



Can Europe maintain its competitiveness in a global economic landscape dominated by the United States and China?

Structural analysis, comparative data, and strategic outlooks

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ABSTRACT

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This article analyzes the European Union's ability to preserve its economic position in the face of the dominant dynamics of the United States and China. We will address a set of recent macroeconomic data (Mario Draghi's report in 2024), the figures from the OECD, Eurostat, and the IMF to show that the EU is currently experiencing a decline of a structural, multi-dimensional nature.

The overall productivity of the European Union's factors of production is stable and faces a persistent shortage of investment in research and development (R&D) and in capital and digital capital. The EU's dependence on energy and technology is increasing. Exposure to protectionist measures is growing; the GDP gap between the United States and our continent has doubled over two decades, rising from 15% to 30% in 2023.

Spending on research and development in Europe amounts to 2.13 percent of GDP, well below the 3.14 observed in the United States (more than one and a half times 1.6). This situation weakens the Eutrope's ability to maintain its position as a leader in the fields of technology. In this article, we will analyze the reactions and institutional responses at the European level through Mario Dragui's report, the competitiveness compass, the agreements on trade with Mercosur and Mexico, while considering their limitations.

Our finding concludes that European competitiveness is still present but maintaining it, politically, financially, and industrially requires a common political push on a scale unprecedented since the Marshall Plan.

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Introduction

Asking this question of competitiveness in 2026 may seem somewhat odd and paradoxical. It's not that Europe has suddenly become weak or incapable. It is a process that has settled in over time in a progressive and painless way. The real concern is subtler and slower as well; it is a form of continuous drift, up to a certain setback. And at that moment, it is hard not to question oneself!

Europe remains a major economic power, without a doubt. It still constitutes a significant share of the world economy, it has renowned universities, and a human capital of renown and many companies respected at global scale, such as Airbus, ASML, LVMH, Novo Nordisk or Siemens, ... They are not weak competitors.

Honestly, the continent still has many assets. And yet, despite that, something seems blocked. As if Europe was progressing less quickly than others. While the United States is advancing rapidly—in artificial intelligence, in new technology—and China is investing massively, the European Union sometimes appears reluctant to act.

The problem is that at the moment in the world economy time plays a very important and crucial role. This is precisely what Mario Draghi indicated in his four-hundred-page report submitted to the European Commission in 2024. And the text mentions an impressive economic and technological lag, and which is worsening compared to the United States and China. When the former, president of the ECB, Mr. Draghi, speaks of an 'existential challenge', it can only arouse interest.

This report was the result of Enrico Letta's work on the single market (April 2024), and the charter for competitiveness that the von der Leyen Commission presented in January 2025.

Progressively, in Brussels, the discourse evolves. There is a real awareness. European leaders realize that the issue is no longer a theory, but an invincible reality. It is no longer simply a discussion among economists or experts. The repercussions are starting to affect industry, energy, innovation, and even Europe's position on the international stage.

What concerns us mainly is not a steep drop. The danger is more delicate than that. It is a phenomenon of gradual disengagement. A Europe that remains pleasant, stable, comfortable, ... but which slowly sees its ability to impact major economic and technological shifts of the era diminish. The real question, the one that structures this article, is to know whether this delay can still be caught up, and under what conditions. Thus, a question is constantly raised: can Europe still measure itself against the United States and China?

From this question, three hypotheses structure the analysis:

- H1: the lag in Europe is both structural and multidimensional and cannot be attributed solely to conjunctural elements.
- H2: Europe's lag in productivity, research and development, and digital transformation represents one of the main elements of the widening gap with the United States and China.
- H3: the recent responses of European institutions are moving forward positively, but remain insufficient regarding scope, timeliness, and political harmonization.

To answer these hypotheses, this article is organized into four main parts.

- In the first part we diagnose European decline by examining the GDP gap, productivity, and energy prices.
- The second highlights structural weaknesses of the European economy, particularly regarding research and development and the fragmentation of the single market.
- The third analyzes the geopolitical pressures exerted by the United States and China.
- The fourth evaluates the institutional responses of the EU and proposes prospective scenarios for 2035

I. Methodology.

1. Type of research

Our analysis rests on a mixed documentary, comparative, and analytical approach. It relies on a quantitative analysis based on macroeconomic indicators, but also on a qualitative analysis based on institutional, industrial, and geopolitical dynamics.

Our analysis is mainly based on recent data from recognized institutional sources:

- The Draghi report on European competitiveness published in 2024;
- OECD data on research and development;
- Eurostat statistics on industrial production;
- IMF data on growth and global GDP;
- Reports of the European Commission;
- The Letta report on the single market;
- The analysis of Bruegel, the Montaigne Institute and the Kiel Institute.

These data were selected for their reliability, relevance and timeliness to properly analyzes the com The European competitiveness.

Our analysis primarily covers the period 2002-2026, with particular emphasis on the 2020-2026 period, marked by several major shocks:

- The Covid-19 crisis;
- The war in Ukraine;

- The European energy crisis;
- The American Inflation Reduction Act;
- The strengthening of Chinese industrial policy;
- The return of trade tensions and protectionism.

A forward-looking dimension is also introduced through three scenarios for the horizon 2035.

2. Selected indicators

The main indicators studied are as follows:

- Share of world GDP;
- Real GDP growth;
- GDP gap between the European Union and the United States;
- Total factor productivity;
- R&D expenditure as a percentage of GDP;
- Yearly growth of investments in R&D;
- Evolution of industrial production;
- Relative energy costs;
- Strategic dependencies;
- Protectionist and commercial measures.

3. Methodological limitations

This study has several limitations. First, consolidated data for Europe can conceal significant differences between member countries. For example, France, Germany, Italy, Spain, Ireland or Poland do not share the same economic trajectory – growth, GDP, level of investment and strategic spending. Comparisons between the European Union, the United States and China must therefore be made with great caution, as these economic spaces do not share the same institutional, political and industrial structures

Finally, the forecast scenarios for 2035 rely on uncertain evolutions, especially regarding geopolitics (the war in Ukraine, Iran and the Middle East in general), energy and technology. II. Results 1. GDP Difference: a gap widening for twenty years In 2002, the GDP difference between the European Union and the United States (estimated at 2015 prices) was about 15%. By 2023, it was 30%. Draghi himself describes this change as “the main driver of divergent evolutions” between the two blocks. This is not a temporary crisis, nor the impact of a single event. It is a quiet, continuous movement that progresses slowly and whose magnitude only fully reveals itself in hindsight. This global figure nevertheless hides a much more varied reality within the Union itself. Ireland and Poland show results that would make many nations outside Europe envious. However, euro area industry records declines ranging from 2.3%, 3.3%, to 5.5%

(France, Germany, Italy). When the three main economies of the continent face difficulties at the same time, the entire industrial and export capacity of the EU is threatened.

II. Results.

1. GDP Difference: a gap widening for twenty years

In 2002, the GDP difference between the European Union and the United States (estimated at 2015 prices) was about 15%. By 2023, it was 30%. Draghi himself describes this change as “the main driver of divergent evolutions” between the two blocks. This is not a temporary crisis, nor the impact of a single event. It is a quiet, continuous movement that progresses slowly and whose magnitude only fully reveals itself in hindsight.

This global figure nevertheless hides a much more varied reality within the Union itself. Ireland and Poland show results that would make many nations outside Europe envious. However, euro area industry records declines ranging from 2.3%, 3.3%, to 5.5% (France, Germany, Italy)[†]. When the three main economies of the continent face difficulties at the same time, the entire industrial and export capacity of the EU is threatened

Table 1: Macroeconomic indicators comparing EU / United States / China (2023)

<i>Indicator</i>	<i>EU (2023)</i>	<i>United States (2023)</i>	<i>China (2023)</i>
GDP (world Share, %)	17,0%	25,4%	17,0%
Real GDP growth (%)	+0,4%	+2,5%	+5,2%
EU/US GDP gap (base 2002=15%)	30%	-	-
Industrial production (var. July 23/24)	-1,7% (UE)	+1,5%	+4,5%
Unemployment rate (%)	6,1%	3,7%	5,2%
spending (% GDP)	2,13%	3,44%	2,69%

Source : OECD, Eurostat, IMF, Draghi Report (2024)

The review of these indicators clearly shows that Europe is currently experiencing a period of economic slowdown compared to the United States and China. Although the European Union remains an important global economic power, its level of competitiveness seems less dynamic than that of its two main rivals.

First, world GDP highlights a first imbalance First of all, world GDP highlights a first imbalance. The United States accounts for 25.4% of world GDP, while the European Union and China are each around 17%. This shows that the American economy maintains a higher capacity in terms of production, investment, and innovation.

[†] Eurostat (2024). *Industrial Production in the EU and Euro Area, July 2023 - July 2024*. Statistical Release, September 2024.

Europe remains significant, but it is slowly losing its position in the global economic ranking.

Economic progress confirms this inclination. In 2023, the EU shows only a real growth of +0.4%. This percentage is very low compared to the United States (+2.5%) and especially China (+5.2%). Modest growth often reflects weaker domestic demand, cautious investments and a more delicate industrial activity. Conversely, the United States continues to benefit from an extremely innovative economy and high consumption. China, despite some structural slowdowns, has managed to close a large part of its historical lag and maintains a sustained pace thanks to its industrial sector and export skills.

The wealth gap between Europe and the United States is also concerning. This shows that the American economy has advanced more rapidly than the European economy for more than twenty years. This difference may be linked to higher productivity in the United States, increased technological investments, and a better ability to train leaders in digital and artificial intelligence. According to Michael Porter (1990), innovation and the industrial context strongly impacts the competitiveness of countries. The drop of 1.7% shows that the industrial sector in Europe still faces problems.

Finally, research and development expenditures probably represent the most strategic long-term indicator. The United States devotes 3.44% of its GDP to R&D, compared with 2.69% for China and only 2.13% for the EU. Because innovation represents a future competitiveness advantage.

2. An insufficient European productivity:

By looking at the main cause of this decoupling, the Mario Draghi report identifies without any ambiguity: it is total factor productivity. Not the amount of capital investment, which remains acceptable in Europe. Not the skill of the workforce, which is generally satisfactory. However, it is the efficiency in combining all of this to generate value. And at that moment Europe falls behind

Since 2015, productivity in Europe has risen on average by 0.7% each year. A modest figure which, combined with accelerated population aging, paints a clearly alarming picture. Draghi expresses this clearly: "By 2040, the EU's active population should decline by nearly two million workers per year, while the active/retired ratio should move from about 3.1 to 2.1." By maintaining this productivity rate, we would only stabilize the current GDP until 2050 (without making it grow). The European social model, which relies on this growth to fund itself, would then be under considerable pressure.

The cause of this productivity decline is clear: Europe has partly missed the digital transition. The rise of the Internet, followed by the development of large-scale software, and today artificial intelligence, has changed the configuration of productivity gains in the United States since the mid-1990s.

Europe watched the train go by without really taking it. Yet they remain exceptions in an economic fabric dominated by industries that aggravate long innovation cycles: chemistry, automotive, machine tools. Sectors of excellence, certainly, but not the engines of the next industrial revolution.

An aspect of the European slowdown frequently mentioned in reports is the cost of energy. Since the gas shock following the Russian attack on Ukraine in February 2022, the European companies charge two to three times more for electricity than their American counterparts. Natural gas, meanwhile, is between four and five times more expensive in Europe. This is not a temporary anomaly (it is the result of very varied natural resource endowments and a European energy market that, despite two decades of partial integration, remains divided and inefficient.

The industrial effects are tangible and quantifiable. Large sectors of heavy industry, chemistry, metallurgy, glass, ceramics have seen margins collapse since 2022. EU industrial production has fallen by 10% since 2021 according to information gathered in the Draghi report. BASF, the leader of German chemistry, revealed in 2023 a significant restructuring in Germany and substantial investments in the United States, driven by much lower energy costs and by incentives from the Inflation Reduction Act. This movement is not unique to BASF. "EU companies continue to pay electricity two to three times more than companies located in the United States. As for natural gas, they pay four to five times more." Draghi Report, September 2024.

3. A persistent lag in research and development

Europe is investing in research and development. This is not where the problem lies, at least, it's more in the dynamic. This is what happens when you compare not absolute values, but the evolutions or growth of R&D investments.

In 2024, R&D investments in Europe represented 2.13% of GDP. This number has been constant since 2020 (and that in itself is a problem). By contrast, the United States invested 3.44% of its GDP in research, while China reached 2.69%, but with an annual increase of 8.9% according to the OECD. Regarding the annual growth of R&D investments, the gap is evident: +3.4% for the United States, +8.9% for China, and a modest +0.4% for the EU.

Table 2: Compared R&D expenditures and evolution 2024

Country / Zone	R&D (% GDP 2023)	R&D (% Growth 2024)	World rank innovation
United States	3,44%	+3,4%	1 st
South Korea	4,9%	+5,0%	22 nd
Japan	3,4%	+5,0%	3 rd
China	2,69%	+8,9%	12 th
European Union	2,13%	+0,4%	Variable
Germany	3,13%	-0,4%	8 th
France	2,18%	-0,5%	11 th

Source: OECD (2025), French Minister for ESR (Nov. 2024), High Commissioner for Strategy and Planning (Feb. 2025)

Worse still, Germany, the technological backbone of the continent, recorded a slight contraction of 0.4%. France, -0.5%. These are alarm signals difficult to ignore or to minimize.

This loss of momentum is particularly problematic in so-called critical technologies (semiconductors, artificial intelligence, quantum computing, biotechnologies). A study published by Bruegel in 2025 documents that Europe is lagging significantly in the production of "radical" innovations—that is, these patents with no real precedents that open entire new fields and are massively cited in subsequent research. In this area, the United States and China dominate without equal.

Sector concentration further worsens the picture. Among the 2,000 global companies that invest the most in R&D, the U.S. and Chinese ICT and healthcare giants eclipse everyone. In Europe, the R&D champions remain largely confined to the automotive sector (Volkswagen ranks fifth worldwide with €22 billion invested) and pharmaceuticals, with Roche or AstraZeneca. This is solid, but these are sectors that innovate at the margins, not in the breakthroughs. The global top 10 belongs to Alphabet, Microsoft, Amazon. These hyperscale's invest on their own more than the entirety of several economies combined in Europe.

The structural weakness that one is too afraid to name is the most striking paradox of the European situation. In theory, the EU has the largest internal market in the world (more than 450 million consumers in a free-trade area). And yet, this environment remains largely fragmented across several key areas: banking services, telecommunications, energy, financial markets, ...etc.

An ambitious tech startup looking to raise funds in Europe faces 27 distinct regulatory regimes, underdeveloped venture capital markets, and institutional investors who are

culturally less inclined to take risks. The Letta report (2024)[‡]1 estimated that the single European market left "dormant" and untapped hundreds of billions of euros in potential economic value due to these frictions. This is not a figure of speech.

In the United States, venture capital markets are five to ten times more advanced than in relation to GDP than in Europe. In China, the state directly funds the sectors considered to be strategic, thereby avoiding financial markets that could delay or complicate decisions

The governance of the Union further exacerbates this fragmentation. The need for unanimous agreement of the 27 Member States on the most delicate economic issues makes major reforms structurally difficult to initiate and even more challenging to finalize. Draghi himself, "Due to the slowness and deterioration of its policy-making process, the EU is less able to produce a coherent response."

4. The cost of energy as a competitive handicap:

The invasion of Ukraine by Russia in 2022 served as a ruthless wake-up call. Dependence on Russian gas abruptly transformed into a geopolitical instrument. Europe has overcome the shock of variety; its sources of supply quickly and is beginning to draw lessons from it. But has it really understood what this indicates about its other dependencies?

French companies pay electricity 2 to 3 times more expensive than their American counterparts. As for natural gas, four to five times more expensive in Europe than in the United States.

This differential weighs heavily on energy-intensive industries, such as:

- Chemistry;
- Metallurgy;
- Glass & ceramics;
- Automobile;
- Certain segments of the manufacturing industry.

According to the same report, the EU recorded a 10% drop in industrial production, prompting a number of European companies to reorganize and reinvest more aggressively in the United States despite the EU.

The impacts on European industrial investment decisions were immediate and carefully recorded. From 2023, BASF launched a significant restructuring of its operations in Germany and restarted multibillion-dollar investments in the United States, driven by

[‡] Letta, E. (2024). Much More Than a Market — Speed, Security, Solidarity: Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens. European Council, April 2024. 147 p

markedly more competitive energy costs and existing subsidies. Volkswagen, BMW and various other car manufacturers have intensified their installation initiatives in America. According to Kiel Institute data, tens of billions of euros in industrial investments were transferred from Europe to the United States between 2022 and 2024.

5. Significant strategic dependencies.

The study also highlights major strategic dependencies of the European Union.

Table 3: Main strategic dependencies of the EU

Dependency critical	Foreign share	Supplier principal	Estimated risk
Chip manufacturing (wafers)	75-90% (Asia)	Taiwan, South Korea	Very high
Rare earths	>80% (China)	China	Very high
Lithium (batteries)	70% (non-EU)	China, Australia	High
Cloud software	>70% (USA)	AWS, Azure, Google	High
Natural gas (before 2022)	>40% (Russia)	Russia	Critical (resolved partially)
Cobalt	>65% (DRC+ China)	DRC, China	High

Source : 5 Draghi Report (2024), European Commission, IEA

The Draghi report notes that 75 to 90% of the global capacity for silicon wafer production silicon (wafers) is in Asia. Europe possesses a treasure in this sector, however, the dependency on the rest of the value chain is enormous. China, for its part, holds between 60% and 90% of the extraction and processing of metals essential to the energy transition energy transition: lithium, cobalt, rare earths, manganese.

This double technological dependency toward the United States for digital matters, primary toward China and what Draghi describes as a 'existential vulnerability'. This is not a rhetorical expression. If Washington were to restrict exports of AI technologies, or if Beijing decided to limit rare earth exports, the consequences for the European industry would be instantaneous and severe.

These dependencies affect sectors essential for the energy transition, the digital transition and industrial sovereignty. The European Union relies heavily on the United States for digital matters and on China for critical raw materials. This double dependency weakens its ability to act autonomously in a world marked by the return of power relations of economic power.

6. Rising protectionist pressure

In August 2022, the U.S. Congress adopted the Inflation Reduction Act. This text mobilized 369 billion dollars in subsidies and tax incentives to accelerate the American energy transition. The European capitals initially commented on the ambition of the climate aspect of the text, and they were right to do so. But what struck later, more harshly, is what else the text contained: national preference clauses extremely targeted. The IRA favors productions made on U.S. soil for vehicles electric vehicles assembled in the United States, batteries whose components come from America North. This is industrial policy, not climate altruism.

The Montaigne Institute described the IRA as a change of doctrine: America reclaims the state's industrial interventionism, a method that Europe had long restricted to the name of the principles of competition. Biden's special advisor for energy security, Amos Hochstein had not bypassed it at the SAFE Summit in March 2024: "Energy has never constituted a free market." A brief statement, but it many on the shift in the paradigm underway.

The American threat is real, but of a different nature than the Chinese threat. The IRA diverts investments (it does not openly compete with European products. China, on the other hand, does both. In twenty years, Beijing has achieved an industrial transformation of a scale and a speed unmatched in contemporary economic history, evolving from a low-cost workshop to a leading position in technologies that were still recently dominated by Europe or the United States.

The case of the automobile is the most striking and most painful for Europe. The automobile industry in Europe (Volkswagen, Stellantis, Renault) had enjoyed for decades a competitive advantage difficult to contest. BYD, NIO, SAIC have changed the game.

These Chinese manufacturers are penetrating global markets (and especially the European market) with electric vehicles whose cost is often 30% to 40% lower than that of their European counterparts. Not because they are less efficient on every front, but due to the enormous government subsidies and the vertical integration of their supply chain related to batteries that give them a totally different cost structure.

The European Commission responded in October 2024 by imposing anti-dumping duties on Chinese electric vehicles (between 17% and 35%) depending additionally on the manufacturers (based on state aid deemed unfair. The decision was legally) grounded. It nevertheless created diplomatic frictions and raised risks of reprisals on European export sectors highly exposed) luxury, aerospace, wine. This type of unilateral calculation has its limits.

Apart from the automotive sector, R&D figures in China are truly impressive. R&D investments exceeded 3,600 billion yuan in 2024, recording an average annual increase of 10.5% from 2021 to 2024. In terms of purchasing power parity, they reached about 96% of the American level in 2023 versus 72% a decade earlier. The convergence is impressive. And China has multiplied its investments in ICT since 2013. . Finally in May 2026 with the return of American protectionism (Trump). The duties of customs on steel, aluminium and potentially European cars (cars and the trucks) threaten directly several industrial sectors of the Union European. The Kiel Institute estimates potential production losses for Germany at around 15 billion euros. Italy, Slovakia and Sweden (all heavily exposed in the automotive sector) would also face significant impacts.

Table 4: Chronology of the main protectionist measures and EU responses (2024-2026)

Measure / Period	Nature	Scope	EU response
Feb. 2025	25% duties steel/aluminium	€26 B in exports EU	Countermeasures (suspended)
March 2025	Increase steel to 50%	Derivative products included	Negotiations ongoing
April 2025	Reciprocal tariffs 10%	Almost all the imports	Trade compass
Oct. 2024	Electric cars Chinese	Duties +17 to +35%	Initiative Specific to EU
May 2026	25% EU car duties	~15€ B losses Germany	Tripartite negotiations

Source: European Parliament, Directorate General for the Treasury, Kiel Institute

III. Discussion:

1. confirmed structural decline

The results broadly confirm the first hypothesis.

- H1: the slowdown in Europe is both structural and multidimensional and cannot be attributed solely to conjunctural elements.

The structural decline is multidimensional for European competitiveness; the widening of the GDP gap (from 15 to 30% over twenty years), stagnation of total factor productivity (+0.7% per year), collapse of industrial productivity (-10% since 2021), and the intensification of strategic spending provide convergent evidence of a decline that exceeds conjunctural effects.

The slowdown in Europe is not solely due to difficult conjuncture. It is a systemic phenomenon that simultaneously affects various dimensions: expansion, efficiency, energy, innovation, technological dependencies, and political decision-making power. Europe does not collapse. It is precisely what makes the situation harder to perceive. It

remains rich, stable, attractive, and technologically strong in certain areas. But it is advancing slower than its competitors in the sectors that shape the economy of the future. The risk is therefore not a sudden crisis, but a gradual loss of economic and technological influence.

2. R&D and digital technologies as major weak points

The second hypothesis is also confirmed but must be nuanced.

- H2: Europe's lag in productivity, research and development, and digital transformation represents one of the main factors of the widening gap with the United States and China.

The second hypothesis is also confirmed; the lag in research and development as a main explanatory factor is partially confirmed. If the differential in R&D spending (2.13% vs 3.44% in the United States) and especially the gap in momentum (+0.4% per year vs 8.9% for China) are the determinant factors, energy costs and the fragmentation of the single market appear as additional explanatory factors of accounting importance.

The slowdown in Europe is not solely due to a difficult conjuncture. It is a systemic phenomenon that simultaneously impacts various dimensions: expansion, efficiency, energy, innovation, technological dependencies and political decision-making power. There are indeed major exceptions, such as ASML in semiconductor equipment. But these successes remain too isolated to offset Europe's overall lag in disruptive digital technologies

3. Useful European responses but still insufficient

The third hypothesis is largely confirmed.

- H3: recent responses from European institutions are moving positively, but remain insufficient in terms of scale, speed, and political harmonization.

European institutional responses are going in the right direction, but their scope remains insufficient. The Draghi report has set a clear diagnosis. It states that the European Union should inject approximately 750 to 800 billion euros additional each year, which is about 5% of its GDP, to regain a sustainable competitive trajectory. The competitiveness compass, the trade agreements with Mercosur and Mexico, the Critical Raw Materials Act and the Net Zero Industry Act represent progress. But these initiatives face several limits:

- The slowness of the European decision-making process;
- The need for compromises among 27 member states;
- The rule of unanimity on certain sensitive topics;
- The incompleteness of the capital markets union;

- The fragmentation of national industrial policies;
- The absence of a sufficiently powerful common budget. Europe often knows how to diagnose its problems. It has more difficulty acting quickly and massively.

In the end, these results align directly with the theories mobilized in the analysis of this article.

The analytical framework of **Porter** (1990) allows explaining the European decline by a simultaneous degradation of several determinants of competitiveness: factor conditions (stagnant productivity, high energy costs) related industries (sector fragmentation), and corporate strategy (risk aversion, migration to the American markets).

Aghion (2024) Had anticipated this phenomenon by identifying the delay in adopting digital technologies as the main factor of decline. Our data confirms this analysis: Europe remains dominated by industries with long innovation cycles (Chemistry, automobiles, machine tools), while the United States and China dominate radical innovations.

Saphir and **Zachmann** (2023) Had highlighted the gap between ambition and instrument of European industrial policy. The mixed result of the competitiveness compass one year after its publication (75% of Draghi's proposals 'on track' but with modest results) confirms this analysis.

4. Prospective Scenarios at the horizon 2035

To structure our prospective analysis, three plausible trajectories are identified by the horizon 2035

Scenario 1: the collective rebound: In this optimistic scenario, member states agree to set up a vast joint investment program. The union of capital markets is completed, R&D increases strongly, Europe reduces its strategic dependencies and takes the lead in a few key technologies: advanced semiconductors, clean mobility, health-applied artificial intelligence or green industrial technologies. This scenario is possible, but it assumes a level of political coordination rarely achieved in European history.

Scenario 2: the gradual adaptation This scenario is probably the most realistic in the short term. Europe progresses, but slowly in a fragmented and insufficient way to close the gap with the United States or China. It maintains its solid positions in aerospace, pharmaceuticals, luxury, agri-food, industrial machinery and certain specialized technologies. On the other hand, it always loses ground in major digital technologies. In this case, the European Union remains an important economic power, but gradually becomes a second-rank power in the most strategic technology sectors. :

Scenario 3: progressive marginalization or slow agony in an unfavourable context, trade conflicts intensify, manufacturing investments move out of Europe, China strengthens its position in European markets, and the United States capture an increasing share of resources and skills. The European Union does not disappear as an economic power, but it will diminish its ability to set the rules of the international game. It becomes technologically dependent on the United States and industrially on China. And institutional fragmentation prevents any coherent response at the European level. This is the scenario of the "comfortable mediocrity" mentioned by Draghi: a Europe still rich, but less and less influential.

5. The European forces not to be neglected

However, it would be reductive to present Europe only as a continent in decline. It still has considerable assets. Its human capital remains of high quality. Its universities, engineering schools, research institutes and initiatives such as Erasmus have helped prepare a generation that is particularly competent and globally oriented. Its institutions, despite their slowness, offer rare stability. The rule of law, social protection, the quality of infrastructure and regulatory stability remain important advantages for attracting talent and investors. Finally, Europe retains global leaders in several sectors:

- Airbus in aerospace;
- ASML in equipment for semiconductors;
- LVMH, Hermès and Richemont in luxury;
- Novo Nordisk, Roche and Sanofi in pharmaceuticals;
- Siemens in industry;
- Several European groups in precision machinery.

Europe is therefore not resource poor. The main problem is its ability to transform these resources into coherent economic and technological power.

6. Recommendations

Based on the results and their interpretation, 6 strategic recommendations are formulated.

- **R1: CREATE A EUROPEAN COMPETITIVE FUND:**

Equip the EU with a 400-billion-euro common fund dedicated to critical technologies (semiconductors, AI, clean energy), financed by joint debt.

- **R2: COMPLETE THE CAPITAL MARKETS UNION:**

Adopt a uniform securitization regime with a centralized regulatory authority, to mobilize the 300 billion euro of European savings currently underutilized.

- **R3: HARMONIZE THE EUROPEAN ENERGY MARKET:**

The integration of national energy markets to reduce the cost gap with the United States (currently 2-3x higher).

– **R4: REFORM THE DECISIONAL GOVERNANCE:**

Replace the rule of unanimity with a strengthened qualified majority for strategic economic and industrial decisions.

– **R5: DOUBLING R&D INVESTMENTS:**

Increase European R&D spending to 3% of GDP by 2030, with a minimum annual growth trajectory of +5%.

– **R6: SECURE STRATEGIC SUPPLY CHAINS:**

Accelerate the implementation of the Critical Raw Materials Act and diversify sources of supply for rare earths and lithium.

7. The limitations of the study:

This research presents several limitations that must be explicitly acknowledged:

Analytical limitation: The analysis relies on aggregated indicators that mask important internal disparities within the European Union; countries like Ireland or Poland show trajectories very different from France or Italy, and a disaggregated analysis by Member State would refine the conclusions.

Temporal limitation: The most recent available data stop at 2025; the rapid evolution of the geopolitical context (USA-China trade war, conflict in Ukraine, Iran war and others) can significantly modify some parameters analyzed.

Methodological limitation: The analysis is based solely on the quality and comparability of institutional sources mobilized. In the absence of primary data collected specifically for this study.

Prospective limitation: the 2035 scenario is based on evolution hypotheses that include an irreducible part of uncertainty.

Conclusion

Based on this analysis, the answer to the central question of this article is more uncomfortable than reassuring. Europe can remain competitive, because it has the necessary assets: a large single market, highly skilled human capital, world-leading industrial players in several sectors, and institutional credibility that neither American volatility nor the opacity of the Chinese model can match, but this competitiveness is not guaranteed. It is maintained and defended, requiring ongoing effort, and the data clearly show that we let it deteriorate over the last two decades.

The 30% GDP gap with the United States, the lag in research and development, strategic spending, and prohibitive energy costs: these are concrete realities that mere enthusiastic speeches will not be enough to erase.

What is lacking, at bottom, is not so much analytical clarity as the will to act at the scale is in the timelines that the situation requires. A union of capital markets, a common economic governance and a coordinated industrial policy remain to be built within an institutional framework that slows everything down, where compromises take years and where emergencies struggle to make themselves felt.

The real risk is not the collapse of the European model. The real risk is what Draghi called « *comfortable mediocrity* »: an Europe that preserves its standard of living in the short term by consuming its accumulated capital, that scales back its ambitions to avoid disrupting its constraints, and that finds itself in a decade or two, in a position of technological and strategic dependence on the two major global powers.

Avoiding this scenario does not require an economic miracle. It requires this political courage, this rare and precious resource that is particularly difficult to mobilize within an institutional system designed for compromise. This, in our view, is the real European challenge for the years to come.

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