European Parliament

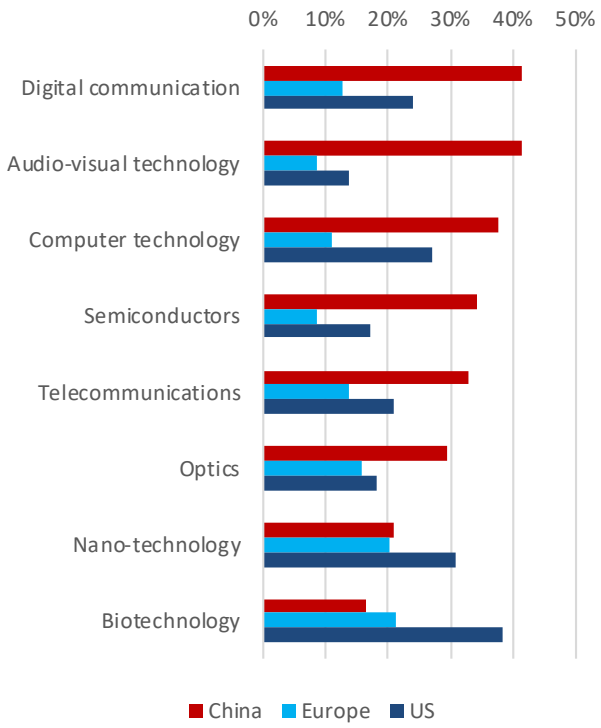
Cost of non-Europe in strategic innovation

As highlighted by the recent Letta and Draghi reports, it is now imperative for the European Union (EU) to boost investment and to start acting more strategically and collectively to compete on global markets. This requires clear political priorities, budgetary means, lower rates of waste in public spending at Member State level, and crucially a transnational pro-innovation perspective. Although largely elusive at this point, such an agenda could bring substantial economic benefit. Compared with Member States acting alone, an EPRS study finds a coordinated approach at EU level could add 0.9 % gross domestic product (GDP) by 2035. A more ambitious integrated approach would be of even higher benefit, estimated at 2.6 % of GDP by 2035.

What could be done?

Thanks to the visionary compromises achieved by generations of previous leaders, the EU was in a good position to compete in an open and rules-based global arena. However, geopolitical considerations are now challenging this status quo. The return of protectionist tendencies and the action of large and dominant global players, some with strong ties to government, are a reality test for the future of the level playing field.

Figure 1 – Share of international patents (most challenging areas – % in 2022)



Source: EPRS using WIPO data.

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To remain competitive while continuing to ensure progress on environmental, social and fundamental rights, it is now imperative for the EU to update and upgrade its strategic approach. Considerable investment in infrastructure, manufacturing, scaling up and in research and development could boost high-tech digital and low-carbon innovation. EU businesses could then harness the full potential of the single market and economic and monetary union and challenge competitors in fast-growing and future-oriented fields.

One of the most pressing challenges is that, while the EU's focus on tackling the green and digital transformation might be correct, the EU lacks key elements, in particular sufficient common budgetary resources and fiscal tools. Reinforced EU action could help EU legislation to become harder-hitting, more credible and effective. Without such incentives, the opportunity to become an innovation leader in some high added-value areas might never materialise.

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The need to increase support and investment for research development and innovation (RDI) substantially is well-documented, particularly as the EU's self-imposed 25-year-old key priority target of spending 3% of GDP on RDI is still far from being achieved (RDI expenditure currently stands at around 2.2 % of GDP in the EU). Public expenditure on RDI is also of particular concern, as the EU increasingly falls behind. A gap of more than €30 billion per year has now widened with the United States and China. The EU also needs to address inefficiency and duplication in research, while complementary top-down investment is almost non-existent.

The EU could encourage greater private investment, public-private partnerships and provide public investment in manufacturing, scaling-up and infrastructure, to ensure modernisation and adaptation to rapid ongoing transformation. Public investment would be more efficient at EU level, as public finances in Member States face significant consolidation challenges.

Recent studies highlight how acting together could help Member States here, while also helping to reduce inefficiency and the budgetary waste rate. The 2015 Juncker investment plan and 2020 Next Generation EU, provide examples to build on, as they have already had a positive, albeit insufficient, impact.

As the Draghi report recommends, moving towards a strategic pro-innovation EU agenda is therefore necessary. The EU's current institutions are under-resourced compared to global competitors and sometimes entangled in complex inter-related organisational structures that focus primarily on administrative and governance reform rather than on innovation. This situation is of particular concern as the EU is increasingly ranked at best as a marginal player in key fast-growing technologies of the future (see Figure 1).

What is the potential economic benefit?

Ambitious and strategic EU-level action is essential to the EU's position as a global actor. This is especially true given geopolitical shifts and the breakthrough technologies that are reshaping the distribution of added value.

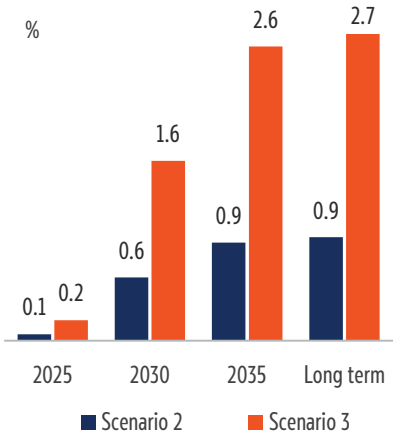
The EPRS study finds that were Member States to act alone, this could add +1.4 % of GDP in 2035, compared to the baseline (Scenario 1).

Reinforced coordination and cooperation and embryonic EU complementary action could add 2.2 % of GDP in 2035, compared to the baseline (Scenario 2).

A more ambitious integrated approach (Scenario 3) could add an estimated 4 % of GDP in 2035 compared to the baseline.

As illustrated in Figure 2, the cost of non-Europe, which compares the results of the three scenarios, is therefore estimated at between +0.9 % and +2.6 % of GDP in 2035.

Figure 2 – Strategic action in HTDI and LCI – Cost of non-Europe in three scenarios (GDP difference in percent relative to Member State-led action)



Source: EPRS.