

Advancing Europe geo-economically, both internally and externally

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Introduction

The second von der Leyen Commission is amid a massive economic policy adjustment. With its simplification and open trade agenda, the EU has made good progress – the problem is that it's not perceived as such by European public opinion and abroad, or it is overshadowed by internal disagreements and business *as was usual*, which undermines the EU's positioning. A more positive and comprehensive assessment of the EU's agenda is needed.

In a world characterised by a tight innovation race, the European Commission has markedly changed course, focusing on competitiveness, reducing administrative burdens, digital sovereignty within the EU, and the completion of trade agreements, defence and enlargement externally.

The political context for progress is, however, extremely difficult, of which the recent Ceuta crisis was a perfect example. It demonstrated how the far right hangs over the EU's agenda and influences the reaction of the political leaders. This very polarised political spectrum is not expected to change any time soon, as alarming polls for the 2027 French presidential elections reveal, but also in other national and regional elections.

If the EU succeeds with its ambitious agenda, it will have an edge to position itself as a third bloc, which has always been its ambition, rendering it more competitive internally to act better as a bloc externally, able to really pursue its interests and principles.

About two years into Ursula von der Leyen's second term, this CEPS Policy Brief assesses the Commission's agenda thus far and the EU's (re-)positioning further to the competitiveness agenda, as well from the internal as from the external side.

Politics trumps economics

The EU model is under pressure, and its defence is suboptimal. Challenged by its closest and largest trading partners, the EU hesitates over which course to follow. This isn't only related to its political structure, but also to differences of views on how to best react. This was exemplified in the Turnberry Agreement between President Trump and the Commission President, or in the divergence of positions on China and the growing trade deficit. In the former, the EU accepted an asymmetric and disadvantageous trade agreement with the US and for the latter, the EU may come up with a special agreement – but it takes time to come to a joint position.

The EU stands for an open economy and the rules-based order. Both of its most important trading partners openly challenge this system, hence it needs to reflect on its role. This is where Europe needs to be more assertive and align with the other countries, the middle powers, that are committed to the same principles.

The EU has been losing out on investment and innovation. The clearest example today is the AI economy, where Europe is largely invisible. Not a single major AI platform originates from Europe and AI model production remains concentrated in the US and China. The US' private investment in AI in 2025 stood at USD 288 bn, or about twenty times higher than Europe (AI Index Stanford). Venture capital investment in the US in AI stood at USD 347.6 bn in 2026 (to date), compared to USD 14.6 bn in the EU 27 (AIWorld).

As with the absence of large EU-wide digital services companies, Europe's weakness in AI platforms is related to its strict digital regulation, as well as on privacy (GDPR), digital services (DSA) and markets (DMA). These rules are strongly contested by US big tech and by the US administration, as AI platforms need access to massive amounts of data to be performed. The 2024 Draghi report called for an overhaul and simplification of the EU's digital rules.

Economically, however, Europe is in better shape than is often implied, or the doom may be overdone and risks becoming a self-fulfilling prophecy. The EU's 2025 overall economic growth rate was 1.4%, compared to 2.1% for the US, due to the ongoing war on Europe's Eastern border, high energy prices and stable public finances. On average, the eurozone has a much lower budget deficit and public debt than the US, or even China and Japan, and lower inflation and debt refinancing costs.

An extensive competitiveness agenda

The Commission has been very active in enacting a programme to strengthen Europe's competitiveness, as seen by the several reports published on the subject at the end of the previous Commission's mandate. For some matters, it made an almost U-turn to cut red tape and simplify rules. In other cases, it adopted a real industrial policy programme to enforce the EU's economic sovereignty in industry, digital, defence, research, but also in specific sectors such as payments and quantum technologies.

At the time of writing, some **13 different packages of regulatory simplification** have been proposed by the Commission, covering horizontal (6) and sectoral regulatory (7) simplification. These so-called 'omnibus' packages mostly change several EU rules at once, hence it could be compared to the use of 'special legislative powers' in a national context.

Most publicised and criticised thus far has been the watering down of the corporate sustainability reporting (CSRD) and due diligence (CSDDD) directives. Other important

omnibus proposals are the digital, defence readiness and financial market integration and supervision (MISP) proposals. A fourteenth important omnibus is expected early next year for bank competitiveness, also a widely discussed topic.

Simplification is the guiding principle for the EU in its approach, but this doesn't mean the process is simple. Omnibus proposals cover several pieces of legislation at once, which need to go through the normal decision-making process, at record speed. The MISP to integrate Europe's capital markets, for example, amends 17 different and often very complex pieces of legislation. Hence, the task for legislators to ensure a consistent outcome and for interest groups to grasp the different amendments is enormous.

It's too early to judge the programme's results, but the direction is clear: less reporting, fewer host country restrictions, and, ultimately, more EU'. Competitiveness has become an overarching principle for EU policymaking, rather than being confined to specific policies. The Competitiveness Compass explicitly makes it a framework for aligning EU and national policies.

Concerns over the state of the European economy allowed the Commission to go much further with an effective industrial policy programme at EU level. As industrial policy was before mostly seen to be a Member State competence, current proposals are very straightforward and bring industrial policy more to the EU level, including domains where the EU's competences are limited. At the core is the Industry Accelerator Act and the programme to re-industrialise Europe, combined with decarbonisation, as set out in the Clean Industrial Deal and other actions to lower energy costs.

The Industrial Accelerator Act proposes to increase the share of manufacturing in the EU's GDP to 20% by 2035 (from 14.3% in 2024), which seems unrealistic. It introduces "Made in the EU" and/or low-carbon criteria in public procurement and public-support schemes in strategic sectors, including energy-intensive industries, net-zero technologies and the automotive industry. The Act set limits on foreign direct investment in the EU and differs from the existing EU FDI Screening Regulation. Majority shareholdings will be prohibited in strategic sectors (batteries, solar panels, EVs), and technology and know-how transfer is required, with a minimum of 50% EU-based employment. This is specifically targets China, while countries that the EU has concluded an FTA or customs union with are of EU origin.

The Security Action for Europe (SAFE) programme and the defence omnibus are other examples of the EU's industrial policy, in a domain that is strictly speaking not an EU competence. SAFE has an EU budgetary envelope of EUR 150 billion in loans to facilitate the joint purchases of arms and military equipment, with a minimum of 65% European content, and was rapidly oversubscribed. The defence omnibus legislative proposal aims to facilitate and streamline joint procurement in the sector but has faced resistance from member states.

Continuing delays in digital adoption

The delay in digital adoption and the lack of a digital single market is symptomatic for Europe's competitiveness problems and helps to explain Europe's productivity shortfall. Digital transformation figures high on the **One Europe One Market programme**, the EU's single market roadmap, with a tight timeline and clear institutional accountability mechanism. To tackle the delay in investment, the EU and Member States have unblocked EUR 10 billion for AI Gigafactories, which should mobilise additional private capital. But digital simplification is also on the agenda. The respective omnibus amendments (4 and 7) were adopted in record time, only seven to eight months. They should facilitate digital adoption by SMEs, among others

The question remains why the EU has been absent in big tech since so long. The EU has no cloud platform of any importance, it has no big tech, no sizeable chips production and no AI platforms, but is still a big user of all of these. The Commission adopted a [Tech Sovereignty Package](#) in June, a set of legislative and policy initiatives designed to reduce Europe's technological dependencies on non-European suppliers and build European capacity. One proposal addresses scaling-up capacity across the EU cloud and AI ecosystem (CADA), a second introduces a Cloud Sovereignty Framework, both containing 'emergency powers' for the Commission. A Chips Act II focuses on advancing the semiconductor supply chain. The package also contains a recommendation for mandating open source for tech sovereignty and a roadmap for digitalisation and AI in the energy sector.

Ironically, the tech sovereignty package was adopted two days after the EU signed the 'Pax Silica', the US-led initiative coordinating semiconductor supply chains targeting China. So, while the EU is aiming to reduce its dependence on the US, it still signs an agreement with the US to reduce dependence on China and hence participating in 'an attempt to build a technology-centered alliance framework around US leadership'. Five EU countries also signed directly: Finland, Germany, Greece, the Netherlands and Sweden.

Signing a Pax Silica seems difficult to match with the EU's ambition for proper digital diplomacy, which the EU announced in [June 2025](#). Shaping global digital partnerships, security and governance can only happen with like-minded partners. It has so far been successful with countries in East Asia, but not Taiwan, because of the One China Policy. Agreeing with the Pax Silica is also contrary to the '[EuroStack](#)', a comprehensive European technology stack to foster innovation, strengthen autonomy and competitiveness, and build a resilient and forward-looking digital ecosystem.

With the EU's EUR 10 billion for gigafactories, the EU wants to stimulate more investment in data centres in Europe, but the amount pales in comparison to what's being invested in the US. The gigafactories build upon the AI factories, started in 2024,

to foster collaboration within the EU, linking supercomputing centres, universities, SMEs and financial actors. Co-funding by Member States has led to a variety of reactions, from the classic budgetary constraints or to other concerns. It seems the EUR 20 billion Member State funding will not be reached, impacting private co-funding and creating a very diverse picture across the EU. Within a single market, this should not be a problem for access, but it demonstrates the digital gap won't disappear any time soon.

The EU should agree on reallocating the tax revenues of large corporates, and reassess the proposed digital tax, as the US government has withdrawn from the OECD's BEPS initiative. Apple paid USD 17.1 billion (EUR 14.6 billion) in taxes to Ireland in its 2025 fiscal year, which is 40% of the total taxes paid, and left roughly USD 500 million to be paid across all the remaining 17 EU nations where it is active. This case clearly indicates that the EU needs to go ahead with its proposal to reallocate tax revenue among the Member States, which is currently stuck in the Council. It also demonstrates that the EU needs to reconsider a digital tax, before Member States further advance with national initiatives.

The funding gap

The funding gap is mainly acute for the private sector, where the EU has been lagging the US and other trading partners. This problem has been well known for some time and is structural. On the public side, the funding is there; the problem is mostly one of coordination at the EU level, and between the EU and the Member States and regions. The EU has, in the context of the new MFF, proposed a radical redesign of its investment programme with the 'Competitiveness Fund' (ECF), which combined with the successful Horizon programme, creates a large funding instrument.

Following the other policy initiatives, the ECF and its InvestEU could become the cornerstone of a genuine European industrial policy. A central budgetary instrument to support strategic investments should facilitate coordination at EU level, even if the means remain limited, at EUR 234 billion for the next seven years, and to be agreed upon. The ECF will use a broad range of available financial instruments, conventional investment grants based on calls, plus dedicated support mechanisms tailored to address specific industrial challenges. This includes budgetary guarantees to allow private sector upscaling. Alas, the new EU budget faces an uphill struggle in the EU Council.

The EU's Horizon programme has become highly successful in the context of the EU's financial instruments for innovation, something that is not sufficiently appreciated. After the UK's return, alongside South Korea and Switzerland joining, and with negotiations with India ongoing since the conclusion of the FTA, the total number of associate partner countries is now set to be over 23. The new Horizon Programme will

have a budget of EUR 175 billion for the next seven years. With the central role of AI, and Europe's digital and innovation gap, the challenge for the new Horizon will be future proof.

The core problem for Europe is private funding for R&I, which is 1.4% of GDP, only just over half of the US figure (2.7%, OECD data). In addition, old industries top the R&I ranking in the EU, while new industries dominate in the US. The recent boom of AI investment in the US will further exacerbate the difference.

A lack of market finance is often advanced as a key reason for Europe's problems in funding and scaling-up innovation and investments. Advancing market finance has preoccupied European policymakers for the last 25 years, but the situation has not improved – on the contrary. An enormous omnibus proposal, the MISP, will further advance common capital market supervision to facilitate market finance, and reduce host country restrictions, hence creating more competition... but it's doubtful that this will bring much change.

The main problem for private investments is on the demand side, where European investment funds are too expensive for local investors, because of fragmentation, overly high fees and low performance. A recent amendment to EU [retail investment legislation](#) (in MiFID) has even formally allowed inducements, and does not demand the unbundling of costs, hence keeping the banks – the main intermediaries in the European financial system – in control of the market. US funds are on average three to four times cheaper than European, and are much bigger, up to 10 times larger on average.

The EU has tried to stimulate the supply of funding through various initiatives over the past few decades. There is foremost the European Investment Fund (EIF), managed by the EIB, as the main EU entity to take equity participations in start-ups. The EIF has often worked in cooperation with InvestEU in related initiatives. More recently, the Commission has taken the initiative for a Scale Up Europe Fund and has invited a variety of private investors to participate. It has contributed EUR 1 billion to the fund, and to date, the fund has a capital total of EUR 5 billion.

A truly single legal entity is a well-known barrier for start-ups in the EU. High regulatory burdens or a diversity of legal requirements hamper start-ups in Europe. The Commission proposed a new incorporation with 'EU Inc.' as a fully digital, fast, low-cost structure, with no minimum capital requirement and a truly one-stop framework. The latter would also facilitate rescue actions, as it would lead to superior predictability and efficiency, and the lowering borrowing costs. The proposal created a lot of traction, also with reference to stock options. The IMF recently calculated that the introduction of such a regime could increase EU GDP by about 3.3% over 10 years, rising to 4.4% over 20 years (IMF, 2026). Other elements such as taxation and workers' participation

will remain an issue of national competence, thus a full 28th regime wouldn't be created.

The external dimension

On the external side, a lot has also been done by the second von der Leyen Commission. Hallmarks are the FTAs with Mercosur and India, the advancement of the enlargement agenda, but also in the conclusion of other specific bilateral agreements, such as with the UK and Switzerland. Furthermore, the EU has been active in supporting corridors for supply chains in third countries, and with further refinements of its competitiveness legislation. But the two big elephants in the room are China and the US, where we're awaiting a strategy for the former, and an unfavourable but provisional agreement was concluded with the latter – the first of its kind.

On the FTA side, 46 EU trade agreements have been concluded with 50 partners, covering 83 countries or 53% of global trade. The most recent ones were with India, Mercosur, Australia and New Zealand, while others are still in the pipeline. The EU-India agreement was probably the least expected: it will remove high duties on industrial products and agri-food products, currently on average 16%, respectively 33% and higher. On services, it opens up markets. There's also a chapter for, covering norms to facilitate cross border access.

Mercosur is also very important, as the region is a trade and investment battleground for China, the US and Europe. It was also a huge element of discord within the EU, more than India, due to the concerns of European, and – above all – French farmers. However, there are sufficient safeguard clauses in the agreement. In addition, EU sanitary and phytosanitary (SPS) standards and controls will apply to imports from Mercosur countries. There were similar concerns over the CETA agreement in 2017-18, but the EU's agri-food exports to Canada have markedly increased since the agreement entered into force. The same increase in agri-food exports also happened following the EU-Japan agreement (EPA).

The Commission has been active in solidifying supply chain corridors outside the EU, with Armenia, for example, for the middle corridor, and with India and Middle Eastern countries in the IMEC. With Armenia, the action followed the EPC Summit and the TRIPPS Agreement mediated by the US, to normalise relations between Armenia and Azerbaijan. The Commission President visited Armenia twice in the first half of 2026, which says a lot.

The Commission and the Council has taken a turn to advance enlargement, primarily with Montenegro and Moldova, but also Albania, while fiscal support for Ukraine remains firm, from the EU but also from the Member States.

On China and the US, the situation is more complex. Both are using economic dependencies as a weapon in an ongoing geopolitical tussle, be it against the EU as a whole or against individual Member States. The conclusion of the Turnberry Agreement with the US, which has in the meantime been approved by the EP, does not stop the current US administration from keeping up the pressure, be it on digital, steel or other countries' sovereign territories.

On China, the adoption of a specific tool, a safeguard clause is recommended, not a classic trade defence tool, responding to China's persistent currency undervaluation and macroeconomic policies that generate demand externally while suppressing it at home. But the problem is that many large European corporates, a large number being of German origin, are directing their investments to China, and thereby increasing dependence, rather than reducing it. Taiwan learned its lesson 20 years ago and drastically reduced its investments with China.

Conclusions

The von der Leyen II Commission has made good progress in implementing competitiveness-based policies. It has acted rapidly to simplify legislation and started an EU-wide industrial policy. Legislation is being pushed through with remarkable speed, almost with 'special powers'. Emergency powers are part of specific legislation to advance digital sovereignty.

The EU has also advanced externally, with a flurry of trade agreements, diplomacy in the neighbourhood and in the digital domain, and by including many non-EU countries in the flagship Horizon research programme. Loyal to its vocation, the EU should remain open to like-minded countries and exploit its position, as a defender of the rules-based international order.

Trade- and industrial policy-wise, the EU intends to remain open. Some initiatives on the trade policy side may seem protectionist, as with the 'Made in Europe' or minimum European content requirement in the Industrial Accelerator Act. It has therefore been suggested to change this to 'Made with Europe' or 'Managed by Europe', as a clear commitment, even if the Accelerator Act includes third countries with which it has concluded an FTA.

Questions have been raised about the speed with which the second von der Leyen Commission has acted, whether impact assessments were properly undertaken, or the co-legislators had enough time to assess the proposals. The degree of regulatory change is indeed enormous and requires sufficient time for deliberation. But this is a matter of finding a balance between urgency and accountability.

It's too early to say whether the EU will manage to scale up, and whether it is becoming a third block, a central power as a leader of the middle powers or like-minded nations.

Progress in closing the digital and investment gap will be crucial yardsticks, but also there's a need for more commonality in its foreign policy.

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