



Falah Mousa

Researcher

Public Management and Communications Advisor
to the Former President of Iraq Jalal Talabani

EU Must Wake Up or Fade Into Irrelevance: Mario Draghi's Plan to Save Europe

“The European Union is falling behind economically and geopolitically due to a combination of structural weaknesses, industrial fragmentation, slow decision-making, and an inability to keep pace with global technological and economic shifts. One of the fundamental challenges is Europe’s failure to translate innovation into market dominance.”

The European Union (EU) has a Critical opportunity to reshape its future. In his recently released “*Report on the Future of European Competitiveness*”, Mario Draghi, former President of the European Central Bank and former Italian Prime Minister, highlights the pressing challenges facing the EU. Commissioned by European Commission President Ursula von der Leyen, the report delivers a sobering assessment of Europe’s economic trajectory, warning that “the gap in GDP between the EU and the US has widened significantly, driven by stagnating productivity growth and insufficient investments in key industries.” The EU now faces an urgent need for economic renewal, as it struggles with technological stagnation, declining productivity, reliance on imported energy, and increasing geopolitical vulnerabilities.

The report is divided into two parts: **Part A** outlines the strategic challenges confronting Europe, while **Part B** provides an in-depth sectoral analysis and concrete policy recommendations to enhance Europe's global competitiveness. From lagging behind in critical technological sectors like AI and semiconductors to dealing with escalating energy costs, the report highlights how Europe is unprepared for the rapidly changing global landscape. Draghi underscores that "Europe's failure to commercialize innovation has led to a widening gap with the US and China, particularly in high-tech industries," reinforcing the need for a coordinated industrial strategy.

Draghi warns that without a radical overhaul of its economic, energy, and industrial policies, Europe risks fading into irrelevance on the world stage. He argues that the EU must "match the ambition and scale of US and Chinese industrial policies" by fostering an integrated financial system, reducing regulatory barriers for high-growth industries, and prioritizing investment in frontier technologies. He also stresses that energy security is paramount, stating that "Europe's energy market remains too fragmented, with high costs undermining industrial competitiveness."

As Europe grapples with mounting geopolitical tensions, rising global competition, and rapid technological advances, Draghi's message is clear: Europe must fundamentally transform or face a future of economic decline. But will the EU heed this call? And even if it does, does the political will exist to implement the bold reforms necessary to secure Europe's place in the global economic order?



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Why the EU Is Falling Behind Economically and Geopolitically

The European Union is falling behind economically and geopolitically due to a combination of structural weaknesses, industrial fragmentation, slow decision-making, and an inability to keep pace with global technological and economic shifts. One of the fundamental challenges is Europe's failure to translate innovation into market dominance. While the EU produces high-quality research, it struggles with commercialization. As Draghi points out, "In fact, there is no EU company with a market capitalization over EUR 100 billion that has been set up from scratch in the last fifty years, while all six US companies with a valuation above EUR 1 trillion have been created in this period". This stark comparison highlights Europe's inability to foster new global industry leaders, which significantly weakens its economic influence.

Another major reason for Europe's economic stagnation is its lack of a unified industrial strategy. Unlike the US and China, where governments coordinate trade, fiscal, and industrial policies to enhance competitiveness, the EU remains divided. Draghi notes that "the public sector in the EU spends about as much on R&I as the US as a share of GDP, but just one-tenth of this spending takes place at the EU level". This fragmentation prevents the EU from fully capitalizing on its investment potential, limiting its ability to compete with global tech giants.

Additionally, Europe's overreliance on external energy sources and critical raw materials leaves it vulnerable to economic and geopolitical pressures. The EU continues to depend heavily on imports from China and other global suppliers for essential materials. Draghi warns that "for chips production, 75-90% of global wafer fabrication capacity is in Asia", underscoring Europe's dangerous reliance on foreign supply chains for critical technologies. This lack of industrial self-sufficiency puts the EU at a strategic disadvantage, especially as global trade tensions rise.

Moreover, Europe's slow and complex regulatory environment deters investment and stifles business growth. Unlike the US, where high-growth startups can quickly scale, European companies face bureaucratic hurdles that slow down their expansion. Draghi highlights this issue by stating, "More than half of SMEs in Europe flag regulatory obstacles and the administrative burden as their greatest challenge". These barriers discourage entrepreneurship and force many European startups to relocate to the US or other more business-friendly environments.

Finally, the EU's geopolitical influence is waning due to its limited military and economic coordination. While the EU collectively spends large sums on defence, it remains inefficient and fragmented. Draghi observes that "European collaborative procurement accounted for less than a fifth of spending on defence equipment procurement in 2022". This disjointed approach weakens Europe's ability to assert itself on the global stage, leaving it dependent on allies like the US for security.

In sum, Europe's decline stems from its failure to foster innovation, its fragmented industrial policies, energy dependence, excessive regulation, and lack of geopolitical coordination. Without major structural reforms, the EU risks further economic and strategic decline in an increasingly competitive global landscape.

Europe's Deepening Crisis: Productivity, Political Fragmentation, and Energy Challenges:

Mario Draghi's report presents a sobering analysis of Europe's economic decline, attributing it to stagnating productivity, industrial fragmentation, and an unresolved energy crisis. The EU has struggled to keep pace with global competitors, particularly the United States and China, due to a failure to convert innovation into economic leadership. Draghi highlights that "Europe's corporate structure is concentrated in mature industries with slow growth, while the U.S. and China dominate the frontier of technological innovation", emphasizing the EU's difficulty in scaling high-growth firms.



Photo: Eschoolnews.com

Beyond economic stagnation, political fragmentation remains a roadblock to deeper integration. Unlike the US and China, which synchronize industrial policy with national economic strategies, Europe remains divided. Draghi warns that "the EU's institutional setup creates an inconsistent policy response, as national interests often override collective European priorities", making coordinated decision-making almost impossible in key sectors like defense, energy, and finance. This institutional misalignment stifles critical investments in innovation, leaving Europe reactive rather than proactive in global economic shifts.

Energy security further compounds Europe's economic weaknesses. As Draghi notes, "Europe's energy pricing structure remains uncompetitive due to fragmented regulatory frameworks, excessive taxation, and lack of unified infrastructure investment". The absence of a cohesive energy market continues to strain European industries, forcing companies to operate under significantly higher costs than their global competitors. While the EU has made strides in renewable energy, Draghi stresses that "without a single European energy strategy, the bloc risks underutilizing its green potential while remaining vulnerable to external shocks".

Ultimately, Draghi's report warns that without structural reforms, Europe will remain in economic stagnation, losing ground in global markets. He urges EU leaders to act swiftly, stating that "Europe's future depends on whether it can overcome its policy fragmentation and invest at scale in the industries of tomorrow". The path forward requires bold action; will European leaders rise to the challenge, or will they allow the continent's global standing to erode further?

Can Europe Compete? The Urgent Need for Economic Transformation

Mario Draghi's vision for Europe calls for nothing less than a radical transformation; a coordinated, continent-wide effort to enhance innovation, energy independence, and defense, akin to a "war economy." However, this vision requires more than just political rhetoric; it demands bold action to overhaul Europe's fragmented industrial strategies and establish a unified EU-wide industrial policy that fully leverages the single market. Draghi warns that "Europe has one of the most open economies in the world, yet we are the only major global economy without a dedicated foreign economic policy". Without a shift toward greater economic coordination and strategic autonomy, the EU risks remaining vulnerable to external shocks and geopolitical pressures.

One of the most debated aspects of Draghi's recommendations is his call for subsidies and support for European industries, particularly in emerging technologies. While some critics label this approach as economic favouritism, Draghi clarifies that it is about creating the right conditions for European companies to scale and compete globally. He notes that "Europe's innovation ecosystem is strong at early-stage research but weak at turning it into market leadership," highlighting that too many high-potential firms relocate to the US due to more favourable financing and regulatory environments. To reverse this trend, Draghi argues that the EU must establish a unified energy market, simplify regulations, and, most importantly, develop a deep and liquid market for EU debt. Without a common financing tool to fund public goods like innovation and defense, the EU's capital markets union will remain incomplete, leaving European businesses starved for investment.

Draghi's report concludes with a stark warning: Europe's ambitions; technological leadership, energy independence, geopolitical relevance, and a strong social model, will be unattainable

without a profound shift in industrial policy, energy strategy, and financial integration. The EU's fragmented approach prevents it from matching the scale and speed of industrial policies in the US and China. "The US Inflation Reduction Act and China's state-led industrial policies have left Europe scrambling to react rather than leading the global competition". The choice before Europe is clear: it can either embrace deeper integration and common financing mechanisms or retreat into nationalistic economic policies, dooming itself to stagnation.

The real question is whether Europe's leaders have the political will to answer Draghi's call. If the EU is to remain a global power in the 21st century, it must act decisively now. Will the EU rise to the occasion and reclaim its competitive edge, or will it, as Draghi warns, continue to flounder in the face of existential threats? The answer to this question may well determine the future of Europe itself.

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