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Judith Arnal, Enrique Feás, Agustín González-Agote, Miguel Otero-Iglesias, Jorge Tamames, & Federico Steinberg

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EXECUTIVE SUMMARY

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In the world prior to the Global Financial Crisis, the EU focused on promoting change through trade, encouraging geopolitical convergence by means of economic interdependence. That world –transformed by the COVID-19 pandemic, the crisis stemming from the Russian invasion of Ukraine and growing Sino-US rivalry– no longer exists. In the current geopolitical scenario, interdependence has turned into a double-edged sword, and hard-to-quantify concepts such as strategic autonomy and economic security have emerged. How can the EU adapt to the challenge of a global economy beset by neomercantilism, neoprotectionism and state interventionism without losing its essence?

This report sets out to answer the question by means of a series of proposals enabling a reformulation of both the EU's growth model and its economic governance.

The global economy is not what it once was, and ensuring economic security, autonomy in energy, the resilience of supply chains and technological supremacy are often deemed to be more important objectives than the maintenance of open markets or enhancing efficiency. This has paved the way, especially in the US, for new instruments of trade policy, an insistence on domestic production and controls on exports and investments in technology, with supply chains examined to reduce dependencies on China. The EU resists such extremes, because while it agrees on the need to reduce its risks ('de-risking') with China, it does not wish to go so far as complete economic severance ('decoupling'). It is, however, obliged to reconfigure its economic strategy to align it with the new era, and has launched various initiatives in recent years to reduce its strategic dependencies and minimise its vulnerabilities in at least seven areas: energy, critical raw materials, technology, supply chains, defence, working population and finance.

Properly identifying and understanding these vulnerabilities has enabled the authors to develop a series of proposals giving rise to a new growth model. This involves increasing the potential growth of the European economy, improving the competitiveness of its firms, hastening the energy and digital transitions, and boosting social cohesion.

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1 The authors would like to thank Marta Domínguez Jiménez and Manuel Alejandro Hidalgo for their comments on the first draft of this report.

First, the EU must bolster public finances with an appropriate budget that finances basic European public assets and contributes to the macroeconomic stability of the Eurozone, funding this with new European taxes and emissions of joint debt, and configuring a permanent fiscal capability; the institutionalisation of NextGenerationEU (NGEU) could be the embryo for this.

Secondly, it must enhance private European financing, avoiding the fragmentation of European finance markets, ensuring once and for all the consolidation of the banking union and the capital market and making headway in the creation or a risk-free sovereign asset, without overlooking the single market in services.

Third, it must devise an authentic European industrial policy, one that goes beyond mere decarbonisation, minimising the State aid that destroys the single market while rationalising the programme of public assistance available to companies, establishing a one-stop system and devising assistance models with a greater uptake, while strengthening regulatory environments in leading-edge technologies and improving information systems.

Fourth, it must incentivise a European ecosystem more favourable to technological disruption and ensure the supply of critical minerals, fostering new trade agreements, rationalising public assistance, making European programmes less bureaucratic, accurately identifying the sectors of the future, promoting risk capital and ensuring cohesion between the various national technology strategies.

Fifth, it must promote close cooperation between companies and public administrations, developing more inclusive models of public-private partnership, with a simpler and more transparent institutional and judicial framework, sufficient funding and with the participation of multiple agents at various levels, focusing efforts initially on the deployment of critical infrastructure and data governance.

Sixth, it must foster the ongoing training and reinforcement of human capital, reforming programmes of professional training and dual education and introducing periodic reviews to ensure their constant appropriateness to business needs, while strengthening the ties between educational institutions and companies.

And, seventh, it must propound a framework of international solidarity, bolstering multilateralism and at the same time strengthening bilateral and inter-regional economic and trade agreements, adapted to the needs and restrictions of each partner, contributing to the setting of global standards that properly reflect European values.

In short, there is an imperative need to devise a new social contract for Europe, rebalancing the roles of the State and the market, but instead of falling into the dangerous temptations of interventionism and protectionism, procuring a new model of dynamic and productive growth that reduces European vulnerabilities and at the same time protects the common good and ensures social cohesion.

INTRODUCTION

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More than 60 years ago, in a book titled *The Structure of Scientific Revolutions*, Thomas Kuhn set out a plausible theory about major advances in knowledge. According to this philosopher of science, these advances are not the fruit of linear, accumulative or slow processes. On the contrary, the engine of progress is made up of abrupt paradigm shifts, whereby the models that explained how the world worked up until that point are overwhelmed. In a short time, ideas that were previously heterodox are accepted and become the orthodoxy. This persists until a new paradigm emerges and replaces them.[2]

Economics is not an exact science, but it is governed by similar patterns. The adoption of Keynesianism in the 1930s and 40s, just like the reversion to the new classical macroeconomics in the 1970s and 80s, emerged from profound paradigm shifts that put paid to each period's pre-existing certainties. Thus, Margaret Thatcher did not restrict herself to tweaking certain objectives in British economic policy but to completely upending its priorities and burying the post-war Keynesian model. In other words, she engineered a social and economic paradigm shift.[3]

The world in which we lived until the 2008 Global Financial Crisis, and in a sense until the emergence of COVID-19 in 2020, was the result of these transformations and those that ensued after the fall of the Berlin Wall: an integrated global economy, devoid of inflation, where the major economic roles were played by central banks and international markets. In this paradigm, the role of States was to stabilise economic cycles from time to time, without encumbering them with interventionist industrial or fiscal policies. The EU played the role of a 'herbivore' power, charged with creating trade surpluses and fostering 'change through trade' (*Wandel durch Handel*). It would convert former rivals into partners by means of a latticework of economic relationships that would make societies more open and similar to their European counterparts.

Today this paradigm of liberal globalisation is floundering. It has not withstood the cumulative impact of the 2008 financial crisis, the Great Recession of the 2010s, the COVID-19 pandemic, the energy and economic crisis unleashed by the Russian invasion of Ukraine and the growing rivalry between the US and China. *Wandel durch*

2 Thomas Kuhn (1962), *The Structure of Scientific Revolutions*, University of Chicago Press, Chicago.
3 Peter Hall (1993), 'Policy paradigms, social learning, and the State: the case of economic policymaking in Britain', *Comparative Politics*, vol. 25, nr 3.

Handel ran out of fuel, overtaken by the climate crisis and geopolitical rivalries. But it is not clear what will replace it.

The present report endeavours to answer this question with a raft of proposals for reformulating both the EU's growth model and its economic governance. The first suggestion is to broaden finance and investment mechanisms on an EU-wide scale, both in the private and public sectors, consolidating the banking union and the European capital market, taking further steps in the creation of a risk-free sovereign asset and developing a central fiscal capability that serves as a means of procuring European public goods.

The experience of the NGEU programme and the full integration of the European Stability Mechanism (ESM) into the EU system may serve as the launchpad for this effort. A case is also set out for the creation of European industrial policies, and innovation and technological disruption policies, to prevent the EU from falling behind in the race towards energy transition and digitalisation and to prevent national industrial policies from fragmenting the single market and undermining the EU's economic convergence. In this context, the streamlining of public-private partnerships (PPPs) and committing to cross-border projects could play a fundamental role. Moreover, coordinated investment in human capital is proposed, reforming vocational training and dual education programmes to ensure their relevance to business needs, as well as the creation of a pan-European platform that coordinates the hiring of talent in different parts of the Union. Lastly, it is emphasised that the EU must not abandon its commitment to multilateralism, although it does need to adjust its stances amid the demands of a more adverse and complex international environment. It should push for a thorough reform of international economic governing bodies (the IMF, World Bank, WTO), the creation of bilateral and bi-regional economic and trade agreements adapted to the needs and restrictions of each partner, and the extension of initiatives such as the US-EU Trade and Technology Council to other potential members (such as India, already in talks, and Mercosur).

This report is divided into three sections and an Annex. The section below traces the transformations in economic thought that have taken place since 2020, as well as the initiatives the EU has devised to adapt to these changes. Next, the vulnerabilities facing the EU's economies in the new global context are set out. On the basis of all the foregoing, the third section puts forward a number of specific proposals. Finally, the Annex comprises a description of the measures the EU is taking in response to the current geo-economic climate.

THE WORLD ECONOMY IS NOT WHAT IT ONCE WAS

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To understand the shift in the current paradigm it is useful to start from an etymological curiosity. The word ‘economy’ derives from two Greek concepts, *oikos* and *nomos*, which in combination mean ‘administration of the home’. Managing an *oikonomia* would thus be analogous to running a family economy: saving as much as possible, spending cautiously and keeping the accounts in order. This involves running a country in the same way as a ‘Swabian housewife’ –penny-pinching, austere, hard-working and much-extolled by Angela Merkel during the euro crisis– might run her home. In Japanese however, the origin of the words for ‘economy’ (*keizai*) and ‘political economy’ (*keisei saimin*) can be translated as ‘order the realm and save the people’.[4] The economic transformation we are witnessing may be understood as the transition from the former concept to the latter. Considerations of economic and commercial efficiency are being usurped by security imperatives (military, energy-related, technological, health-related and even social). All this comes in a context in which the EU is displaying less economic dynamism than other regions, and moreover faces structurally higher energy costs, creating a serious handicap for the competitiveness of its companies.

This did not seem to be the course on which the global economy was heading following the demise of the Soviet Union. When Francis Fukuyama foresaw the ‘end of history’ in his brief essay of 1989, the capitalism-liberal democracy pairing seemed set to triumph.[5] The international economy shifted away from the Cold War’s division into blocs towards a deeper integration based on strong multilateral institutions, to which Europeans took like ducks to water. The way was thereby opened to the era of hyper-globalisation, which, under the influence of ideas we would now refer to as neoliberal, led over the course of almost three decades to a profound transformation in the global economy. Trade boomed, finance became globalised, migratory flows accelerated and the global value chains that are so familiar today, and in which European firms occupy a privileged position, were constructed. Under the philosophy of ‘just in time’ and the revenues derived from trade, considerations of economic efficiency came to dominate all others, and growth took off. Inequality between developed and developing countries abated (although it was also true, albeit in a less obvious way, that inequality within

4 See Robert Manduca & Nic Johnson (2023), ‘After Free Trade’, *Boston Review*, 22/V/2022, https://www.bostonreview.net/articles/after-free-trade/ (consulted 30/X/2023).
5 Francis Fukuyama (1989), ‘The end of history?’, *The National Interest*, nr 16.

Considerations of economic and commercial efficiency are being usurped by security imperatives (military, energy-related, technological, health-related and even social). All this comes in a context in which the EU is displaying less economic dynamism.

countries went up). There was a belief that the market would regulate itself, meaning that the role of the State should be limited to ensuring competition and the rule of law, leaving little scope for industrial policy, which lost credibility at this time.

Meanwhile a political narrative predominated, one that was well matched to the European view of the world, according to which economic interdependence not only created prosperity but also lasting peace. Neither the September 11 attacks of 2001, which put themes of security back on the international agenda, nor the spectacular economic rise of China (from which the West benefitted, while also making it increasingly dependent) seemed to perturb European elites or companies. Provided there was international cooperation under the solid regulatory auspices of the WTO and nationalism was held in check, there was no reason why Europeans should cast doubt on the benefits of interdependence. Indeed, they were convinced that this model would lead both China and Russia to continue converging with the Western economic and political model.

However, matters changed considerably in the wake of the 2008 financial crisis and the Great Recession that followed, which was longer and more destructive in the Eurozone due to the debt crisis it unleashed. In advanced countries –staunch advocates and instigators of opening up markets and deregulation– there has since been a strong reaction against globalisation, exemplified most dramatically for Europeans by Brexit and the election of Donald Trump as US President in 2016. Both represent clear examples of a nationalist, identity-based view of politics, which is diametrically opposed to what the European project stands for. Moreover, polarisation has been on the rise in the last decade, trust in democracy has faltered while autocratic regimes –led by nationalist and authoritarian leaders– seduce electorates yearning for a safer, more predictable world, even within the EU.

Although capitalism is once again hegemonic and unopposed, the West has witnessed excessive levels of inequality that, together with technological and climate change, an ageing population and changes in labour relations, are undermining the social contract that brought together and lent stability to European societies. And if this were not enough, the congenial and predictable world of multilateral institutions, international cooperation and the primacy of the (international) rule of law is being replaced by rivalry between the great powers and the law of the jungle, not to mention the fact that war has returned to the European continent.

In the economic sphere, the EU has looked on aghast as the US, both during the Trump Administration and under the Biden presidency, has ceased to be interested in preserving the multilateral system of trade or actively lobbying for the reform of the WTO. It is true that Biden has recommitted the US to the Paris Agreement and has approved major laws in the fight against climate change, but what drives the country's foreign policy is undoubtedly fear of China (and its unilateral actions against the latter), something shared by Democrats and Republicans alike. Indeed, US foreign economic policy is aimed at bolstering economic security and strengthening domestic industrial employment. Washington has adopted a neo-mercantilist agenda of the kind China has been pursuing for decades, seemingly unconcerned –unlike the Europeans– that the reduction in trade and the erosion of the institutions that regulate it might have a serious adverse impact both on prosperity and on political stability and peace. As a result, globalisation has been called into question, its governance has stalled and the fragmentation of the global economy, exacerbated by protectionism, has gathered pace.

What really prompted the EU to wake up from its liberal dream, however, was COVID-19 and the Russian invasion of Ukraine. Both demonstrated to citizens, with brutal clarity, that interdependence is capable of turning into a double-edged sword, whether in the field of healthcare (masks, medicine and vaccines) or energy (oil and gas). From then on, strategic autonomy (although the debate had already emerged with Trump) and de-risking (the need to curb the risks stemming from economic interdependence) started to be discussed more seriously, while the fight against climate change also put new market intervention mechanisms on the table, this time promoted by the EU.

1. New ideas lead to new policies

As a result of all these shocks, the prevailing ideas about how to manage the global economy are undergoing a Copernican transformation in the West. The transformation has reached European capitals and is even permeating those that were reluctant to accept the decline of the international liberal order. We are witnessing a resurgence of what the academic Eric Helleiner calls neomercantilism.[6] This is a transversal economic paradigm –in the sense that, historically, it has been adopted by governments of both the left and right– in which trade policy reverts to protectionist tendencies and the State actively intervenes in the economy.[7] The difference between this perspective and classical mercantilism, according to Helleiner, stems from the fact that neomercantilism was devised in a world already

6 Eric Helleiner (2021), *The Neomercantilists: A Global Intellectual History*, Cornell University Press, New York.
7 Eric Helleiner (2023), 'The Revival of Neomercantilism: Global Rivalries and Prospects for Cooperation', *Phenomenal World,* 27/IV/2023, https://www.phenomenalworld.org/analysis/neomercantilism/ (consulted 30/X/2023).

influenced by the works of Adam Smith, and therefore reluctant to renounce the virtues of trade altogether. In neomercantilism, therefore, State intervention and interventionist economic policies, as well as protectionism in specific sectors, is not always incompatible with free trade. Sometimes, indeed, measures are deemed necessary on a one-off basis to ensure trade is more sustainable in the future.

On the foundation of classical ideas linking the prosperity of States to their military, industrial, financial and technological prowess, and in which trade policy is used as another lever of foreign policy, neo-mercantilist policies are creating new instruments of political economy, aimed at bolstering resilience and hampering the rise of competitors. The win-win mantra bound up in the liberal view of comparative advantages is losing ground to another in which the relative gains and losses relative to powers perceived as rivals count for more. 'Just in time' has been replaced by just in case.

Economic security, energy autonomy, supply chain resilience and technological supremacy are now considered more important than the preservation of open markets and increasing efficiency. And this opens the floodgates to a panoply of new trade policy instruments, which the West is starting to fine-tune. In addition to traditional protectionism, controls on investments from countries classified as dangerous and the domestic production requirements that the US has introduced in its Inflation Reduction Act (IRA), controls are being introduced on technology exports and even foreign investments, while supply chains are being checked to reduce dependencies on China, particularly in critical minerals. Indeed, although US multinationals will want to continue doing business in China, the US government is signalling that this is no longer advisable in a growing number of sectors. The difference with the 1990s and the first decade of the new millennium, when the interests of its international corporations were of far greater concern in Washington, is vast.

The EU and its Member States have not yet reached this extreme because they want to avoid the severance of their economies from China's –they seek, in other words, de-risking but not decoupling–. But they too are redrafting their foreign economic strategy to shape it to the new era and some, such as the Netherlands, have signed up to restrictions on semiconductor exports under US pressure. The EU has devised new defensive instruments, such as the anti-coercion mechanism (enabling it respond to actions from China –and other countries– against its companies) and systems to prevent foreign State-subsidised companies operating in the single market to the detriment of competitors; these are in addition to the controls on foreign investments introduced in 2019 and the Carbon Border Adjustment Mechanism (CBAM) aimed at combatting climate change and approved in 2023. Lastly, in June 2023 the Commission and the High Representative for Foreign Affairs agreed their economic security strategy, which, prompted by de-risking, seeks to initiate a conversation among Member States such that they take risks to security much more seriously and increase the European economy's resilience to external threats and shocks. Western sanctions imposed on Russia following the invasion of Ukraine (an area where many non-Western countries did not follow suit), as well as the newly invigorated industrial policy (particularly with regard to the green and digital transitions, but also in the defence industry), paint a panorama in which geopolitical considerations weigh increasingly heavily over economic ones. But the EU also faces an additional problem of innovation and competitiveness –stemming in part from the higher costs of energy– which demands an urgent reaction.

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While the predominant ideas have changed and economic and trade policies are evolving, the form that globalisation will take in the coming decades is still not clear. Unless there is a war between the major powers it seems unlikely that we are heading towards widespread deglobalisation. The most probable scenario involves fragmentation of the world economy and erosion of its governance. It will be difficult to avoid technological decoupling between the West and China; instruments of green protectionism for combatting climate change will become widespread, as will new barriers to the movement of raw materials, goods and capital as a result of Western autonomy and de-risking strategies. But given the enormous cost differences (even the US Treasury Secretary, Janet Yellen, has acknowledged that complete decoupling from China is unfeasible), it is highly unlikely that the trade in basic goods, such as textiles, will become completely de-globalised. Meanwhile, both the exchange of digital services and the movement of people will continue to grow apace.

What can be ruled out, however, is the possibility of the US approving ambitious free trade agreements in the years ahead. But the EU will try to join forces (it remains to be seen how successfully) with some of the emerging economies of the so-called Global (or Plural) South. China will also continue strengthening its trading and financial ties with such countries and the rest of Asia. The great loser will be the governance of globalisation founded on WTO rules. The Europeans, traditional advocates of multilateralism and cooperation, would do well to accept as soon as possible that this is the world they have in store.

2. Pluses and minuses of a geopolitical EU

Sluggishness and multiple obstacles notwithstanding, this paradigm shift has stirred a degree of assertiveness in Europe that many doubted existed. Since the Russian invasion of Ukraine there have been gradual signs of a European plan for bringing this elusive concept of (open) strategic autonomy and bolstering economic security to dry land. In the words of the High Representative, Josep Borrell, it is a matter of 'helping Europeans accept their responsibilities in an increasingly hostile world'.[8] The EU has launched numerous initiatives in recent years aimed at addressing its various vulnerabilities and reducing any strategic dependencies that could undermine its ability to adapt to the new climate (see the Annex to this report). The combination of these efforts represents a new way of dealing both with its partners and its adversaries, one that seeks to break the mould of a 'herbivore' power while keeping alive the European commitment to open markets, international cooperation and economic interdependence. This entails a radical change in the short term, but also provides a unique opportunity to align its chief priorities over the coming years with the agenda of the green and digital transitions, and even make progress on fiscal union and the joint financing of European public goods.

The EU's pivot towards this new economic paradigm is to a large extent linked to the figure of Ursula von der Leyen. Since taking up office as the President of the European Commission in November 2019, the German politician has stood out for proposing –and on many occasions implementing– a more assertive role for the European executive, although sometimes she has been accused of over-reflexive allegiance to the US and of wanting to act as the President of the EU itself, something she is not.

For example, it was the von der Leyen Commission that injected the old concept of strategic autonomy with new practical content, widening it beyond the traditional spheres of security and defence to include matters of a more economic and technological nature. It has also tabled the debate about economic security[9] in Europe. But the truth is that both terms have acquired importance precisely because the world has changed. We have not only seen a pandemic and the return of war to the European continent, we are also confronted by an international environment that has become increasingly transactional, where the EU's prowess counts for less. The rivalry between the great powers, the potential return of Donald Trump to the White House in 2024 and the shift in the world's centre of gravity towards the Indo-Pacific, as well as the increasingly serious impact of global warming, are all factors that will continue profoundly transforming the geopolitical panorama.

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8 Josep Borrell (2019), 'Por qué es importante la autonomía estratégica europea', Elcano Royal Institute, 23/XII/2019, https://www.realinstitutoelcano.org/analisis/por-que-es-importante-la-autonomia-estrategica-europea/ (consulted 30/X/2023).

9 Steinberg, F. & G. Wolff (2023), 'Dealing with Europe's Economic (In-) security' Global Policy, published online 13/XI/2023 DOI: https://doi.org/10.1111/1758-5899.13303.

The combination of these efforts represents a new way of dealing both with its partners and its adversaries, one that seeks to break the mould of a 'herbivore' power while keeping alive the European commitment to open markets.

In this context, industrial policy and the need to increase the productivity of European economies has consolidated itself as a priority. From there, it is seen not only as an opportunity to rebuild, remodel and readapt industry to the needs of the green and digital transitions but also as a way of protecting the European model amid the intensification of other great powers' industrial policies.[10] Resources are deployed, State-aid rules are relaxed and new measures are instituted to deal with a global marketplace characterised by increasingly unequal conditions in terms of subsidies, climate policies and energy prices.

Both here and in the case of strategic autonomy, what is at stake is the possibility of advancing or retreating in economic and geopolitical terms, with major consequences for the process of European integration and Europe's standing in the world. In this regard it is possible to pinpoint three risks that will shape the way the EU reacts to limit its vulnerabilities.

A first sort of risk is economic. Many Member States have experienced years of low growth and disappointing productivity. There are also vast gulfs of economic inequality: between countries but especially within them. There is also the major challenge involving European companies' competitiveness compared to their non-EU counterparts, owing especially to high energy costs. All this has led to an increasingly pronounced decoupling between the growth rates and levels of prosperity in the EU and the US (although this is sometimes exaggerated by the news media). Restoring economic convergence and combatting inequality will be key to safeguarding a prosperous future.

Secondly, the EU faces a geopolitical challenge. The US seems to vacillate between isolationism and internationalism. With gestures such as its increasingly neomercantilist trade policy, its growing fixation with China and Asia generally, its withdrawal from the Middle East, and even a cooling of its support for Ukraine following the Russian invasion, the US occasionally seems to wash its hands of its role as the guarantor of the so-called international liberal order. The ascent of China also brings problems stemming from the enormous differences between its political system and that of most Western countries, as well as the Chinese economy's capacity for creating asymmetrical dependencies: in critical minerals, in

10 Ferdi de Ville (2023), 'The Return of Industrial Policy in the European Union', *Green European Journal*, 7/II/2023, https://www.greeneuropeanjournal.eu/the-return-of-industrial-policy-in-the-european-union/ (consulted 30/X/2023).

solar panels and, recently, in batteries and electric vehicles. The EU simultaneously describes China as a trade partner, an economic competitor and a systemic rival –three epithets that may sound contradictory, but perhaps fairly encapsulate the complexity of relations with the world's second-largest economy–. The US meanwhile –provided there is no major electoral upset in 2024– continues to view itself as an ally. In any event, an autonomous and sovereign Europe will be more capable of dealing with both powers. But it must also be able to take consistent positions in foreign policy and prevent each of its Member States from acting on its own account. The contrast between the cohesion that greeted the Russian invasion of Ukraine in February 2022 and the division surrounding the Israeli response to the Gaza terrorist attack of October 2023 makes the difficulty of securing a geopolitical EU abundantly clear.

Lastly, there is the risk of greater sociopolitical fragmentation internally. The erosion of the traditional party system, the rise of anti-system and anti-green transition parties and the polarisation of recent years all pose considerable problems for European societies. Several States face an uncertain political future owing to deep-rooted tensions and the succession of crises that have fuelled the growth of radical parties and caused European governments to swing to the right. Although this trend has been halted in certain Member States, in others the illiberal drift has become embedded. All this represents a problem for the countries affected by such a drift, but also for the Union itself, which has seen any attempt to make progress on the European integration process seriously hindered as a result.

THE VULNERABILITIES OF THE EUROPEAN ECONOMY

THE VULNERABILITIES OF THE EUROPEAN ECONOMY

In this context, the EU's prospects for survival depend largely on its ability to adapt to such changes. Unfortunately, the reality is that it finds itself in a situation of relative vulnerability compared to its competitors and adversaries, with a significant dependency in at least seven areas: energy, raw materials, technology, supply chains, defence, working population and finance. We shall analyse each of these in turn.

1. Energy dependency

In recent decades the EU has increased its energy dependency on countries that are not necessarily reliable, whereas the US (which invested heavily in fracking) has achieved relative self-sufficiency, even becoming a key source of liquid natural gas for Europe during the war in Ukraine.

The energy crisis triggered by the invasion of Ukraine arose at a time in which the EU imported almost 60% of the energy it consumed and was immersed in a process of transition towards a net zero-emissions output model. This, combined with the absence of a single energy policy, has given rise to conflicts of interest in which each country's energy mix determines its policy strategy. Thus, there are considerable discrepancies about such important matters as the need or otherwise for interconnections (which would create a genuine single energy market), or about the role of nuclear energy (which still accounts for a third of the energy produced in Europe) in energy independence and the reduction of greenhouse gases during the transition.

In 2020 more than half of solid fossil fuel imports (mainly coal) came from Russia, as did 43% of natural gas. European leaders agreed in March 2022 to gradually eradicate the EU's dependency on Russian fossil fuels, but it had to do so in the context of a drought (which led to the lowest level of hydroelectricity generation this century) and nuclear power cuts in France for reasons of safety. RepowerEU, the European Commission's plan to put an end to the EU's dependence on Russian fossil fuels by means of energy saving, diversification of supply and the accelerated rollout of renewable energies to replace fossil fuels in homes, industry and in electricity generation, worked in 2022 partly owing to the mildness of the winter. Over the medium to long term its success depends on factors that are as yet undetermined.

Industrial development, especially in a context of structural transformation, requires a sufficient supply not only of energy but also of strategic raw materials.

2. Dependency on raw materials

Industrial development, especially in a context of structural transformation, requires a sufficient supply not only of energy but also of strategic raw materials. In her State of the Union speech of 2022, and in line with the warnings of the Council and the European Parliament about the need to ensure strategic autonomy, Ursula von der Leyen announced a Critical Raw Materials Act to address the EU's dependency.

Europe will need to address a rapidly rising demand for lithium batteries for electric vehicles and energy storage in coming years; this will have multiplied by 12 by 2030 (and by 21 by 2050). Meanwhile, the EU demand for the rare earths used in wind turbines and electric vehicles is set to rise between five- and sixfold by 2030 and between six- and sevenfold by 2050. Many of these raw materials do not originate from stable and reliable partners: 63% of the world's cobalt for batteries is mined in the Democratic Republic of the Congo, and 60% is refined in China (which also refines 100% of the rare earths used in permanent magnets). Up to 97% of the EU's magnesium needs are supplied by China, 71% of its demand for metals in the platinum group come from South Africa and 98% of its supplies of borate come from Turkey. The EU aims to increase its autonomy by raising extraction to at least 10% of its annual consumption, transformation to at least 40% of annual consumption and recycling to at least 15% of annual consumption, and to avoid a situation in which more than 65% of the EU's annual consumption of each strategic raw material in any phase of transformation originates from a single third country.

3. Technological dependency

Unlike energy and raw material dependency, technological dependency stems from a technical capability that may not be at the cutting edge (digital clouds, semiconductors and electric batteries) or not be economically efficient (solar panels). The EU lags a long way behind the US and East Asia (Korea and Taiwan) in the production of the latest generation of silicon chips. Although it has a degree of competitiveness in basic research, chip manufacturing equipment, silicon wafers and chips for the car industry and industrial equipment for businesses, it accounts for only 10% of the world's market share in semiconductors and depends in large measure on supplies from third countries.

It also has a problem with the storage of data in the cloud, with no significant European company in this sector (dominated by Amazon Web Services, Microsoft's

Azure and Google Cloud). In the management of big data, the EU requires a degree of autonomy, given that data security and confidentiality is not even guaranteed by allies such as the US. The European Commission has for the time being focused on strengthening legislation to protect private individuals' personal data (with the General Data Protection Regulation, GDPR), but it has not been able to nurture the European provision of this type of service.

A third area of vulnerability relates to the rollout of the 5G network. Although Europe is ahead of the US in this regard (having the Swedish company Ericsson and the Finnish company Nokia, the second and third-largest providers of 5G in the world), the controversial Chinese company Huawei dominates the European market, offering its European customers very competitive prices. The US insists on warning about the danger of implementing 5G with a Chinese company, but here –unlike the situation with gas– it is in no position to offer alternatives. Moreover, the 5G rollout requires a minimal degree of coordination to enable autonomous vehicles (one of its main applications) to cross Europe, which is what the 5G corridors initiative aims to achieve.[11] All this requires considerable financing, but the fact is that the majority of the world's 5G financing goes to China (60%). The US receives 27% and Europe only 11%; this explains, for example, why US manufacturers account for almost 70% of the kilometres travelled by totally autonomous vehicles (level 4).

With regard to lithium batteries, a key component in car manufacturing, China dominates the market, something that accounts for its massive increase in car sales in Europe (whether its own brands or as an assembler of others, such as Tesla), and the European Commission's decision to launch an antidumping investigation. Unfortunately, Europe does not have large-scale battery production capacity, despite the green light given in 2019 to a €3.2 billion-plan for a lithium battery production line in a pan-European project involving seven Member States.[12]

European backwardness is also evident in other spheres. In quantum computing, five of the 10 main tech companies that invest in this technology are in the US, 40% are in China and none in the EU. In artificial intelligence, the US attracted 40% of external financing in 2015-20, Asia (including China) 32% and Europe only 12%. In biotechnology, Europe boasts a solid scientific and talent base (as it showed during the pandemic). However, investment in this sector in 2018-20 was €260 billion in the US, compared to €42 billion in Europe (China invested €19 billion).

Even in clean technologies, where the EU leads the world in emission-reduction goals, success is not guaranteed. For now, Europeans hold 38% more patents

11 See European Commission (2023), '5G Cross-Border Corridors – Shaping Europe's Digital Future', https://digital-strategy.ec.europa.eu/en/policies/cross-border-corridors (consulted 30/X/2023).

12 European Commission (2019), 'State aid: €3.2 billion public support battery value chain', 9/XII/2019, https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6705 (consulted 30/X/2023).

than US companies, and double those of China, but the latter leads the production of clean technology in almost all fields, and the US leads most of the innovative technologies.

At the root of everything, and despite such coordination efforts, the reality is that having 27 technology policies and 27 industrial policies takes its toll in terms of diminished scale. Between 2014 and 2019 large European companies (compared with their US counterparts) were 20% less profitable (in terms of return on invested capital, ROIC), had 40% lower growth in revenue, invested 8% less and spent 40% less on research and development (R&D).[13] Most of these differences are evident in the technological industries, especially in IT and pharmaceutical products. The reality is that Europe's lack of scale in transversal technologies jeopardises its position in almost all industrial sectors, including those that it previously dominated, such as car manufacturing.

4. Dependency on supply chains

The dependency on supply chains stems not from the lack of technology but from the optimisation of the value chains and the offshoring of production over the course of decades to countries that are today perceived as threats. In this case it is not that the EU is not able or lacks the know-how to produce certain goods, but that after decades of offshoring it is not capable of producing them cheaply.

Measuring dependency on supply chains is highly difficult because there are insufficient data at the company level. Cernat and Guinea analysed EU imports of more than 9,000 products using their 8-digit EU customs codes to ascertain the number of countries from which these products originate. They found that most EU imports come from more than one exporting country, and 50% of products have more than 25 suppliers.[14] There were 250 specific products however where all the EU's imports hail from one single country (although they account for only 1% of the value of total imports). These results warrant close scrutiny, because sometimes it is small products that are key to production.

The same authors analysed the data available at the company level and found that, for some countries, more than 50% of their importers (essentially SMEs) rely on a single supplier country. This means that even if a country is appropriately diversified,

13 Sven Smit, Magnus Tyreman, Jan Mischke, Philipp Ernst, Eric Hazan, Jurica Novak, Solveigh Hieronimus & Guillaume Dagorret (2022), 'Securing Europe's Competitiveness: Addressing its Technology Gap', *McKinsey,* 22/IX/2022, https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/securing-europes-competitiveness-addressing-its-technology-gap (consulted 30/X/2023).
14 Lucian Cernat & Oscar Guinea (2020), 'On ants, dinosaurs, and how to survive a trade apocalypse', *European Centre for International Political Economy*, July, https://ecipe.org/blog/how-survive-trade-apocalypse/ (consulted 30/X/2023).

its economy could be seriously damaged by disruption.

In some cases, therefore, geographical diversification may not be sufficient, and autonomous production may be advisable. In fact, the COVID-19 pandemic has also changed the map of sectors deemed to be strategic. For example, the food sector has shown itself to be strategic in the event of healthcare emergencies, justifying a posteriori the existence of the much-vilified Common Agricultural Policy in an effort to secure so-called 'food sovereignty'.

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5. Dependency in defence

The EU has been relying on NATO for decades as a means of underwriting its defence. In this sphere, the US and the UK have been fundamental. Now, however, the territorial threat to Europe has swept over the Urals, US support can no longer be taken as read –especially if its confrontation with China deteriorates or a change in government occurs in 2024– and the UK has reduced its shared bonds with the EU in the wake of Brexit. The war in Ukraine has served to stir awareness, and we have witnessed situations that until not long ago were unthinkable, such as Sweden and Finland applying to join NATO and Germany's announcement of a major increase in its defence budget.

On paper, the EU ought to be able to act as a great power. Even before the Russian invasion of Ukraine –which caused investment in defence to shoot up– the aggregate military spending of the Member States, according to the Stockholm International Peace Research Institute, amounted to €214 billion.[15] This is equivalent to approximately 10% of global spending on defence in 2021, three times larger than the Russian military budget.[16] The problem, as is well known, is that this spending is divided between 27 national budgets with 27 different defence industries. The consequence is that, as in the case of industrial policies, economies of scale are not created in the defence arena. Europe's defence industries are not even capable of consolidating themselves as the main providers of the Member States, as has been revealed by the war in Ukraine, where sales by US companies amply exceed those

15 European Defence Agency (2022), 'European defence spending surpasses €200 billion for first time', 8/XII/2022, https://eda.europa.eu/news-and-events/news/2022/12/08/european-defence-spending-surpasses-200-billion-for-first-time-driven-by-record-defence-investments-in-2021#:~: (consulted 30/X/2023).
16 Stockholm International Peace Research Institute (2022), 'Trends in World Military Expenditure 2021', April, https://www.sipri.org/sites/default/files/2022-04/fs_2204_milex_2021_0.pdf ' (consulted 30/X/2023).

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of European defence industries. Moreover, the stocks and output capabilities of EU countries remain limited, and most European countries' technological dependencies in defence have done nothing but increase in recent years.

6. Demographic dependency

Growth requires a sufficiently large workforce, but Europe, an ageing society, has a clear shortage of people of working age. More than 20% of the EU's population in 2022 was aged 65 or over. The median age of the EU population is rising: in January 2022 it was 44.4 years, and at the current rate it will reach 48.2 by 2050.

Therefore, even if the EU does a perfect job in reskilling people for the green and digital transitions, it will still have to resort to immigration if it wants to maintain its relative economic weight in the world. This, however, will not be easy in the absence of a common immigration policy.

7. Financial dependency

The financial sphere is probably one of the most important areas of vulnerability because it influences many others (such as the technology and industrial areas) and the problem stems fundamentally from the lack of economic integration. It is not that savings do not exist in the EU so much as that they are not appropriately channelled.

The lack of integration means that Europe hamstrings itself both in terms of public and private funds. The limitation on the use of public funds springs from the existence of fiscal rules that are not accompanied by a joint fiscal capacity to finance European public goods. Meanwhile, many Member States do not wish to issue more joint debt, as they did with NGEU, so that in the end total European public investment in the coming years will be the sum of national public investments. Since various countries have high levels of debt and will need to abide by a strict application of the fiscal rules, it can be taken for granted that total European public investment will be insufficient.

As far as private finance is concerned, this is determined by the lack of a genuine banking union and capital market. In the US, 75% of the financing for business investments is funded through the markets, and only 25% comes from the banking sector. In Europe, the percentages are the other way round: 75% of investments are funded with bank loans and only 25% in bond markets. US SMEs, for example, receive five times more financing from capital markets than their European counterparts. The fragmentation of the market and lack of economies of scale, combined with less well-developed venture capital financing and a regulatory regime less favourable to disruption and innovation, mean that European companies (especially SMEs) have serious problems in funding their growth.

Just as the energy markets fail to integrate because each Member State champions the interests of its particular energy mix, European banking fails to integrate because the Member States do not want to change their particular banking structures (public banking, cooperatives, savings banks…). Each country defends its own model, something that hampers the establishment of risk mutualisation mechanisms that would incentivise cross-border mergers. The upshot is that there are no European banks so much as fundamentally national banks, which limits their average size, their profitability and indeed the security of the system (since national banks tie their fate to that of their country: if the latter goes bust, they do too).

Meanwhile, the capital markets (which include both bank and non-bank financing channels such as venture capital, bonds and securities) continue to be fragmented in the EU. Following the 2011 financial crisis the European Commission set out its first Action Plan for the Capital Markets Union in 2015, which has more or less been implemented, but there are still major barriers in terms of supervision, taxation and insolvency.

In conclusion, Europe has numerous vulnerabilities and finds itself in a much worse situation than the US and other competitors for addressing the challenges of the coming decades, even in basic areas such as having an autonomous payments system that is not dependent on US companies. This is exacerbated by the fact that it faces stagnation in the process of European integration, where despite some unquestionable isolated advances, reform of the treaties seems to have turned into an anathema instead of an imperative necessity. It remains to be seen whether the launch of an institutional reform process in the lead-up to the enlargement of the Union in 2030 will serve as a means of disentangling this situation.

PROPOSALS FOR A NEW GROWTH MODEL

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1. Improving public financing

The EU is unlikely to meet its targets of open strategic autonomy, economic security and decarbonisation without an appropriate budget that supports these objectives, funds basic European public goods and contributes to the macroeconomic stability of the Eurozone, employing for this purpose new European taxes and issuing joint debt.

The current debate, however, focuses not on the financial tools needed to achieve pre-established objectives but on the correction of imbalances. While it is important that the EU devises improved fiscal rules that ensure the long-term sustainability of national budgets, it is also important to calibrate the EU's financial capabilities in their entirety in order to address the current challenges.

As far as the *financing of European public goods* is concerned, if we accept that decarbonisation and digitalisation, for example (not to mention defence and other areas) may be classified as such (with major positive externalities), it is clear that their provision at the national level will be insufficient, because it will be driven not by the real investment needs in Europe but by the financing capabilities of each country, determined by its debt.

This is why so much insistence needs to be laid on the necessity of furnishing the EU with a permanent fiscal capability through the institutionalisation of the NGEU (or another pooled debt mechanism) as a tool of joint financing.[17] Although the NGEU funds are improvable in terms of monitoring efficiency and the flexibility of their arrangement, renouncing the possibility of extending the use of an already-implemented and relatively successful (albeit improvable) mechanism like the debt incurred by NGEU would be a mistake. Some countries insist on cancelling NGEU and labelling the experience as a unique and exceptional one-off, but the fact is that the current geopolitical scenario extends well beyond the mere needs of post-Covid economic recovery.

17 Elcano Royal Institute (2021), 'A proposal to reform the EU's Fiscal Rules', 30/XII/2021, https://www.realinstitutoelcano.org/en/policy-paper/a-proposal-to-reform-the-eus-fiscal-rules/ (consulted 30/X/2023).

The EU is unlikely to meet its targets of open strategic autonomy, economic security and decarbonisation without an appropriate budget that supports these objectives, funds basic European public goods and contributes to the macroeconomic stability of the Eurozone.

Thus, since the creation of this valuable instrument, Russia has invaded Ukraine, Israel has entered into war with Hamas and the US and China have raised their confrontation to a highly dangerous point. In this context, the elaboration of a European industrial policy has become a necessity given the existence of the American IRA and similar measures in China, India and other countries. The EU should pursue a coordinated use of industrial support mechanisms with allied countries, but should also be prepared to use its own powerful, rapid and flexible instruments in order not to be left behind. This will require additional financing at a European level to avoid undermining the single market and generating inequalities as a consequence of the fiscal capabilities of each Member State.

Meanwhile the EU also needs, in the event of asymmetrical shocks, *stabilisation mechanisms* that operate at a supranational and not only a national level. To achieve this, the possibility of extending the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) provides a good launchpad and should not be restricted to covering the COVID-19 crisis.

The majority of these measures form part of a need that has already been frequently identified, namely completing economic and monetary union with indispensable tools. In this regard, taking advantage of the activity of the ESM as the embryo of a European treasury, and institutionalising the operating mechanisms of the Eurogroup are still priorities that merit consideration, whether demanding additional controls on national budgets or, in the event of minority vetoes, accepting the possibility of resorting to enhanced cooperation.

2. Improving private financing

The fragmentation of financial markets makes it difficult for private investment to match Europe's needs. The EU needs to foster the broadening of the banking union and the capital market in an effective way and make progress on the creation of a risk-free sovereign asset. This will require developing European risk-coverage mechanisms: in terms of deposits, with the European Deposit Insurance Scheme (EDIS), and in terms of banking entities, with the so-called 'backstop' of the Single Resolution Fund, which will come into force as and when the amended ESM Treaty is ratified.

Until now, it has been clear that many countries prefer to manage banking crises at the national level, rescuing their depositors and entities with public (not EU) funds. The problem is that this attitude discourages banking mergers and means that the dangerous link between banking risk and sovereign risk persists; hence the importance of the EU's co-legislators coming to a speedy agreement about the Crisis Management and Deposit Insurance regulatory proposal, which will help to harmonise banking collapses and their handling at a European and not exclusively national level.

Meanwhile, in the area of capital markets, the EU should go much further than the Action Plan for the Capital Markets Union, and accept more ambitious proposals in terms of supervision, taxation and insolvency.

Lastly, it is important to broaden the single market in services, which unlike that for goods, continues to be an unfinished project in Europe, and one that will play an increasingly important role in the context of a European digitalised economy. Both the US and China enjoy an enormous advantage given the size of their domestic markets, which enable them to exploit economies of scale and exert leverage that Europe does not possess. In a context of rising energy bills and growing rivalry in technological services, the EU needs to overcome the narcissism of the small differences between its Member States to eliminate barriers to exchanging services.

3. An EU industrial policy

Industry accounts for more than half the EU's exports and more than 25% of jobs (directly and indirectly), which are typically highly qualified and therefore well paid. Furthermore, industry generates major positive externalities for the economy as a whole, for example in terms of innovation. By way of illustration, Germany, known as the European powerhouse, bases its economic model on the industrial products it makes. However, this model is starting to unravel owing to the powerful geopolitical tensions that affect the world and the speed of technological changes.

The EU's energy dependency on Russian gas jeopardises the operating abilities of its industries, especially heavy users of electricity. China has intensified its international assertiveness in recent years, which represents a problem both for Europe's exports and its security. And the US has taken a series of manifestly protectionist measures. While it is true that the subsidies contained in the new US legislation are not quantitatively greater than those of the EU, the situation is potentially more pernicious for EU industry for three reasons: (1) many of the US subsidies consist of tax credits, which are far easier to implement in relative terms; (2) access to the subsidies is not beset by so much bureaucracy as in the EU, making the lives of companies and consumers easier; (3) the US aid package contains a series of protectionist clauses that are incompatible with the WTO ('Buy American') whereby only products that have been manufactured to a very high degree in the US will be able to benefit from the subsidies.

In this context, the EU seems to be focused on promoting measures that ensure its industry is environmentally friendly (examples including the Net Zero Industry Act and the CBAM). While the goal of these measures is praiseworthy, if the EU wants to maintain and even boost the role played by industry it must adopt other complementary measures. At the same time, the EU's single market, which this year celebrates its 30th anniversary, is an element of unquestionable global wellbeing that must be preserved. And this involves establishing clear rules that prevent Member States with greater fiscal room for manoeuvre from injecting public funds into their companies while there being at the same time more EU funds for promoting EU industry.

For all these reasons there is a need to rationalise the scheme of State aid available to firms, establishing a one-stop system and using channels that facilitate the transfer of funds, such as tax credits. But it will also be necessary to introduce specific programmes for the least industrialised Member States, as well as incentivising the circular economy by means of fiscal incentives and regulations at the EU level. This would cut dependency on raw materials, improve sustainability and generate new economic opportunities. In addition, regulatory sandboxes should be encouraged at the EU level in areas such as fintech, artificial intelligence, autonomous vehicles and biotechnology, allowing innovations to be tested in a controlled environment.

Lastly, it will be necessary to enhance information systems both to identify and define the dependencies on critical materials that the EU imports and to keep track of realistic industrialisation and energy transition targets.

4. Addressing technological disruption

Compared with their counterparts in Asia and North America, European firms generally grow more slowly, are less profitable and invest relatively little in R&D, all of which are a hindrance to their competitiveness and the search for greater strategic autonomy. To reduce their technological dependence and make Europe a stronger global player, the EU should increase the capacity of its deep tech firms and protect its position in other industries where it has traditionally dominated, such as vehicle-making, fashion and chemicals. To this end, it should incentivise an ecosystem that is more favourable to technological disruption and ensure future supplies of critical minerals by means of new trade agreements.

Expenditure on R&D should be raised, above all in the south and east of the EU, where in many countries it does not even reach 2% of GDP, supporting investment in those technologies with the greatest ability to have a transversal impact on the new green and digital paradigm. This could be achieved by improving financing at the national level, for example simplifying, cost-cutting and accelerating the incentives for companies, and at the supranational level, broadening and unifying the capital reserves set aside for 'scale-ups'. One criterion to take into account would be to direct public aid only to those cases where state intervention serves to increase the companies' competitiveness.

All this will require a change in strategy, however. The EU will not attain its technological objectives by over-protecting companies or over-regulating sectors but with a new scientific endeavour capable of devising a groundbreaking approach.

All this will require a change in strategy, however. The EU will not attain its technological objectives by over-protecting companies or over-regulating sectors but with a new scientific endeavour capable of devising a groundbreaking approach.[18] The EU's research and innovation (R&I) initiatives, such as the Horizon Europe programme, tend to be excessively bureaucratic and unfairly benefit the most well-established businesses. Instead, the EU needs to adopt a model that enables projects to be started and concluded rapidly, financing proposals with a high technological and market risk and focusing or problems with significant social impact. To this end, the Joint European Disruptive Initiative (JEDI) sets out a series of 'grand challenges' to look for the most innovative companies, regardless of their size or origin, and address the most important challenges for Europe, such as AI, decarbonisation and support for democracy.[19] This will mean deciding what will be the 'next big things' and avoiding the arrogant trap of simply wanting to develop technologies with European 'values'. But it also requires setting up a pan-European capital venture fund specialising in deep tech and emerging businesses to compensate for the lower investment in these areas compared to the competition.

Lastly, an important factor will be to establish coherence between the various national technological strategies. The lack of coordination between the 27 Member States impedes gaining an advantage in a world that is increasingly dominated by giants, where the first to arrive is usually the one that makes off with the largest slice

18 Joint European Disruptive Initiative (2023), 'A Programmatic Platform for European Leadership in Science and Technology', 9/V/2023, https://www.jedi.foundation/jedi-manifesto (consulted 30/X/2023).
19 See Joint European Disruptive Initiative (JEDI), 'Grand Challenges', https://www.jedi.foundation/challenges (consulted 30/X/2023).

The green and digital transitions require an enormous investment in critical infrastructure that neither the public nor the private sectors alone are disposed to tackle. Collaboration on specific projects may, however, create cooperation models that are replicable in other areas.

of profits. Given this, the EU needs to improve coordination between the various Member States to eradicate duplication, increase synergies and nurture the creation of European champions. This could be achieved by promoting a sort of online Silicon Valley to bolster technology hubs in the various EU countries;[20] by loosening rules to propitiate the merger of pan-European giants; or with a collaborative initiative between start-ups and corporations looking to generate more opportunities for growth.[21]

5. Cooperation between the public and private sectors

The current challenges require close cooperation between businesses and the public administrations. The former need qualified workers, access to infrastructure and financial support. States need a greater public commitment on the part of corporations to achieve their targets for economic growth and social development. This requires developing a more inclusive model of public-private partnerships (PPPs)[22] that promotes the productive capabilities of all segments of society with the goal of sharing both the risks and the rewards.[23]

This means creating a favourable institutional and judicial framework. The EU could start by harmonising and simplifying PPPs, with clear, coherent and shared rules about public tendering, distribution of risks and management of contracts to reduce obstacles and support the development of normalised methodologies. The EU could also explore mechanisms to increase financial support. This includes the extension of funding programmes, the creation of investment funds devoted to PPPs and taking advantage of the resources of the European Investment Bank (EIB)

20 Andrés Ortega & Federico Steinberg (2018), 'Luchar contra la desigualdad y recuperar la convergencia', in Carlos Closa & Ignacio Molina (Eds.), *El Futuro de la Unión Europea*, Elcano Royal Institute, April, https://media.realinstitutoelcano.org/wp-content/uploads/2021/10/informe-elcano-23-el-futuro-de-la-union-europea.pdf (consulted 30/X/2023).
21 See, for example, 'The Scale-Up Europe initiative', https://scaleupeurope.tech/#manifesto (consulted 30/X/2023).
22 Dani Rodrik (2023), 'On Productivism', March, https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/on_productivism.pdf (consulted 30/X/2023).
23 Andrea Laplane & Mariana Mazzucato (2019), 'Socialising the risks and rewards of public investments: Economic, policy and legal issues', UCL Institute for Innovation and Public Purpose, September, https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/socialising_risks_and_rewards_final.pdf (consulted 30/X/2023).

to offer favourable financing conditions.[24] Lastly, the EU could encourage more meaningful participation by the interested parties throughout the entire lifecycle of PPPs, including local communities, civil society organisations and the end users in decision-making processes. This would help to foster transparency, responsibility and public trust in PPPs.

One area for putting this to the test could be the deployment of critical infrastructure. The green and digital transitions require an enormous investment in critical infrastructure that neither the public nor the private sectors alone are disposed to tackle. Collaboration on specific projects may, however, create cooperation models that are replicable in other areas. For example, the joint rollout of 5G networks involving the Commission and the European telecommunications industry has helped attract greater innovation to emerging sectors, such as smart cities, electronic health and the future of education. The EU could promote similar initiatives for the deployment of other critical infrastructure, such as edge computing and green technologies. If they are to prosper, such projects should set specific and achievable targets, clearly define the collaboration processes and risk assignment, and encourage transparency throughout the lifecycle.

Another area might be data governance. Despite the immense potential of data to have a positive impact on society, too much information remains locked up in the servers of companies and public administrations, thereby limiting the value that could be extracted from it. In response, various projects have adopted a new collaborative model in which participants from various sectors, including corporations, state agencies and research institutes, exchange data to resolve public problems.[25] This model helps to overcome bottlenecks and improve the access of those who need or could make a productive use of data, meaning that the EU could incorporate some of their templates, such as the use of trusted intermediaries, the adoption of public interfaces, the pooling of information and the launching of open innovation networks. Giving impetus to the profession of data stewards would also be highly advisable.

6. Training and human capital

The EU faces a notable shortage of the qualified labour needed to tackle the paradigm shift described in this report. In addition to an ageing population and the absence of a common immigration policy, there has been a drastic change in the skills needed to push the green and digital transitions forward, and this has

24 European Court of Auditors (2018), 'Public private partnerships in the EU: widespread shortcomings and limited benefits', September, https://op.europa.eu/webpub/eca/special-reports/ppp-9-2018/en/ (consulted 30/X/2023).
25 See, for example, the NYU GovLab Data Collaboratives initiative at https://datacollaboratives.org/ (consulted 30/X/2023)

The solutions to these problems will require a longer term perspective. To this end, it will be crucial to adapt education itself to play a more strategic role in the transition economy

contributed to the urgency of conducting a thorough review of the European employment landscape.[26] However, given that the rate of unemployment has fallen to a record low and internal EU migration has been insufficient to meet business needs, the solutions to these problems will require a longer term perspective. To this end, it will be crucial to adapt education itself to play a more strategic role in the transition economy and to nurture an environment propitious to training and continuous learning.

First, the EU should reform the vocational training and dual education programme and instigate periodic reviews to ensure it is in constant alignment with business needs. In many European countries vocational training has for years been demoted to a secondary status compared with higher academic education, undermining the close collaboration between public administrations, trade unions and companies that for years has contributed to millions of students smoothly transitioning to the employment market. A starting point could involve strengthening the forums of exchange between educational institutions and business associations to help develop high-value skills for industry as a whole, but the EU should also continue fomenting cross-border movement and the mutual recognition of qualifications to facilitate better access to these programmes throughout the continent.[27] Appropriate financial backing, offering incentives both to state institutions and businesses to implement such training, will be decisive.

In addition, Member States will do well to promote the modernisation of primary, secondary and university education in order to adapt it to the evolution of digital technologies. The EU could aid this process with a funding mechanism enabling education centres to update their infrastructure at all levels, such that the adoption of digital technology continues being as equitable as possible, and establishing common directives to deliver online training content to teachers and civil servants. The technology industry itself should cooperate in the training offered to workers and students, but the EU could create its own digital education platform,[28] for example emulating the model of the University of Helsinki's Elements of AI,[29] to

26 World Economic Forum (2023), 'The Future of Jobs Report 2023', 30/IV/2023, https://www.weforum.org/publications/the-future-of-jobs-report-2023/digest/ (consulted 30/X/2023).
27 See European Commission, 'European Skills Agenda', https://ec.europa.eu/social/main.jsp?catId=1223&langId=en#: (consulted 30/X/2023).
28 Maarja Kask & Nils Feller (2021), 'Digital Education in Europe and the EU's Role in Upgrading it,' *Jacques Delors Centre*, 15/II/2021, https://www.delorscentre.eu/fileadmin/20200204_Digital_education_Kask.pdf (consulted 30/X/2023).
29 See https://www.elementsofai.com/ (consulted 30/X/2023).

foster digital autonomy and develop educational services of the highest quality. Lastly, the EU could create a pan-European platform to coordinate the hiring of talent in various parts of the continent. An example of this is the EU's recent Talent Pool Pilot, designed to help qualified Ukrainian refugees find work.[30]

7. A framework of international solidarity

Sovereignty is not the same as autarky. The EU should continue promoting supranational cooperation and development schemes despite the return of geopolitics and the proliferation of bilateral, minilateral and plurilateral forums (which are by their very nature exclusionary and less effective, but in the absence of anything better will have to be used). The EU should strive to subvert narratives of 'the West versus the rest' or 'the wealthy north versus the global south' or 'democracies versus autocracies', which do not tally with the view of the world held in European capitals.

To this end, a wholesale reform of the WTO is proposed, one that incorporates the new role of the State in the promotion of industrial policy, that includes initiatives aimed at combatting climate change linked to trade, that reforms the now-paralysed dispute resolution mechanism and makes the Chinese economy compatible with the new rules, modifying the definition of developing economy and augmenting the transparency requirements. In particular, just as there are limits imposed on agricultural subsidies, a similar scheme should be put forward for State aid and State shareholdings in public companies. Such a regulatory framework could become the new infrastructure of globalisation, a sort of lowest regulatory common denominator on the basis of which preferential agreements and defensive requirements connected to economic security could be added.

Moreover, the EU should strive to establish bilateral and bi-regional economic and trade agreements adapted to the needs and restrictions of each partner. While there will be no new free-trade agreements with the US, efforts should continue to be made in bilateral initiatives within the framework of the Trade and Technology Council (TTC) to ensure that the transatlantic bloc sets global standards under European co-leadership. The TTC can make progress in the setting of European global standards in artificial intelligence, data protection, 5 and 6G and deep tech in general, facilitate access to the IRA subsidies for European electric vehicles, and maintain an open dialogue aimed at arriving at a constructive transatlantic position on China, so as either to restore the Comprehensive Agreement on Investment (CAI), which was suspended in 2021 due to the sanctions and counter-sanctions between the EU and China, or to establish a new cooperation framework to secure greater access to the Chinese market.

30 See https://eures.europa.eu/eu-talent-pool-pilot_en (consulted 30/X/2023).

The TTC model has already been adopted with India, but it should be extended to Mercosur and other interested strategic countries. With emerging and developing countries (in other words, the Global or Plural South), which maintain their interest in accessing the EU market, free trade and investment agreements should continue to be pursued. Such agreements may also offer an alternative to the growing Chinese presence in Africa, Latin America and the Middle East. To this end the needs of such countries must be borne in mind, including their incorporation into value chains, while also including the social and environmental clauses that EU citizens demand.

Lastly, the EU must also address reform of the multilateral development banks and sovereign debt restructuring mechanisms, fostering coordination between the G20, the IMF and the Paris Club. It is crucial that these forums can count on the active and constructive participation of China, which should feel comfortable and have a position in accordance with its economic prowess. A new approach is also necessary for the restructuring of the sovereign debt that some of the poorest countries are facing. The EU has the ability to lead this process, and if progress is made it could even propose a more ambitious reform of the IMF.

CONCLUSIONS: A NEW SOCIAL CONTRACT FOR EUROPE

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European countries have always been characterised by a solid social contract based on the principles of a social market economy, which have held their societies together and made them stable and resilient. However, both structural changes (ageing and its impact on the sustainability of the welfare state, globalisation and technological disruption and its impact on labour relations and climate change, among others), as well as external shocks (the financial and euro crises, the pandemic, war in Ukraine and the return of strategic rivalry between the great powers) have progressively undermined these models over recent decades. In fact, the sectors most affected by these changes have tended almost always to be the working and middle classes, buffeted by successive waves and with an increasingly fragile safety net.

According to multiple analyses, the nationalist and populist turn that many European societies have taken, as well as the current disaffection with politics, stems in large part from the failure of social contracts and the inability of liberal democracy to meet demands for security and opportunities. For all these reasons it is necessary to seek new ways of satisfying the needs of individuals and, at the same, address the challenges that affect society as a whole, rethinking the current model of the social market economy to adapt it to the new reality.[31]

Rebalancing the State and the market requires not only a new growth model but also a new way of safeguarding the common good and ensuring social cohesion. Viewed in this way, the transition to a new economic paradigm need not necessarily be a traumatic process for Europe and the Europeans. If it is a case of adapting to a world where the perception of economic governance focuses, as was suggested at the beginning of this report, on ordering and protecting societies –against threats to security but also to public health and economic, energy and climate threats– the EU has an extraordinary tradition of social protection, far superior to that of the US or China. If it maintains this legacy, while laying the foundations of a more dynamic and productive model of growth, it will successfully consolidate itself as a power that is as thriving in economic terms as it is attractive in social and regulatory terms.

31 Minouche Safik (2021), *What We Owe Each Other: A New Social Contract for a Better Society*, Princeton University Press, New Jersey.

To bring such goals closer and reduce the vulnerabilities to which the European economy is prone, this report has put forward a series of proposals centred on broadening the EU's financing and investment mechanisms, devising more effective industrial, innovation and technological disruption policies, improving human capital and re-adapting the EU's positions on the international stage. Each of these challenges is daunting and will require a degree of ambition and political capital that is yet to be determined, but an initial step that the EU should and can address is to establish an agenda that offers realistic diagnoses and proposes achievable reforms. With a view to the forthcoming European elections in June 2024 to determine the next configuration of the European Parliament and the European Commission, the present report seeks to contribute to the debate and promote the creation of a new social contract for Europe.

By way of synthesis, it may be said that the EU faces a new trilemma. It seeks to achieve an energy transition that reduces net CO^2 emissions to zero by 2050; to achieve economic security based on an industrial and technological strategy that consolidates strategic autonomy and welfare; and to secure sustainable public accounts. It constitutes a trilemma in the sense that, in the short term, it must prioritise two of these three goals. The US seems to have opted for the first two, setting balanced budgets to one side and recording public deficits in excess of 6%, even during growth phases of the economic cycle such as the present one. Meanwhile China, with its enormous surpluses, still has its public accounts in order, albeit deteriorating, and it is true that it has achieved great economic security and has made major strides towards the energy transition in recent decades. But its energy mix continues to be heavily dependent on coal, and the state of its people's welfare (and therefore of its economic security) is still a long way from European levels.

Naturally, many will argue that the US starts with an enormous advantage because it controls the dollar, the international currency *par excellence*. This gives it an 'exorbitant privilege' because it can become more indebted than many other countries. But the EU issues the world's second most important currency and could therefore leverage its monetary power much more than it does. This is not all; if the EU had a central fiscal capability, many of its Member States could achieve all three of the aforementioned goals, because a major part of the European public goods would be covered by the Union. As a matter of logic this in turn brings us to the heart of any new social contact. How is this larger EU budget to be financed? In a context of new financial requirements and a more than likely enlargement of the EU towards Ukraine and the western Balkans, reviewing the Union's spending capabilities (but also income) has become a matter of urgency.

With the far right gaining ground, and fiercely criticising the determination in Brussels and many national elites to persist with the Green Deal, lacking a clear strategy to offset the asymmetrical costs of the energy transition, with a war in Europe that seems unlikely to end any time soon and lacking sufficient mechanisms of pre- and redistribution that could empower its citizens, this debate is going to be very difficult to ignore in the coming legislative term.

History shows that political communities tend not to survive without budgetary integration. Therefore, as Mario Draghi has recently advocated,[32] the path that must be taken leads to an authentic fiscal union, with larger contributions to the budget from Member States, new European taxes (the so-called 'own resources') and permanent debt-raising capability for the EU. The profound and disruptive geopolitical and socioeconomic transformations the world is going through mean that such reforms can be postponed no longer.

32 2023, 15th Annual Feldstein Lecture, Mario Draghi, 'The Next Flight of the Bumblebee: The Path to Common Fiscal Policy in the Eurozone' | NBER.

ANNEX

ANNEX

EU initiatives for reducing energy dependency

Initiative name	Description	Procedural status	Effectiveness
Market correction mechanism	In order to activate the mechanism, the benchmark price of natural gas, TTF, needs to reach €180/MWh for at least three days and be €35 more expensive than liquefied natural gas (LNG). Once activated, transactions that exceed the total of the LNG price and €35 are not permitted. When the price of LNG is less than €145, the limit will be €180. Once activated, the mechanism will be kept in place for 20 days. The mechanism will be applied to the derivatives of TTF for between 1 month and 1 year. However, the mechanism has significant deactivation clauses.	Approved	If this mechanism had existed in 2022, it would have been activated for more than 40 days in August and September. However, ESMA points out that the distortion in prices might have led investors to evade it by various means, causing problems of liquidity, transparency and financial stability. ACER suggests that the likelihood of the mechanism being activated in the next two years is, in principle, small, but if this eventuality does arise, it will incur risks in the guise of, for example, possible price divergences between European gas markets.
Carbon Border Adjustment Mechanism (CBAM)	CBAM seeks to avoid an increase in CO2 emissions stemming from EU imports of goods from countries with less ambitious climate policies and the relocation of European production to such countries. 1. Companies that import goods in the iron and steel, cement, fertiliser, aluminium, electricity and hydrogen sectors will need to buy emissions rights to cover the carbon content of such products. 2. From October 2023 a simplified version of CBAM will come into operation, simply with obligations to provide information in order to collect data. The full CBAM will be introduced later in a gradual way. 3. The gradual introduction of CBAM will be accompanied by the progressive elimination of free assignations of emissions rights. The money collected through CBAM will go into the EU budget.	Approved	The US has labelled the measure as protectionist and some emerging countries have taken it to the WTO's dispute resolution mechanism. From the EU's perspective, it could lead to an increase in production costs for some European companies, generating a competitive disadvantage compared to other jurisdictions.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Emissions Trading System and the Social Climate Fund	1. The ambition of the Emissions Trading System (ETS), as the EU's main tool for reducing CO2 emissions since 2005, is broadened. Between 2026 and 2034, the free emissions rights for sectors covered by CBAM will be gradually withdrawn. 2. The maritime ETS is set up: the emissions of seaborne transport will be gradually included within the scope of the ETS. The agreement takes geographical specificities into account and proposes temporary measures for small islands, for example. 3. The ETS2 is created, a new independent regime for buildings, the road haulage industry and fuel, starting from 2027. In the event of exceptionally high energy prices, the start date will be delayed to 2028. The maximum price per tonne of CO2 in ETS2 will be €45. This will be applied to distributors that supply fuel to buildings, road haulage and certain industrial sectors. 4. The Social Climate Fund is set up with more than €86 billion to be financed from the ETS2 income. The fund will operate between 2026 and 2032 and will be used to finance investments and mitigate the impact of CO2 prices on vulnerable citizens and small businesses. 25% of the Social Climate Fund will be paid for by the Member States.	Approved	Potential increase in production costs for some European companies, creating a competitive disadvantage compared with other jurisdictions.
Reduction in demand for gas and increased reserves	EU ministers agree to reduce the demand for gas voluntarily by 15% over the winter of 2022-23. EU ministers agree a gas storage target of 80% by 1 November 2022.	Approved	Effective measures but made possible largely thanks to a winter with milder temperatures than those initially forecast.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Rollout of renewable energies, joint purchasing of gas and a solidarity mechanism	Measures to accelerate the deployment of renewable energies: 1. The maximum time for granting permits to solar energy projects may not exceed 3 months. 2. Solar energy projects in artificial infrastructure will not require environmental impact studies. 3. The installation of solar energy equipment up to 50 Kw will have tacit consent after 1 month. 4. The period for obtaining permits for renewable projects involving an increase in energy is not to exceed 6 months. This period is to be 3 months for energy increases greater than 15%. 5. The deadline for permits to install heat pumps below 50 MW will be 1 month. 6. The planning, construction and operating of renewable energy plants is deemed to be of overwhelming public interest, enabling simplified assessment. Regarding joint purchases of gas: 1. Member States will require the gas companies and consumers to submit their gas requirements. 2. The European Commission will engage a service provider to calculate the aggregate demand and seek offers that satisfy it. 3. The companies will need to use the EU's service provider for up to 15% of their gas storage obligations. 4. The companies will be able to use the platform to purchase gas from the suppliers that have been identified. 5. Russian gas will be excluded from the purchase. Regarding the solidarity mechanism: 1. Possibility of Member States reducing non-essential consumption of gas (eg, outdoor heating and private heated swimming pools). 2. A Member State can request solidarity from others when it cannot meet its basic gas needs. 3. The solidarity measures also apply to countries with LNG facilities. 4. The solidarity gas price will be the same as the market price.	Approved	

EU initiatives for reducing energy dependency

Initiative name	Description	Procedural status	Effectiveness
Reform of the electricity market	Three pillars of reform: 1. Making electricity bills more independent of short-term market prices. To this end, measures are introduced to strengthen the use of 'Power Purchase Agreements'. 2 Accelerating the deployment of renewable energies. To this end, Member States are required to use 'two-way Contracts for Difference' when subsidies for investments in renewable energy are granted. The revenue from these contracts will be channelled towards consumers. 3 Increasing consumer protection. Consumers will have the right to have various contracts.	Approved	The dominance of natural gas prices in determining electricity prices in the wholesale market is maintained.
Critical raw materials	Regulation structured around 6 axes: 1. National targets are set in the raw materials supply chain: • at least 10% of the EU's annual consumption by extraction • at least 40% of the EU's annual consumption by processing • at least 15% of the EU's annual consumption by recycling • no more than 65% of the EU's annual consumption of each critical raw material in any phase of processing can originate from the same third country	Approved	Although the intentions are laudable, it is unlikely that measures of this sort will enable dependency on certain raw materials, such as rare earths, to be drastically reduced.
Materias primas críticas	2 The administrative burden and the permits needed for critical raw material projects in the EU are reduced and simplified. Moreover, some strategic projects will benefit from shorter cycles of financing and concession (24 months for extraction and 12 for recycling). 3 The supply chains for critical raw materials will be controlled and reserves will be coordinated between the Member States. Some large companies will need to carry out an audit of their critical raw material supply chains, as well as a stress test. 4 Research and capabilities will be strengthened by means of the 'Raw Materials Academy'. Externally, the 'Global Gateway' will be used to help third countries develop their extraction and processing capabilities.	Approved	Although the intentions are laudable, it is unlikely that measures of this sort will enable dependency on certain raw materials, such as rare earths, to be drastically reduced.

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Materias primas críticas	5 Member States will need to take national steps to ensure the circularity of critical raw materials and that the materials can be recycled as secondary critical raw materials. 6 Ties with third countries deemed trustworthy partners will be reinforced. For these purposes a 'Critical Raw Materials Club' will be set up, Free Trade Agreements will be signed and Strategic Agreements developed.	Approved	Although the intentions are laudable, it is unlikely that measures of this sort will enable dependency on certain raw materials, such as rare earths, to be drastically reduced.
5G tools	Member States must possess the measures and competences to reduce risk. Specifically, they must: 1. Strengthen the security requirements applicable to mobile phone operators. 2. Assess suppliers' risk profile; apply the appropriate restrictions to suppliers that are deemed to be high risk, including the exclusions necessary for key assets. 3. Ensure that each operator has an appropriate strategy for dealing with multiple suppliers to avoid or limit any major dependency on a single supplier and prevent dependency on suppliers deemed to be high risk. The European Commission, together with the Member States, should implement measures to: 1. Maintain a diverse and sustainable supply chain of 5G networks with the goal of avoiding long-term dependency. 2. Facilitate coordination between Member States with regard to normalisation to achieve specific security goals and create certification schemes appropriate to the scale of the EU.	Approved	The approach taken by Member States in implementing the toolbox is not homogeneous, and ranges from Sweden's outright ban on operators using Chinese suppliers to the German case-by-case approach. Despite the reactions of countries like the US and the steps taken by the EU, according to a report by the Danish consultancy Strand, 59% of 5G RAN equipment in Germany came from Chinese operators in 2022, compared with 57% of 4G RAN in 2020. Huawei has a larger market share in Berlin than in Beijing, where it competes with other Chinese operators.
Chips Act	Based on three pillars: 1. The EU Chips Joint Undertaking (Chips JU), with EU backing of €6.2 billion in public funds to give impetus to design capabilities, create advanced pilot lines, accelerate the innovative development of quantum chips and establish a network of competence centres. A 'Chips Fund' to facilitate access to financing via debt and capital for emerging companies.	Approved	La iniciativa es poco ambiciosa desde el punto de vista financiero, especialmente si se compara con los EE.UU., dejando margen a que haya una competencia en subsidios públicos entre Estados miembros. Esto hace que los Estados miembros luchen entre sí por captar inversiones extranjeras. Dado que es poco probable que un único Estado miembro de la UE consiga concentrar en su territorio la cadena de valor completa de chips, sería recomendable que la Comisión Europea asumiera un verdadero rol de coordinación, distribuyendo partes de la cadena de valor de chips en aquellos Estados miembros con mayor ventaja comparativa en ese segmento específico.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Chips Act	2. Fast track for approving State aid for projects that help to accelerate the creation of a solid ecosystem of semiconductors in Europe. This includes 'first-of-a-kind' (FOAK) facilities that contribute to security in supplying the single market, and may receive high-priority approval for public intervention. These facilities may be advanced semiconductor factories and makers of equipment for chip production. Subsidy limits for the projects of small and medium enterprises are also extended. 3. A strategic mapping tool proposed by the European Parliament to improve the monitoring and response to crises in the regional supply chain. This monitoring mechanism is crucial for spotting early warning signs and possible crises in the supply chains, something that enables joint steps to be taken to address the shortage, such as information gathering, prioritising orders in critical sectors and joint purchasing approaches. The regulation also establishes a governance structure that includes the creation of a network of Competent National Authorities and a European Semiconductor Board.	Approved	La iniciativa es poco ambiciosa desde el punto de vista financiero, especialmente si se compara con los EE.UU., dejando margen a que haya una competencia en subsidios públicos entre Estados miembros. Esto hace que los Estados miembros luchen entre sí por captar inversiones extranjeras. Dado que es poco probable que un único Estado miembro de la UE consiga concentrar en su territorio la cadena de valor completa de chips, sería recomendable que la Comisión Europea asumiera un verdadero rol de coordinación, distribuyendo partes de la cadena de valor de chips en aquellos Estados miembros con mayor ventaja comparativa en ese segmento específico.
Connectivity Package	The European Commission has presented a regulatory proposal comprising three strands: 1. A proposal for a Gigabit Infrastructure Act, which will enable a cheaper and more effective roll-out of gigabit networks. 2. A draft Gigabit Recommendation, which guides national regulatory authorities on conditions of access to the telecom networks of operators with significant market power. 3. And an exploratory consultation on the future of the connectivity sector.	Pending	Telecom infrastructure is a fundamental element in the EU's strategic autonomy, but various pitfalls have emerged that hamper the achievement of the Digital Decade objectives. In the case of telecoms infrastructure, there is a funding deficit of €174 billion between now and 2030 that, according to the European Telecommunications Network Operators' Association (ETNO), could leave 45 million people in the EU without broadband by the latter date. Moreover, there will have to be ever greater volume, speed and capacity in telecoms infrastructure to enable content to flow throughout the EU because of the more intensive use of the networks and because of advanced technologies such as augmented reality, virtual reality and the internet of things. Despite its presentation of this Connectivity Package, the European Commission is failing to make progress in three fundamental areas, namely: (a) reform of the telecoms regulatory framework in the EU, which dates back to the 1990s and is focused on encouraging low prices and not on encouraging investment; (b) rationalisation of the State aid framework for rolling out 5G in the Member States that are most advanced in this area; and (c) the eradication of the 'at least four telecoms companies per Member State' rule, favouring concentration processes at a national and European level.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Net Zero Industry Act	The content of the European Commission's proposal is as follows: 1. Identification of strategic net-zero technologies. 2. EU net-zero technologies production target of at least 40% of the EU's annual deployment needs by 2030. 3. Governance based on the identification of strategic net-zero projects by Member States, with minimal control by the European Commission. These projects must contribute to the CO2 emission reductions, competitiveness and security of supply. 4. Public policy instruments: (a) acceleration of granting permits with a single point of contact per Member State; (b) coordination of private financing; and (c) modification of public tendering processes.	Proposal presented by the European Commission. Undergoing negotiation in the European Parliament and the Council of the EU	Despite the laudable objectives of the European Commission's proposal, there are some potentially improvable elements, in particular: 1. It is highly interventionist and does not respect technological neutrality, determining which technologies must be favoured. 2. The 40% production target is protectionist and potentially inefficient. 3. The main public policy proposed, the acceleration in the granting of permits, does not address the most important obstacle to the production of clean energy in the EU. 4. The governance proposal is complex. 5. It does not envisage additional public funding, leaving everything to the fate of the fiscal capability of each Member State.
Economic Security Strategy	The European Commission and High Representative's strategy is structured around the so-called three Ps of economic security, namely promoting competitiveness, protecting against specific risks and partnership with economic allies 1. Promoting competitiveness refers to the need for more solid supply chains, more diversified sources of supply and export markets, and nurturing research and the industrial base in advanced semiconductors, quantum computing, biotechnology, green energy and critical raw materials. 2. Protection against economic security risks aims at appropriately identifying them (in collaboration with Member States and the private sector), as well as deploying the new European instruments for defending trade, such as the anti-subsidy mechanism, investments screening, export controls and the anti-coercion mechanism (created in response to the Chinese reprisals against Lithuania).	Pending development	If this European strategy is to be successful it needs to be furnished with an appropriate institutional framework. To this end it would be advisable for the next European Commission to have a portfolio specifically devoted to bolstering the Union's economic security and strategic autonomy. And this would also entail setting up a transversal directorate general. The forward planning of possible scenarios should not consist solely of being prepared for potential future contingencies but must also be associated with a strategic culture focused on moulding the future. To this end it is essential that the Union has the economic intelligence capabilities needed and that there is coordination between the analysis and identification of vulnerabilities, and how to address and overcome them, between the European Commission and Member States, with increasingly harmonised methodologies. The single market must continue to be strengthened, adding the free movement, as far as possible, of data, and achieving this, as in many other areas, requires greater cooperation between the various administrative levels, from Brussels to each of the municipalities of the Member States (known as multi-level governance) as well as between the public and private sectors.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Economic Security Strategy	The Commission highlights four kinds of risk that need to be identified: (a) those linked to supply chains, including energy (which the Commission will assess, conducting a more thorough analysis of the EU's strategic dependencies, above all those that have the greatest likelihood of becoming double-edged swords); (b) those relating to the physical and cyber-security of critical infrastructure (which will need to be assessed continuously following the Council recommendation of 8 December 2022); (c) those related to technological security and technology leaks (to be assessed on the basis of a list of technologies critical for economic security); and (d) the risks of an aggressive use of economic dependencies or economic coercion (in other words the possibility that third countries could attack the EU, its Member States or its businesses using actions that affect trade or investment). The idea is for the Council to review progress in the risk assessments every six months, on the basis of the Commission's contributions (and, if applicable, the High Representative's), and report annually to the European Council. It is also envisaged that the High Representative, together with the Member States, should improve the Single Intelligence Analysis Capacity (SIAC) for detecting threats to the EU's economic security: 1. The third and last of the Ps is the one that refers to fostering partnerships or alliances with countries 'that share our concerns about economic security', 'prepared to cooperate' in the energy and digital transitions, and to encourage 'the rules-based international economic order and multilateral institutions'. The proposal also mentions the need to promote and 'finalise' free trade agreements (the Commission's efforts to seal the EU-Mercosur Agreement during the Spanish presidency of the European Council should probably be inserted under this heading) and to invest in sustainable development and create bonds throughout the world by means of the Global Gateway. Meanwhile, on 3 October 2023, the European Commission highlighted 10 critical technologies. Of these, four are deemed to present immediate risks: chips, AI, quantum technologies and biotechnology. The European Commission and the Member States will carry out a joint risk analysis before the end of the year.	Pending development	If this European strategy is to be successful it needs to be furnished with an appropriate institutional framework. To this end it would be advisable for the next European Commission to have a portfolio specifically devoted to bolstering the Union's economic security and strategic autonomy. And this would also entail setting up a transversal directorate general. The forward planning of possible scenarios should not consist solely of being prepared for potential future contingencies but must also be associated with a strategic culture focused on moulding the future. To this end it is essential that the Union has the economic intelligence capabilities needed and that there is coordination between the analysis and identification of vulnerabilities, and how to address and overcome them, between the European Commission and Member States, with increasingly harmonised methodologies. The single market must continue to be strengthened, adding the free movement, as far as possible, of data, and achieving this, as in many other areas, requires greater cooperation between the various administrative levels, from Brussels to each of the municipalities of the Member States (known as multi-level governance) as well as between the public and private sectors.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
SURE	A financial instrument that made up to €100 billion available to Member States in low-interest loans to defray costs directly related to the creation or extension of national partial unemployment schemes, as well as other similar measures that have been applied to support self-employed workers in response to the ongoing coronavirus pandemic.	Already implemented	A positive initiative, but it should have been converted into a permanent instrument to counteract the economic cycle.
Next Generation EU	Recovery fund of €750 billion from EU funds (approximately €390 billion in the form of transfers and €360 billion in the form of loans), shared out among Member States to overcome the economic and social effects of COVID-19 through investment in areas such as health, digitalisation, the green transition and economic resilience, to strengthen the European economy over the long term and advance towards a more sustainable and digital EU.	Under way	A positive initiative, but it should have been converted into a permanent instrument to pay for investment in European public assets or at least enable the disbursement of funds beyond the current horizon of 2026.
Banking Union	A European Commission proposal on management of banking crises. The proposal comprises: 1. Widening the concept of public interest and increasing the burden of proof on the resolution authority to demonstrate that public interest is not at stake. 2. Restricting use of the precautionary recapitalisation mechanism to cases in which the entity is clearly solvent and the support is strictly temporary, increasing the requirements to determine the duration of support and the exit strategy from the outset.	Proposal presented by the European Commission. Being negotiated in the European Parliament and the Council of the EU	The discretional nature of some recent cases of banking liquidation will be limited, but the proposal does not resolve the elements of the Banking Union that are really outstanding, especially the Single Deposits Insurance Fund and the establishment of a mechanism for providing liquidity in resolution.
Banking Union	3. Making it easier for the resources of national Deposit Insurance Funds to be used beyond their basic function of disbursements. 4. Clarifying that contributions to the national Deposit Insurance Funds will count towards the minimum 'bail-in' requirements of 8%, thereby facilitating access to the resources of the Single Resolution Fund. 5. Keeping at €100,000 the protection offered per account holder and entity signed up to the national Deposit Insurance Funds. The protection offered by the national Deposit Insurance Funds are only widened to cover public entities (such as hospitals, schools and town halls), and to the money that customers have deposited in certain types of fund (such as investment companies and payment and electronic money entities).		

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Capital Markets Union	Unlike the Banking Union, the Capital Markets Union (CMU) is a project with strong regulatory backing and has been evolving over a number of years. After the launch of the CMU initiative in 2015, various action plans have been drawn up, including both legislative and non-legislative measures, and the Commission has adopted various packages of legislative measures: (a) the initial CMU action plan published in September 2015; (b) the revision and extension of the action plan in June 2017; (c) the action plan of September 2020; (d) four legislative initiatives presented by the European Commission in November 2021a; and (e) another three legislative initiatives presented by the European Commission in December 2022.	Various initiatives approved and others undergoing negotiation and preparation	Despite the good intentions, the Capital Markets Union consists of a succession of regulatory proposals that address issues in a tangential way, without paving the way to a true transformation of such key elements as supervision of equities markets, taxation or insolvency regimes.
Fiscal rules	The content of the European Commission's proposal is as follows: 1. The benchmark figures for public deficit of 3% of GDP and 60% of GDP for public debt remain unchanged. 2. With the aim of fostering the principle of national ownership, the Member States must submit a four-year fiscal-structural adjustment plan, setting out their fiscal targets, the measures to be taken to address their macroeconomic imbalances, as well as their investment and reform agenda. These plans will be analysed by the European Commission and approved by the Council of the European Union, on the basis of common criteria. 3. The principle of simplicity is also reflected in the proposal to introduce the amount of primary net public spending financed at a national level as a single operational indicator. For countries with a ratio of public debt to GDP greater than 60%, the evolution of net public spending must ensure that the ratio of public debt to GDP is on a plausibly falling trajectory. It is thus permitted to take each country's specific situation into account, replacing the homogeneous general rule currently in force of reducing the ratio of public debt by 1/20. To ensure greater simplicity, forecasts that entail excessive complexity, such as the significant deviation procedure and the fiscal adjustment matrix of requirements, are also eradicated.	Proposal presented by the European Commission. Undergoing negotiation in the European Parliament and the Council of the EU	Reform of the fiscal rules is urgent. The EU cannot afford to embark upon 2024 with the previous rules. The European Commission's proposal constitutes a good working basis, but fundamentally the agreed outcome needs to be realistic and compliance among Member States must be assured. There should be no repeat of past episodes, in which exceptions came to be the norm and the fiscal rules were not fully implemented at any time. However, the major challenges being faced by the EU and the considerable investment needs that stem from them mean that a reform of the fiscal rules is not going to be sufficient. If only the fiscal rules are reformed it will be difficult to combine fiscal sustainability and investments. This is why, in addition to extending the horizon for the execution of the NGEU, it is vital that a permanent facility is at last introduced to finance investments.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Fiscal rules	4. The principle of flexibility is also employed, given the possibility of extending the horizon of the fiscal-structural adjustment plan from four to seven years, provided that the Member State submits structural reforms and investments supporting EU priorities in areas such as the green transition, the digital transformation, and security and defence. The escape clauses, both general and country-specific, are kept in place, enabling the variance of spending targets in the event of a severe recession for the EU or the Eurozone as a whole or in the event of exceptional circumstances beyond the control of the Member State with major impact on its public finances. 5. But the principles of national ownership, simplicity and flexibility are accompanied by major safeguards. First, the fiscal adjustment plan must ensure that the public debt ratio ends up at a lower level than at the beginning and that the public deficit fulfils the 3% of GDP rule for 10 years after the adjustment period (4-7 years) in a scenario of constant policies. Next, for countries with a public debt to GDP ratio greater than 60% or a public deficit in excess of 3%, the Commission will present its technical adjustment trajectory, anchored to a sustainability analysis of the public debt. Once this trajectory has been drawn up, net public spending will not be allowed to grow in excess of medium-term GDP performance over the timeframe of the plan. For countries with public debt lower than 60% and a public deficit lower than 3%, the Commission will not draw up a technical trajectory, but it will provide technical information to the Member State to ensure that the public deficit remains below 3% of GDP over the medium term. Another safeguarding mechanism means that if the public deficit is not below 3% of GDP, the Member State must carry out a minimum annual adjustment of 0.5% of GDP. There is however ambiguity in the Commission's proposal with regard to the details of the aforementioned annual reduction of 0.5% of GDP.	Proposal presented by the European Commission. Undergoing negotiation in the European Parliament and the Council of the EU	Reform of the fiscal rules is urgent. The EU cannot afford to embark upon 2024 with the previous rules. The European Commission's proposal constitutes a good working basis, but fundamentally the agreed outcome needs to be realistic and compliance among Member States must be assured. There should be no repeat of past episodes, in which exceptions came to be the norm and the fiscal rules were not fully implemented at any time. However, the major challenges being faced by the EU and the considerable investment needs that stem from them mean that a reform of the fiscal rules is not going to be sufficient. If only the fiscal rules are reformed it will be difficult to combine fiscal sustainability and investments. This is why, in addition to extending the horizon for the execution of the NGEU, it is vital that a permanent facility is at last introduced to finance investments.

EU initiatives for reducing energy dependency			
Initiative name	**Description**	**Procedural status**	**Effectiveness**
Fiscal rules	Moreover, those Member States that use a longer horizon for the fiscal adjustment plan will need to ensure that the adjustment is not left until the final years, concentrating the bulk of the adjustment into the first four years. Lastly, the decision about whether to activate the general escape clause will be taken by the Council of the European Union, on the basis of a recommendation from the European Commission 6. In terms of mechanisms to ensure compliance with and application of the rules, various measures are also introduced. First, Member States will have to submit annual analyses of the degree of compliance with their plans, which will make the European Commission's monitoring task easier. The role of the Independent Fiscal Institutions (AIReF in the case of Spain) will be strengthened and they will have to provide, among other things, a compliance assessment of the budget figures set out by the government in its annual report. Secondly, in the case of countries with debt sustainability challenges and that deviate from the fiscal pathway established in the medium-term budget plan, an Excessive Deficit Procedure will be initiated by default. This will facilitate the opening of the Excessive Deficit Procedure due to debt, while the Excessive Deficit Procedure due to non-compliance with the deficit criterion remains unaltered. Thirdly, the financial sanctions are reduced, thereby facilitating their application in cases of deviation from the fiscal pathway set out in the fiscal-structural plans. Finally, breaches of the reform and investment commitments that motivated the extension of the period to over four years could give rise to a reduction of the adjustment period.	Proposal presented by the European Commission. Undergoing negotiation in the European Parliament and the Council of the EU	Reform of the fiscal rules is urgent. The EU cannot afford to embark upon 2024 with the previous rules. The European Commission's proposal constitutes a good working basis, but fundamentally the agreed outcome needs to be realistic and compliance among Member States must be assured. There should be no repeat of past episodes, in which exceptions came to be the norm and the fiscal rules were not fully implemented at any time. However, the major challenges being faced by the EU and the considerable investment needs that stem from them mean that a reform of the fiscal rules is not going to be sufficient. If only the fiscal rules are reformed it will be difficult to combine fiscal sustainability and investments. This is why, in addition to extending the horizon for the execution of the NGEU, it is vital that a permanent facility is at last introduced to finance investments.

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