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Europe's Competitiveness Crisis: From Fragmentation to Strategic Scale

By

Lāsma Kokina



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Table of Contents

| | |
|--|---------------|
| Executive Summary | Page 3 |
| Immediate Measures to Strengthen European Competitiveness..... | 4 |
| <i>Cost Reduction, Industrial Support, and Strategic Preference.....</i> | <i>4</i> |
| <i>“One Market For One Europe”</i> | <i>4</i> |
| <i>Savings and Investment Union.....</i> | <i>5</i> |
| NOTES | 6 |



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For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

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Lāsma Kokina

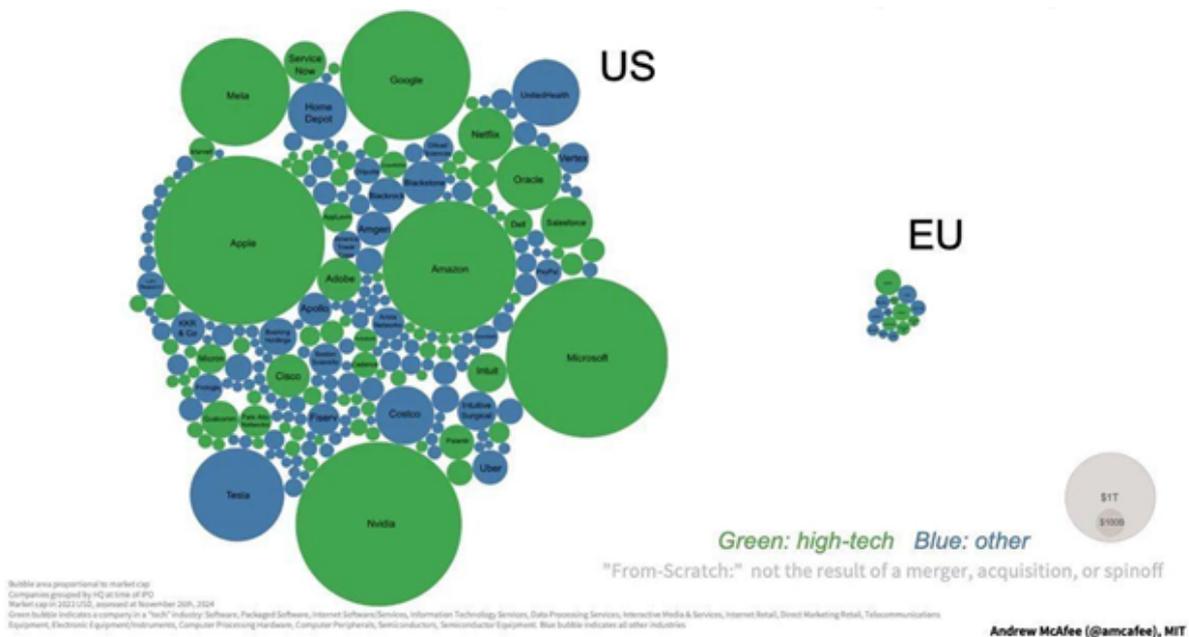
Europe's Competitiveness Crisis: From Fragmentation to Strategic Scale

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Executive Summary

- ✦ The EU's competitiveness remains weak compared to the United States and China, with slower growth, lower productivity, and ongoing fragmentation in the Single Market.
- ✦ EU leaders met on 12 February to address these challenges, drawing on the reports of Mario Draghi and Enrico Letta and signalling the need for urgent and decisive action.
- ✦ Leaders agreed on simplifying EU rules, reducing red tape, and completing the Single Market under the principle of one market for one Europe, including the development of a 28th regime to harmonise corporate rules.
- ✦ The retreat emphasised strengthening European companies through revised merger guidelines, targeted preference in strategic sectors, and measures to lower energy costs.
- ✦ The creation of a Savings and Investments Union was highlighted as a key reform to better channel savings into productive investment and improve access to finance across the EU.

Key Picture: Public From Scratch US and EU Companies Less Than 50 Years Old With \$10bn+ Market Cap



Source: From Nouriel Roubini, [Project Syndicate](#)

Immediate Measures to Strengthen European Competitiveness

Despite clear reports highlighting shortcomings in the EU economy and pledges of reforms to revive it, the bloc's competitiveness remains weak, and its single market remains fragmented. Meanwhile, US tariffs, threats to annex Greenland, and China's economic dominance are pushing EU member states to consider measures once deemed unthinkable to strengthen the bloc's autonomy.¹ Economic growth in the EU has consistently trailed that of the US and China, while the bloc has struggled to match their productivity and innovation levels, particularly in areas such as artificial intelligence. At the same time, the EU has faced mounting pressure from tariffs and export restrictions imposed by global competitors.²

On 12 February, EU leaders gathered for a retreat to focus on European competitiveness and the Single Market. During the meeting, they exchanged views with former Italian Prime Minister Mario Draghi and Dr Enrico Letta, drawing on insights from their two highly regarded reports.³ Following this, in March, the European Commission is set to unveil a plan outlining the next steps to further deepen the EU's single market of 450 million consumers. The proposal will include measures to prioritise European products in public procurement within strategic sectors.⁴

Cost Reduction, Industrial Support, and Strategic Preference

In this context, attention turned to identifying the most urgent areas requiring coordinated action. No formal conclusions were adopted at the competitiveness retreat, as is usually the case. However, given the changing global economic landscape, EU leaders agreed on the need to act quickly and decisively in several key areas:

1. Simplifying EU rules and reducing red tape.
2. Completing the single market under the principle of "one market for one Europe."
3. Reviewing merger guidelines to enable strong European companies to grow in strategic sectors.
4. Taking short-term action to lower energy costs, especially electricity prices.
5. Introducing a targeted preference for European companies in strategic sectors.
6. Pursuing a more proactive trade policy, including swiftly implementing recent trade agreements and negotiating new ones.
7. Speeding up the creation of a Savings and Investment Union.

Together, these steps aim to strengthen Europe's competitiveness in a more challenging global economic environment.⁵ Overall, the EU leaders emphasised the need for swift action, ensuring that European businesses remain competitive and can withstand intense economic competition from the US and China.⁶

"One Market for one Europe"

The President of the European Council reported that EU leaders highlighted the strategic importance of the single market, describing it as one of Europe's greatest strengths. With 450 million consumers, it represents a major economic asset that should be used more effectively to boost competitiveness and resilience. Leaders committed to moving from what is seen as an incomplete single market toward a fully integrated "one market for one Europe," stressing that this work is urgent and should be advanced decisively in 2026 and 2027. In this context, they underlined the need to develop a so-called "28th regime," which would allow companies to operate across the EU under a single set of corporate rules. Such a framework would make it easier for businesses to expand across borders, cut red tape, and improve access to financing.⁷

The "28th regime" would establish a distinct, EU-wide framework with one common set of rules for businesses operating across the Union. The aim is to simplify the legal environment and address the challenges created by differing national regulations, which can act as obstacles for companies. A recent report described this approach as a potentially transformative move toward a more integrated and cohesive single market.⁸

Savings and Investment Union

Alongside regulatory harmonisation initiatives such as the 28th regime, further reforms are being pursued to enhance the efficiency and integration of the EU's financial system. The Savings and Investment Union (SIU) was specifically mentioned in the informal EU leaders' retreat and discussed as one of the priority areas for advancing European competitiveness.⁹ The SIU is a program designed to strengthen the way the EU's financial system directs savings toward productive uses. It seeks to expand access to efficient investment and funding options for both individuals and businesses.¹⁰

The Savings and Investments Union would bring together the whole EU financial system to create a more unified and integrated market across all member states. It would build on the progress already made in the capital markets union and the banking union, helping banks and capital markets work more closely together so that savings can be channelled more effectively into productive investments. The aim is to make it easier for people to invest their savings, including for retirement, and to improve access to finance for businesses of all sizes, especially small and medium-sized companies. It would also remove barriers that prevent financial services from operating smoothly across borders and ensure that supervision is consistent.¹¹

Therefore, SIU places emphasis on using regulations instead of directives and introduces the idea of a common EU-wide legal framework to reduce national differences that have limited market integration. The strategy is gradual, beginning with politically achievable reforms while postponing more sensitive issues, with progress to be reviewed in the coming years.¹²

Ultimately, the retreat signals that European leaders now recognise competitiveness not as a technical economic issue, but as a strategic political priority. The discussion reflects a growing awareness that fragmentation, regulatory complexity, and limited scale are no longer sustainable in a world defined by American market power and Chinese state-backed industrial strength. While the measures discussed mark a shift in tone and intent, the real test will lie in implementation. If the EU can translate political urgency into coordinated action, it may yet turn structural weakness into strategic renewal. If not, the competitiveness gap it seeks to close risks becoming a defining feature of Europe's economic future.

NOTES

¹ Henry Foy, “EU wrestles with competitiveness impasse as industry languishes”, *The Financial Times*, accessed 28 February 2026, <https://www.ft.com/content/ff89ac75-1d13-46f0-ba2a-cab0503501cd>.

² Julia Payne, Philip Blenkinsop, and Ingrid Melander, “EU leaders vow to accelerate single market, in struggle to compete with US and China”, Reuters, accessed 28 February 2026, <https://www.reuters.com/world/china/eu-leaders-brainstorm-how-compete-with-us-china-castle-retreat-2026-02-12/>.

³ Lucy C. Cronin, “Europe’s competitiveness: time to translate theory into practical reality for the Single Market”, Amazon News, accessed 28 February 2026, <https://www.aboutamazon.eu/news/policy/europes-competitiveness-time-to-translate-theory-into-practical-reality-for-the-single-market>.

⁴ Julia Payne, Philip Blenkinsop, and Ingrid Melander, “EU leaders vow to accelerate single market, in struggle to compete with US and China”, Reuters.

⁵ “Outcome of the 12 February 2026 EU leaders' competitiveness retreat”, European Parliament, accessed 28 February 2026, [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2026\)774723](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2026)774723).

⁶ Julia Payne, Philip Blenkinsop, and Ingrid Melander, “EU leaders vow to accelerate single market, in struggle to compete with US and China”, Reuters.

⁷ “Informal EU leaders' retreat, 12 February 2026”, European Council, accessed 28 February 2026, <https://www.consilium.europa.eu/en/meetings/european-council/2026/02/12/>.

⁸ “What is the 28th regime, and is the Parliament supporting it?”, European Parliament, accessed 28 February 2026, <https://epthinktank.eu/2026/01/02/what-is-the-28th-regime-and-is-the-parliament-supporting-it/>.

⁹ “Outcome of the 12 February 2026 EU leaders' competitiveness retreat”, European Parliament, accessed 28 February 2026, https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/774723/EPRS_BRI%282026%29774723_EN.pdf.

¹⁰ “Savings and investments union”, European Council, accessed 28 February 2026, <https://www.consilium.europa.eu/en/policies/savings-and-investments-union-siu/>.

¹¹ Ibid.

¹² Stephanie Ford, “The Savings and Investments Union as the catalyst for Europe’s capital markets revolution”, Deloitte, accessed 28 February 2026, <https://www.deloitte.com/ie/en/Industries/investment-management/blogs/saving-and-investments-union.html>.