory requirements, so that insurance fund managers could invest in venture capital funds. Even modest reforms could be transformative — the assets of EU insurance firms represent around 60% of EU GDP, more than double the US ratio.[51]

A trickier move would entail boosting the development of private pension funds, which could then also invest in venture capital. Since the assets of private pension funds are only worth around a third of EU GDP (compared to 136% of US GDP), there is scope for such a move. However, any EU-level initiative could be tricky to implement, as pension policies are set by member states and even a hint of pension reforms often proves politically unpalatable.

A second proposal consists in scaling-up the activities of the European Innovation Council (EIC). The EIC currently has the capacity to invest just €750 million per year in equity stakes – an amount that is unlikely to make much difference, especially on a global scale.[52] Negotiations for the financial envelope of the third pillar (innovation) of the next multiannual financial framework offers an opportunity to raise this limit. Boosting the EIC's budget would be a first step towards building a European sovereignty fund, as European Commission president Ursula von der Leyen has called for.

Finally, the bloc should tackle the fragmentation of its innovation financing landscape by creating an EU-wide mechanism for member states to identify a handful of critical technologies and go all-in on these fields. A beefed-up EIC could spearhead efforts to focus innovation financing on a few key sectors by identifying EU-wide tech priorities. This would foster the emergence of a more coherent EU financing landscape and help tackle the bias that often makes EU member states favour domestic projects at the expense of transformative ones.

In the medium term, such a strategy would support efforts to nurture the emergence of EU-based critical technologies. Some already exist, such as ASML in the Netherlands or ZEISS in Germany, both of which provide essential technology for semiconductor manufacturing.

Resilience through a strong network of partnerships

Focusing on innovation financing will not be enough for Europe to continue to matter on the global economic and geopolitical scene. To remain relevant, the EU must also make use of its greatest economic leverage – access to its vast single market of around 450 million wealthy consumers. Such a focus on commerce would boost the EU's standing with both allies – including the trade-oriented Trump administration – and foes, at a time when China is making headway in deepening its trade and investment footprint in developing economies.

The EU should focus on signing trade partnerships with emerging markets. The EU-Mercosur free-trade agreement is only one among many such deals. The bloc should also explore building closer trade ties with members of the CPTPP. Such a focus on Asia appears crucial, at a time when both China and India are playing an increasingly important role on the global economic scene. Deepening trade ties with those developing economies that are increasingly positioning themselves as hubs between East and West would come with the

added benefit of boosting Europe's de-risking efforts and, thus, its economic resilience.

The way forward will not be easy, as Europe is facing intense competition from China when it comes to deepening global trade partnerships. This means that to forge new alliances, the EU will need to focus on its unique selling point to developing economies. In that field, the bloc could present itself as an alternative to China to those economies that hold vast reserves of critical raw materials, such as Indonesia, Brazil or Chile. Europe's offer could include access to concessional financing, tailored trade deals and opportunities to access top-notch technology and know-how in the mining sector. In any event, the bloc should accept the new reality of developing economies increasingly standing up to defend their own interests and make deals with a variety of actors in a transactional fashion.

Hopes to turn the EU into the world's technology leader will likely remain unheeded amid an ageing population, high energy costs and geopolitical instability. But the bloc still has a shot at remaining indispensable in the global economy and easing its own dependencies on its competitors by charting a pragmatic course. Boosting venture capital for start-ups and coordinating innovation financing across member states are not just economic imperatives; they are essential to ensuring the EU retains enough leverage to shape global norms and safeguard its autonomy.

In parallel, inking trade partnerships with developing economies will help the bloc to remain relevant on the global economic scene. In a world dominated by giants, Europe's future relevance will depend less on the size of its tank and more on how astutely it drives.

Summary of recommendations

- Focus on boosting productivity growth by supporting the financing of European start-ups and going all-in at the EU level in a few frontier sectors.
- Consider increasing the amount of financing available to European venture capital funds through measures supporting investments from insurance and pension funds.
- Increase the budget of the European Innovation Council, laying the groundwork towards building a European sovereignty fund.
- Tackle the fragmentation of Europe's innovation financing landscape by creating an EU-wide mechanism for member states to identify a handful of critical technologies and focus on these fields.
- Nurture the emergence of EU-based critical technologies, particularly domains such as artificial intelligence, cloud and edge, semiconductors, quantum technologies, electrification and renewables, and advanced connectivity.
- Double down on building a network of trade partnerships, especially with developing economies.

Conclusion

By **Arancha González Laya**, Dean, Paris School of International Affairs (PSIA), Sciences Po

The European Union is at a crossroads. It can either take its future into its own hands or let it be determined by China or by voters in the US Midwest. It can stand united and shape its future. Or member states can pursue their own nationalistic paths and push the bloc into economic and geopolitical irrelevance. The choice is up to Europeans.

The tasks ahead are enormous. After decades of progress, the EU now faces the steepest climb in its history: to integrate energy and technology, capital markets and above all security and defence more closely and swiftly. Looking up at this north face, it can be tempting to declare the European project defeated, to exaggerate its weaknesses and belittle its strengths, forgetting that the EU has the agency to reach new heights.

As the ideas in this report show, the EU can make its economy more competitive and sustainable; it can make its society more resilient and better protect itself against the growing risks in its neighbourhood, particularly Russia. The task now is to mobilize political support for this agenda in European capitals.

51% of Europeans trust the EU, the highest since 2007. This is important political capital available to governments and European institutions looking to push the continent towards strategic interdependence.

The good news is that European citizens are on board. The latest Eurobarometer of autumn 2024 shows that 51% of Europeans trust the EU, the highest since 2007 and well above the levels of trust in national parliaments and governments.[53] Europeans have identified security and defence, climate, migration and economic competitiveness as their priorities for European action over the next five years. And 44% of them believe that ensuring peace and stability will have the highest positive impact on their lives in the short term. This is important political capital available to governments and European institutions looking to push the continent towards strategic interdependence.

Moving forward will require three ingredients:

The first has to do with the political economy of reforms and the trade-offs involved. While a lot has been written about the priority areas for EU action, there has been less debate about how to advance them both in terms of roadmaps and possible compromises. This report attempts to move the discussion towards these more granular aspects.

The second has to do with the need for integrated policy-making. As this report details, there are clear links between many of the required reforms. Attention should therefore be paid to developing them in an integrated manner rather than in silos. The European Commission's new organization around vice-presidents could help facilitate this.

Finally, the EU can achieve greater success by combining its domestic agenda with building stronger alliances with key partners around the world. First and foremost, by advancing the enlargement of the European Union. As others retreat into isolationism, the EU can build its resilience by reinforcing its partnerships across Latin America, Africa, the Gulf and Asia, as well as with those right on its doorstep, such as Switzerland and the United Kingdom.

Europe cannot achieve strategic interdependence alone. It needs to be more unified at home and more assertive abroad. Paraphrasing the great European Jacques Delors, "Come on member states, be brave, the European Spring is still ahead of us!"

Contributors

High-Level Group on European Strategic Interdependence

Co-Chairs

Børge Brende
President and CEO, World Economic Forum

Arancha González Laya
Dean, Paris School of International Affairs (PSIA), Sciences Po

Mark Leonard
Director, European Council on Foreign Relations (ECFR)

Members

Mattias Åström
Chief Executive Officer, evroc

Mark Boris Andrijanič
Vice President, Kumo AI

Laurence Boone
Former Secretary of State for European Affairs, France (2022–2024)

Anu Bradford
Professor of Law, Columbia Law School

Carl Bildt
Co-Chair, European Council on Foreign Relations (ECFR)

Mevlüt Çavuşoğlu
Member of the Grand National Assembly, Türkiye

João Cravinho
Former Minister of Foreign Affairs, Portugal (2022–2024); University of Coimbra

Agathe Demarais
Senior Policy Fellow, European Council on Foreign Relations (ECFR)

Nikola Dimitrov
Former Deputy Prime Minister for European Integration, North Macedonia (2020–2022)

Mirek Dušek
Managing Director, World Economic Forum

José Luis Escrivá
Governor of the Central Bank of Spain

Tanja Fajon
Deputy Prime Minister and Minister of Foreign and European Affairs, Slovenia

Alexander Gabuev
Director, Carnegie Russia Eurasia Center

Jan Goetz
Chief Executive Officer and Founder, IQM Quantum Computers

Pekka Haavisto
Member of Parliament (Eduskunta), Former Minister for Foreign Affairs (2019–2023), Finland

Pablo Hernández de Cos
Former Governor of the Central Bank of Spain (2018–2024)

Sigrid Kaag
Senior Humanitarian and Reconstruction Coordinator for Gaza, United Nations

Ivan Krastev
Chairman, Centre for Liberal Strategies

Angus Lapsley
Assistant Secretary General for Defence Policy and Planning, NATO

Miroslav Lajčák
Special Representative of the European Union for the Belgrade-Pristina Dialogue and Western Balkans

Philip Meissner
Founder and Director, European Center for Digital Competitiveness

Cecilia Malmström
Non-Resident Senior Fellow, Peterson Institute for International Economics

Eva Maydell
Member of the European Parliament

Daniel Pacthod
Senior Partner, McKinsey & Company

Katarzyna Pisarska
Chairwoman of the Council, The Casimir Pulaski Foundation

Jean Pisani-Ferry
Professor of Economics and Public Management, Hertie School

Lars-Hendrik Röller
Chairman, Berlin Global Dialogue

Grégoire Roos
Head of Political Dialogue and Policy Innovation, BMW Foundation Herbert Quandt

Martin Sandbu
European Economics Commentator, The Financial Times

Marietje Schaake
Director, International Policy, Cyber Policy Center, Stanford University

Stefano Sannino
Secretary-General, European External Action Service (EEAS)

Uljan Sharka
Chief Executive Officer, iGenius

Alexander Soros
Chair of the Board of Directors, Open Society Foundations

Jens Spahn
Member of Parliament, Federal Assembly of Germany (Bundestag)

Laurence Tubiana
Chief Executive Officer, European Climate Foundation

José Ignacio Torreblanca
Head of Madrid Office and Senior Policy Fellow, European Council on Foreign Relations (ECFR)

António Vitorino
Former Director General, International Organization for Migration (2018–2023)

European Council on Foreign Relations (ECFR)

Piotr Buras
Head of Warsaw Office, ECFR Poland

Susi Dennison
Senior Director for Strategy and Transformation, Senior Policy Fellow, ECFR France

Marta Prochwicz Jazowska
Deputy Head of Warsaw Office, ECFR Poland

Anand Sundar
Special Adviser to the Director, ECFR United Kingdom

Vessela Tcherneva
Deputy Director, ECFR Bulgaria

Giorgos Verdi
Policy Fellow, ECFR Spain

World Economic Forum

Andrew Caruana Galizia
Head of Europe and Eurasia

Salvatore Freni
Community Lead, Europe and Eurasia

Alex Roth
Community Lead, Europe and Eurasia

Production

Jeremy Cliffe
Editorial Director and Senior Policy Fellow, ECFR United Kingdom

Maxwell Hall
Creative Editorial Lead, Public Engagement

Portia Kentish
Editorial Assistant, ECFR United Kingdom

Jean-Phillipe Stanway
Designer

Jonathan Walter
Editor

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744
contact@weforum.org
www.weforum.org