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Competitive Harmonisation:
A Collaborative Framework for Intra-EU Reform and Competitiveness

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EXECUTIVE SUMMARY

Persistent legal fragmentation, compounded by the EU's 24 official languages, increases costs and legal uncertainty, deterring meaningful investments in innovation and preventing businesses from scaling across borders. Without bold, comprehensive legal reforms, Europe will fall further behind in global competition and major global technological developments.

The EU's incremental reform approach has failed to address the deep-rooted legal and institutional challenges threatening Europe's economic future. Competitive Harmonisation offers a pragmatic yet visionary concept to overcome legal fragmentation, tackle the business scale gap, and unlock Europe's vast economic potential.

By embracing "collaborative governance" through coalitions of willing Member States, aligning with global standards, and prioritising innovation and technology diffusion, European governments can enhance the Single Market and restore Europe's leadership in lawmaking and industrial competitiveness. Amid growing political risks, such as the threat of tariffs, the responsibility to act decisively rests squarely with Europe. By taking bold, pragmatic steps now, Europeans can not only resolve immediate challenges but also lay the groundwork for sustainable, long-term economic development.

Beyond Incrementalism: Bold Reforms for a Competitive and Cohesive EU (Section 2)

Incremental reforms are no longer enough to tackle the legal challenges undermining Europe's competitiveness. Fragmented national laws, low and uneven investment, and slow technology adoption hinder business growth and innovation. With global competition ever more intensifying and Europe's share of the world economy set to shrink, bold reforms are urgently needed. Without decisive action, the EU will struggle to compete with global and emerging powers alike. **Europe must focus on harmonising laws, particularly horizontal policies such as rules for tax base calculation, labour market laws, social security, and corporate law, to ease cross-border trade and investment, and drive technology diffusion.**

Draghi and Letta Reports: Important Contributions, Limited Vision (Section 3)

The Letta and Draghi reports offer valuable insights into the EU's competitiveness challenges but fall short in proposing meaningful structural reforms that are needed for transformative change. While both reports call for reforms, their recommendations often reinforce existing EU frameworks rather than overhaul them. Both reports highlight critical issues such as fragmented venture capital markets and skills shortages, but they do not sufficiently address the underlying regulatory barriers that stifle innovation and business growth. The EU must go beyond these incremental recommendations and embrace bold, systemic reforms if it is to safeguard the global competitiveness of European manufacturing and services industries.

Competitive Harmonisation – A Holistic Framework for EU Modernisation (Section 4)

Competitive Harmonisation draws on foundational reports like the Delors, Monti, and Lisbon Strategy, highlighting the transformative potential of the Single Market to address Europe's business scaling challenges, exacerbated by legal fragmentation and linguistic diversity. It rejects protectionism and excessive regulation, advocating for an open, innovation-driven regulatory environment that reduces inefficiencies and promotes economic integration across the EU. The status quo in the EU combines high standards with legal complexity. Competitive Harmonisation seeks to maintain high standards while eliminating legal complexity in intra-EU trade and investment.

Foundational Principles of Competitive Harmonisation

Competitive Harmonisation is grounded in three core principles that directly tackle Europe's scaling challenges and break the cycle of outdated, incremental reforms. First, Legal **Liberalisation and Coherence** focus on simplifying regulations and harmonising laws across key areas like corporate law, taxation and labour policies, which are essential for reducing compliance costs and enabling businesses, especially SMEs, to scale and compete. Initiatives like "28th regimes" for unified regulations can help foster greater integration and efficiency in the Single Market. Second, **Acceptance of International Norms and Global Interdependencies** stresses the importance of aligning EU regulations with global standards to enhance competitiveness, improve market access, and encourage innovation. This outward-facing approach enables EU businesses to thrive globally, strengthening Europe's role in shaping global economic governance. Third, **Fostering Innovation and Technology Diffusion** advocates for harmonising national ICT standards, investing in digital infrastructure, and addressing systemic and discriminatory barriers to technology adoption.

Strategic Priorities for Competitive Harmonisation

To operationalise these principles, several strategic priorities must be addressed. These include **removing intra-EU barriers to cross-border trade and investment,** particularly through harmonised horizontal policies, facilitating **international legal cooperation** by aligning EU laws with global best practices, and **driving innovation** by incentivising R&D and attracting private venture capital. Additionally, **updating competition policies** to account for global market characteristics and key dynamic effects from competition, and **modernising public services** with, e.g., "cloud-first" procurement strategies will improve administrative efficiency, reduce costs, and support the digital economy. **Enhancing technology diffusion and digital infrastructure,** driven by non-discriminatory rules for AI, cloud networks, and computational technologies, is crucial for Europeans to benefit from advanced developments in these fields. Furthermore, addressing **skills gaps** through flexible private sector-driven education models, including micro-credentials, will ensure a competitive workforce, capable of adapting to technological advancements and fostering continuous innovation.

Political Leadership for Competitive Harmonisation (Section 5)

The success of Competitive Harmonisation relies on strong and unprecedented political leadership from Member State governments. Forward-looking governments must embrace collaborative reform, particularly through coalitions of willing countries, to bypass the gridlock of consensus- and veto-driven processes at the EU level. Coalitions of willing EU government must prioritise legal harmonisation in key areas such as taxation, labour markets, and digital and technology policy, to achieve deeper economic integration.

Achieving this requires political will and a collective effort to align national regulations with EU or global best practices. Avant-garde EU governments must actively engage in and seek inspiration from multilateral fora such as the OECD, ISO, IEC, and WTO, ensuring EU regulations align with global industry benchmarks. This approach will eliminate regulatory silos and prevent isolation, securing European businesses' competitiveness without compromising political objectives. Regional groupings like the Digital 9 (D9) and the New Hanseatic League can lead reforms in digital policy and fiscal responsibility, while the Visegrád Group (V4) and the Three Seas Initiative (3SI) can address regional disparities and drive critical policy harmonisation.

Europe's forward-thinking political leaders must champion legal harmonisation and embrace collaborative initiatives that tackle structural inefficiencies and regulatory fragmentation. This would demonstrate a true commitment to European integration, moving beyond vague political notions of "sovereignty" or "EU values" – notions that, as the EU's poor economic and technological performance increasingly highlights, have failed to propel Europe towards leadership in either sphere. Competitive Harmonisation offers the best insurance policy against relative economic decline, ensuring resilience against any geopolitical challenge that may arise.

1. INTRODUCTION

The global economic landscape is undergoing profound shifts, particularly in technology and defence, presenting Europe with both rising challenges and unprecedented opportunities. The fragmentation of global trade, driven by policies such as the United States' tightening controls over strategic sectors and a pivot towards protectionism, has redrawn the rules of international commerce. In response, major economies are reassessing their strategies to remain competitive.

For Europe, this moment of transformation is not merely a challenge but a chance to redefine its economic trajectory. While the United States benefits from a single language, a deeply ingrained entrepreneurial culture, and a unified regulatory framework, Europe's single market faces increasing pressure from both external forces and internal inefficiencies. These pressures have exposed key vulnerabilities: inappropriate reform priorities, uneven rule implementation, outdated regulatory structures, and insufficient harmonisation across sectors.

Crucially, the harmonisation of horizontal policies has never been seriously tabled in EU political debates – but now is the time. With China soon to become the world's largest and bestfunctioning Single Market, allowing its businesses to scale at an unprecedented pace, European companies risk being left behind, unable to compete on a global scale.

Unleashing the European Single Market

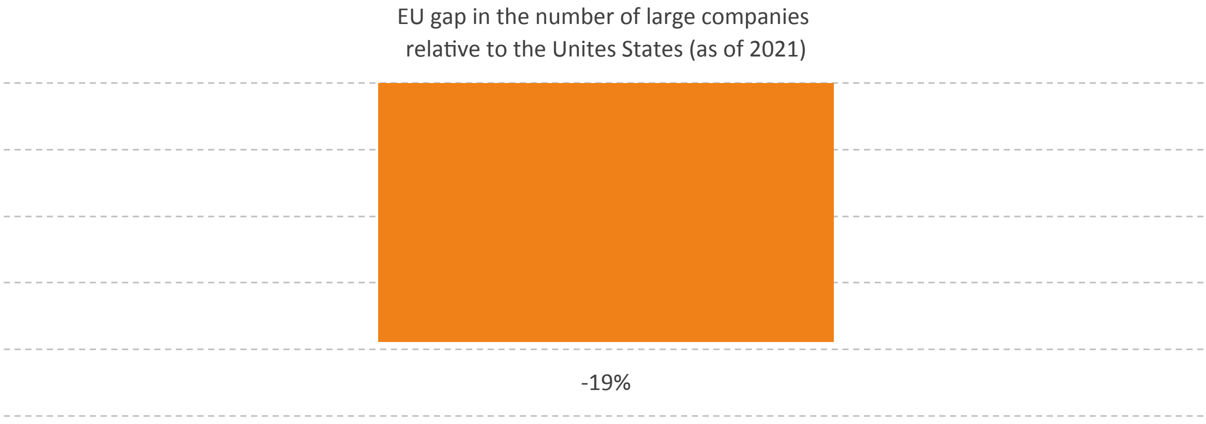
Europe's Single Market is not a Single Market. Parts of it, such as the principle of mutual recognition, have long been cornerstones of European prosperity, but its full potential remains untapped. Simplified, harmonised, and modernised rules could unlock latent innovation, bolster resilience, and position Europe not merely to adapt to global trends but to shape them. Incremental changes are no longer enough – this is the moment to reimagine the economic foundations of the continent boldly.

Europe's fragmented regulatory framework is a significant hurdle. Businesses struggle with complex cross-border rules that impede scalability, while start-ups and SMEs face disproportionate barriers. In contrast, US companies thrive in a streamlined system that fosters growth. Start-ups in the US face fewer obstacles to expansion, while larger firms benefit from a cohesive national framework, better access to capital, and substantial investments in research, development, and workforce training. These advantages enable American industries to capitalise on emerging opportunities and maintain leadership in critical sectors.

Addressing Europe's Scale Problem

Europe's persistent scale problem lies at the heart of its economic challenges. Compared to the US, Europe has 19% fewer large companies per capita, adjusted for population size. Fragmented regulations, limited venture capital availability, and underinvestment in intangible assets – such as R&D, software, and data – exacerbate this issue. This hinders innovation and productivity, leaving European businesses struggling to achieve global competitiveness. Start-ups and SMEs, in particular, lack the resources to overcome these challenges, widening the gap with their US counterparts. Figure 1 highlights the EU's large business gap, reflecting the structural issues that constrain growth and innovation across the continent.

FIGURE 1: THE EU'S LARGE BUSINESS GAP



Source: Eurostat and BLS for number of enterprises and World Bank population statistics.

Closing the Productivity Gap

Europe's scale problem not only hampers individual firm growth but also diminishes the region's overall economic dynamism. Smaller firms struggle to reach productivity frontiers, while larger US companies leverage their scale to adopt transformative technologies like ICT more rapidly and effectively. This disparity enables US firms to invest in innovation and digitalisation, further widening the productivity gap.

As the Draghi Report highlights at various places (see Table 1), Europe's regulatory fragmentation exacerbates these challenges by discouraging cross-border collaboration and investment. For example, only 11 VC funds larger than USD 1 billion exist in Europe, compared to 137 in the US. This lack of growth capital prevents many start-ups from scaling successfully, leaving Europe at a disadvantage in the global innovation race.

ICT adoption among European SMEs lags behind the US due to high integration costs and limited capabilities. Additionally, differences in management practices have allowed US companies to exploit ICT's productivity-enhancing potential more effectively. These structural issues hinder Europe's ability to innovate, scale, and compete on a global level.

Addressing Europe's scale problem is both an economic and strategic necessity

The current moment of volatility and transformation offers Europe a unique chance to reshape its economic policies. By addressing regulatory inefficiencies, fostering investment in intangible assets, and enabling businesses to scale, Europe can unleash its economic potential. Moving beyond incremental adjustments to embrace bold, strategic reforms will allow Europe not only to adapt to global trends but to lead them – leveraging its diversity, ingenuity, and scale to become a true global economic leader.

TABLE 1: LEGAL FRAGMENTATION AND EUROPE'S BUSINESS SCALING PROBLEM, KEY INSIGHTS FROM THE DRAGHI REPORT[1]

Category	Page Number	Quote
Start-up Growth Challenges	231	"Europe is now creating a significant number of start-ups, comparable to that in the US. However, European companies often fail to successfully pass the growth stage."
Venture Capital Gap	243	"On the supply side, the EU has fewer and less equipped large-scale VC funds. Since 2013, there have been 137 VC funds larger than USD 1 billion in the US compared to only 11 in the EU."
Legal Fragmentation	243	"The fragmentation of EU consumer and business markets, aggravated by regulatory, fiscal, and legal differences across Member States, limit the ability of EU companies to scale up efficiently, reaching a size appealing to VC funds."
SME Digital Adoption	244	"The gap in digital adoption between the EU and the US is mainly driven by SMEs. Adopting digital technologies involves large integration costs, making SMEs less likely to invest in this process."
ICT Exploitation and Management	259	"US companies' stronger ability to exploit the productivity-enhancing potential of ICT during the 1990s compared to companies in the EU is to an important extent due to differences in management practices."

Addressing this scale problem is both an economic and strategic necessity. In a global economy where influence increasingly depends on economic strength, businesses in Europe require a regulatory environment that supports growth and innovation. Competitive harmonisation, a framework aimed at unifying and simplifying regulations, offers a practical path forward. By enabling companies of all sizes to expand and compete effectively, competitive harmonisation can transform Europe's economic landscape, creating a more integrated and dynamic Single Market.

In this paper, we examine how competitive harmonisation can serve as a cornerstone for addressing Europe's business scale problem. By focusing on reducing regulatory fragmentation, fostering cross-border growth, and enabling businesses to scale effectively, competitive harmonisation offers a tangible pathway to revitalise Europe's economic potential. This approach moves beyond aspirations, providing actionable strategies to create a cohesive and competitive Single Market. By aligning regulations, simplifying compliance, and promoting innovation, competitive harmonisation equips businesses in Europe with the tools needed to navigate global challenges and seize emerging opportunities.

[1] Draghi, M. (2024). The future of European competitiveness: Part B | In-depth analysis and recommendations. Available at https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf.

2. BEYOND INCREMENTALISM: BOLD REFORMS FOR A COMPETITIVE AND COHESIVE EU

Europe stands at a crossroads, where incremental reforms fall short in addressing the deep-rooted challenges undermining its economic competitiveness. Intensifying global competition from the US, China, and emerging economies, alongside geopolitical tensions and regulatory fragmentation, is constraining businesses across the continent, limiting their ability to grow and innovate.

Fragmented regulations and uneven technology adoption across Member States stifle cross-border growth, particularly for SMEs and start-ups with limited resources. These barriers constrain innovation, deepen internal divides, and weaken the integrity of the Single Market. With Europe's global economic share projected to decline and competing economies like the US outpacing it in R&D investment and market influence, decisive action is urgently needed. Without bold reforms, European businesses will remain unable to achieve the scale necessary to compete globally. Inconsistent regulations, limited access to venture capital, and underinvestment in critical assets like R&D, software, and digital infrastructure further compound these challenges.

To address these systemic issues, Europe must implement transformative reforms

These include harmonising regulations to reduce compliance costs and barriers to scaling, accelerating digital transformation, and tackling skills shortages to support high-growth industries. Considering 28th legal regimes and prioritising investment in digital infrastructure will be critical for fostering cross-border growth and enabling businesses to scale effectively.

Such reforms will not only resolve Europe's scale problem but also position its businesses to lead globally, setting standards and driving sustainable growth. Competitive harmonisation offers a unified path forward, equipping Europe's industries to thrive in an increasingly competitive world.

Below are the major challenges preventing European businesses from growing in domestic markets and expanding through cross-border trade and investment within the EU. Regulatory fragmentation within the Single Market remains the most pressing issue, increasing costs and complexity for companies, particularly SMEs, and hindering their ability to scale.[2] High taxation and complex, non-harmonised tax laws add further compliance burdens, deterring businesses from operating across borders. Skills shortages in STEM fields exacerbate these challenges by limiting innovation and digital transformation.[3] Investment disparities and the EU's lag in R&D and venture capital availability weaken the ability of European firms to compete globally, while digital and technological gaps, driven by stringent regulations like GDPR, further stifle growth in emerging industries. Strict competition policies, technology diffusion challenges, and

[2] ECIPE (2023). What is Wrong with Europe's Shattered Single Market? – Lessons from Policy Fragmentation and Misdirected Approaches to EU Competition Policy. ECIPE. Available at: https://ecipe.org/publications/europes-shattered-single-market-eu-competition-policy/

[3] Several developments in Europe underline the urgent need for reforms in education and training systems to expand access to STEM education, address disparities, and align graduate skills with labour market demands. See, e.g. ECIPE (2024). Increasing Economic Opportunity and Competitiveness in the EU: The Role of Micro-Credentials. Available at https://ecipe.org/publications/eu-competitiveness-micro-credentials/.

protectionist tendencies under the guise of strategic autonomy add to these hurdles, while political resistance to market liberalisation and declining global influence threaten to undermine the EU's long-term economic potential. Addressing these issues holistically is critical to creating a unified, competitive, and forward-looking economic environment for European businesses.

1) **Legal Fragmentation within the Single Market:** The EU's Single Market promises free movement of goods, services, capital, and people. However, fragmented national regulations make this promise challenging to realise. For instance, a tech startup in Germany faces entirely different regulatory requirements than a similar firm in France when launching digital services due to differing corporate, labour market and consumer protection laws, varying data privacy standards, and country-specific tax requirements. This results in significant administrative costs and legal risks, deterring SMEs from expanding. Harmonisation efforts, potentially including 28th regimes, could ultimately provide a much more unified legal framework across Member States, allowing businesses to operate more freely and scale across the EU, fostering greater economic integration.[4]

2) **High Tax Rates and Enormous Tax Law Complexity:** Divergent and overly complex tax regimes across the EU inflate compliance costs, stifle investment, and hinder businesses from scaling effectively. For instance, a company operating in France and Italy faces separate corporate income tax systems, VAT rates, and social security rules and contributions, each requiring distinct compliance procedures. These high costs deter European companies from establishing or expanding operations across the EU. Harmonising tax laws (not necessarily rates), especially VAT and corporate income tax bases, could simplify compliance, reduce costs, and enhance the EU's attractiveness as a single, truly unified market.[5]

3) **Skills and Labour Shortages in STEM Fields:** The EU's workforce faces a skills shortage in key areas such as STEM (Science, Technology, Engineering, and Mathematics), particularly in software engineering and data science. This shortage is more pronounced in countries with lower levels of digital infrastructure, such as Hungary and Romania, where fewer students pursue advanced digital skills due to limited educational resources. The EU produces fewer STEM graduates than the US or China, and attracting global talent is challenging due to complex immigration policies. This talent gap restricts European companies' ability to innovate and expand, impacting their ability to compete with firms in other regions that can attract and retain top global talent.[6]

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[4] ECIPE (2020). Europe's Quest for Technology Sovereignty: Opportunities and Pitfalls. Available at https://ecipe.org/publications/europes-technology-sovereignty/.

[5] ECIPE (2024). Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy. Available at https://ecipe.org/publications/future-proofing-eu-investment-attractiveness-agenda-for-competition-tax-digital/.

[6] ECIPE (2024). Increasing Economic Opportunity and Competitiveness in the EU: The Role of Micro-Credentials. Available at https://ecipe.org/publications/eu-competitiveness-micro-credentials/. ECIPE (2024). Enhancing Technology Diffusion in the EU amid Tough Structural Challenges. Available at https://ecipe.org/publications/enhancing-technology-diffusion-in-the-eu/.

4) **Investment Disparity and Innovation Lag:** Compared to the US, EU firms consistently invest less in R&D, particularly in high-growth sectors like biotech, software, and clean energy. For example, in 2022, American companies collectively invested approximately twice as much in AI and biotech as their European counterparts. The innovation lag extends to venture capital availability: American startups benefit from more significant venture funding than European ones, allowing them to scale faster and dominate markets. This gap impacts the EU's long-term competitiveness and ability to produce global technology leaders, as European startups are more likely to be acquired by larger, better-funded foreign companies than to grow into giants.[7]

5) **Digital and Technological Gaps:** The EU has prioritised data privacy through regulations like GDPR, which sets strict standards for data protection. While this protects consumers, it has unintentionally created barriers for data-dependent industries such as AI and digital health. For instance, GDPR limits the use of large datasets, which are essential for developing AI applications. Companies may therefore look to the US or Asia, where regulations are more flexible, to innovate and test data-driven solutions. This regulatory gap is especially challenging for SMEs that lack resources to navigate complex compliance processes, ultimately limiting the EU's position as a leader in emerging technologies.[8]

6) **Competition Policy Constraints:** The EU's strict competition policies aim to prevent monopolies but can also limit the growth of large companies essential for competing globally. For instance, recent mergers in the telecom sector were blocked by the European Commission, citing concerns over reduced competition. However, these blocked mergers may prevent European companies from achieving the scale needed to compete with global giants like Google or Amazon. The EU's competition policy sometimes restricts companies from consolidating resources and capabilities, which could otherwise foster stronger global players within Europe.[9]

7) **Technology Diffusion Challenges:** Technology diffusion – adopting and integrating new technologies across regions – varies widely within the EU. Nordic and Western European countries, with advanced digital infrastructure and high R&D spending, rapidly adopt new technologies, while CEE (Central and Eastern

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[7] ECIPE (2024). The Imperative of International Cooperation for EU Competitiveness and Resilience in Technology-Driven Industries. Available at https://ecipe.org/publications/international-cooperation-technology-driven-industries/. ECIPE (2024). Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy. Available at https://ecipe.org/publications/future-proofing-eu-investment-attractiveness-agenda-for-competition-tax-digital/.

[8] ECIPE (2024). Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy. Available at https://ecipe.org/publications/future-proofing-eu-investment-attractiveness-agenda-for-competition-tax-digital/. ECIPE (2024). Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy. Available at https://ecipe.org/publications/future-proofing-eu-investment-attractiveness-agenda-for-competition-tax-digital/.

[9] ECIPE (2024). Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy. Available at https://ecipe.org/publications/future-proofing-eu-investment-attractiveness-agenda-for-competition-tax-digital/.

European) countries lag behind. For instance, in 2023, only 45% of businesses in Bulgaria reported having adopted digital processes compared to 85% in Denmark. This gap in digital readiness not only widens economic disparities but also makes CEE economies vulnerable to protectionist policies that may restrict access to external tech solutions. Strengthening infrastructure and digital education in CEE countries could address this growing economic divide within the EU.[10]

8) **Strategic Autonomy vs. Open Market Tensions:** The EU's goal of "strategic autonomy" seeks to reduce dependence on foreign tech and critical resources, but this often leads to protectionist policies. For example, the EU has supported domestic semiconductor production to counter reliance on Asia and the US. While this strengthens local supply chains, it risks retaliation and trade restrictions, which could limit European firms' access to global markets. Strategic autonomy can also discourage international investment as foreign firms may view the EU as a more closed, less attractive market. Balancing autonomy with open market principles is essential to ensure that Europe remains an attractive destination for global trade and investment.[11]

9) **Political Resistance to Market Liberalisation:** National interests and protectionist policies often prevent deeper EU integration. For example, some countries resist harmonising labour market policies, fearing job losses or wage pressures, while others resist liberalising service markets, citing concerns over national sovereignty. The rise of nationalist parties within Member States also limits political support for EU-wide reforms. This resistance to liberalisation perpetuates regulatory fragmentation, complicates cross-border operations, and diminishes the EU's potential as a competitive, unified economic bloc on the global stage.[12]

10) **Declining Global Influence and Economic Share:** The EU's share of global GDP is projected to decline from 15% in 2020 to around 9% by 2050, reducing its economic clout. This decline affects the EU's ability to set internationally applicable trade, environmental, labour, or technological standards, including emerging sectors like digital trade, AI, and environmental policy. For example, as China and the US shape global standards for digital governance, the EU risks losing its influence unless it pursues harmonised, competitive policies. The EU's

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[10] ECIPE (2024). Enhancing Technology Diffusion in the EU amid Tough Structural Challenges. Available at https://ecipe.org/publications/enhancing-technology-diffusion-in-the-eu/. ECIPE (2024). Openness as Strength: The Win-Win in EU-US Digital Services Trade. Available at https://ecipe.org/publications/openness-strength-eu-us-digital-services-trade/.

[11] ECIPE (2024). EU Autonomy, the Brussels Effect, and the Rise of Global Economic Protectionism. Available at https://ecipe.org/publications/eu-autonomy-brussels-effect-rise-global-economic-protectionism/. ECIPE (2020). Europe's Quest for Technology Sovereignty: Opportunities and Pitfalls. Available at https://ecipe.org/publications/europes-technology-sovereignty/.

[12] ECIPE (2024). Reinventing Europe's Single Market: A Way Forward to Align Ideals and Action. Available at https://ecipe.org/publications/reinventing-europes-single-market-align-ideals-and-action/. ECIPE (2023). What is Wrong with Europe's Shattered Single Market? – Lessons from Policy Fragmentation and Misdirected Approaches to EU Competition Policy. Available at https://ecipe.org/publications/europes-shattered-single-market-eu-competition-policy/.

reduced global presence could limit its leverage in negotiating favourable trade agreements, impacting European businesses' access to international markets.[13]

3. DRAGHI AND LETTA REPORTS: IMPORTANT CONTRIBUTIONS, LIMITED VISION

The Letta and Draghi reports address several of the challenges identified earlier but fall short of offering the structural reforms needed to drive transformative change. Their recommendations largely build upon existing EU frameworks, reflecting a preference for incremental adjustments rather than bold shifts in policy. This approach limits their ability to tackle core barriers like regulatory fragmentation, investment disparity, and skills shortages effectively.

Letta and Draghi identify pressing competitiveness issues for the EU and propose initiatives for digital, industrial, and environmental transformation. Letta's report calls for introducing a "fifth freedom" – the free movement of research, innovation, and education within the Single Market – to position Europe as a collaborative hub of knowledge. This is framed as a way to enable "unprecedented collaboration in research and technology across borders" (Letta, p. 31), yet the approach primarily suggests increased support for existing EU frameworks rather than a structural overhaul. Similarly, Letta's proposal for a Savings and Investments Union claims to mobilise EU-wide savings for green and digital projects, with the stated goal of overcoming fragmentation in Europe's capital markets (Letta, p. 39). However, this initiative largely repackages the Capital Markets Union and lacks a strategic rethink on how to make Europe's financial infrastructure more agile and globally competitive.

Draghi's report, meanwhile, prioritises energy and digital autonomy but relies heavily on familiar policy directions. The report's emphasis on boosting the EU's semiconductor manufacturing aims to reduce dependency on external suppliers, yet merely encourages public investment in semiconductor production, similar to existing EU policies without addressing underlying structural inefficiencies (Draghi, p. 23). Similarly, Draghi advocates for energy grid upgrades to support renewable integration, emphasising that "energy grid upgrades will ensure efficient energy distribution and stability in the Single Market" (Draghi, p. 35). While essential, this suggestion reiterates previous efforts under the TEN-E regulation, signalling an incremental approach rather than the bold shift required to modernise Europe's infrastructure on a competitive timeline.

The recently released EU Competitiveness Compass also falls short in ambition regarding the Single Market.[14] While it acknowledges the importance of competitiveness, its approach remains limited, focusing on incremental reductions in bureaucracy rather than the comprehensive market reforms necessary for businesses to scale across EU borders. Without

[13] ECIPE (2024). EU Autonomy, the Brussels Effect, and the Rise of Global Economic Protectionism. Available at https://ecipe.org/publications/eu-autonomy-brussels-effect-rise-global-economic-protectionism/. ECIPE (2024). Future-proofing the EU's Investment Attractiveness: A Bold Reform Agenda for Competition Enforcement, Taxation and Digital Policy. Available at https://ecipe.org/publications/future-proofing-eu-investment-attractiveness-agenda-for-competition-tax-digital/.

[14] European Commission (2025). A Competitiveness Compass for the EU. Available at https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en.

a more ambitious vision for regulatory simplification and deep market integration, the EU risks offering only marginal improvements – insufficient to attract promising companies to expand within Europe rather than looking elsewhere.

Incrementalism vs. Structural Reform

Ultimately, both reports as well as the Competitiveness Compass reveal a tendency within Brussels to favour incremental changes over structural reform, indicating a reluctance to seriously question the status quo. Proposals such as Letta's for expanding broadband infrastructure, which focuses on "bridging the digital divide" (Letta, p. 54), and targeted SME financing to stimulate growth in green sectors (Letta, p. 87), reinforce existing approaches without re-evaluating the broader regulatory barriers that hinder rapid innovation. Similarly, Draghi's support for AI and computing capacity investments to sustain EU leadership in digital innovation (Draghi, p. 42) highlights the EU's traditional preference for sector-specific funding over tackling regulatory fragmentation or simplifying market access. These reports, while comprehensive, largely reflect an establishment-driven preference to uphold established EU frameworks, ultimately missing the opportunity to align Europe's policies with the more dynamic strategies seen in competing global economies.

TABLE 2: KEY POLICY RECOMMENDATIONS FROM THE LETTA AND DRAGHI REPORTS TO IMPROVE EU COMPETITIVENESS

Theme	Report	Recommendation Overview	Quotes
5th Freedom – Research, Innovation, and Education	Letta	Integrate research, innovation, and education into the Single Market, promoting knowledge circulation.	"Embedding this freedom within the Single Market will allow for unprecedented collaboration in research and technology across borders." (Letta, p. 31)
Savings and Investments Union	Letta	Mobilise savings across EU for green and digital projects, expanding Capital Markets Union initiatives.	"An integrated investment strategy will help overcome the existing fragmentation in Europe's capital markets." (Letta, p. 39)
Digital and Green Industrial Strategy	Letta	Align digital and green goals to strengthen EU's industrial competitiveness, extending Green Deal objectives.	"Europe's future lies in its ability to align industrial strategy with digital and green objectives, fostering a resilient and sustainable economy." (Letta, p. 45)
Expansion of Broadband Infrastructure	Letta	Ensure universal high-speed internet access, particularly in rural and underserved areas.	"Bridging the digital divide requires a coordinated effort to expand digital infrastructure, particularly in rural areas." (Letta, p. 54)
Support for SME Financing	Letta	Targeted financial support for SMEs in digital and green sectors to foster innovation.	"SMEs are the engines of Europe's economy, and targeted financing will enable them to grow and innovate." (Letta, p. 87)
Green Public Procurement Initiatives	Letta	Public procurement prioritising green criteria to stimulate sustainable market practices.	"Green public procurement can be a powerful lever for driving sustainable practices in the market." (Letta, p. 95)
Investment in Renewable Energy	Draghi	Focus on increasing renewable energy share for sustainability and reduced energy dependency.	"Increasing the share of renewables in the energy mix will reduce costs and secure Europe's energy independence." (Draghi, p. 5)

Theme	Report	Recommendation Overview	Quotes
High-Capacity Digital Networks	Draghi	Ensure high-speed internet for all EU regions, extending Digital Europe Programme efforts.	“High-speed internet is a cornerstone of Europe’s digital future, ensuring that no region is left behind.” (Draghi, p. 15)
European Semiconductor Manufacturing Strategy	Draghi	Develop a strategy for semiconductor manufacturing to boost digital sovereignty.	“The EU must invest in semiconductor production to maintain technological sovereignty.” (Draghi, p. 23)
Energy Grid Upgrades	Draghi	Upgrade energy grids to accommodate renewable energy, building on TEN-E Regulation work.	“Energy grid upgrades will ensure efficient energy distribution and stability in the Single Market.” (Draghi, p. 35)
Support for AI and Computing Capacity	Draghi	Investment in AI research and computing to maintain EU’s leadership in digital innovation.	“To remain competitive, Europe must enhance its AI capabilities and computing infrastructure.” (Draghi, p. 42)
Standardisation of Power Purchase Agreements (PPAs)	Draghi	Standardise PPAs to stabilise prices and promote renewable energy investments.	“A standardised PPA market will drive the roll-out of renewable energy in the EU.” (Draghi, p. 57)
Promotion of Clean Technologies	Draghi	Invest in clean technology to support the EU’s green transition and competitiveness.	“Investing in clean technologies will drive EU’s green transition and enhance competitiveness.” (Draghi, p. 65)

Source: ECIPE compilation.

Likelihood of Policy Change and the Urgency for Institutional Reform

The EU’s current trajectory prioritises continuity over transformative change, missing critical opportunities to enhance global competitiveness. Without decisive political leadership and a willingness to challenge entrenched interests, Europe risks falling further behind. Structural reforms that integrate, simplify, and liberalise must become priorities to unlock the EU’s economic potential and maintain relevance in an increasingly competitive global landscape.

Incrementalism dominates EU policymaking, as exemplified in the Draghi and Letta reports, which reinforce existing frameworks without addressing structural inefficiencies. Political inertia and the prioritisation of national over collective interests perpetuate fragmentation in areas such as taxation, labour markets, and digital policy. Without a shift in political momentum or an external crisis to catalyse change, the EU risks losing ground to global competitors, whose adaptive policies enable them to seize emerging opportunities.

The EU’s inability to implement comprehensive change underscores the need for institutional reform. Governance structures reliant on consensus or qualified majority voting often hinder legal integration and coordination essential for a unified and competitive Single Market. A flexible approach, such as “coalitions of the willing,” could enable willing Member States to advance key initiatives without being constrained by unanimity, reducing gridlock and fostering deeper integration among committed nations. Institutional reform should, above all, focus on simplifying existing regulatory frameworks, harmonising laws, and strengthening enforcement mechanisms to ensure consistent implementation across Member States.

These changes would reduce compliance burdens for businesses and enhance trust among Member States. Additionally, a shift from Franco-German-centric leadership to a more inclusive governance model may be vital to fostering collective ownership and achieving strategic objectives. Without these structural reforms, the EU's competitiveness will remain constrained. Fragmentation will persist, undermining the Single Market's potential and diminishing the EU's global influence.

4. COMPETITIVE HARMONISATION – A HOLISTIC FRAMEWORK FOR EU MODERNISATION

To address these barriers, ambitious legal harmonisation is essential, underpinned by high-quality impact assessments, alignment with international benchmarks, and a critical re-evaluation of ambiguous and politically charged interpretations of European values and EU sovereignty. Such notions, often lacking clear definition, risk distorting policy priorities, distracting public and political attention from initiatives that would enhance economic integration, cross-border economic freedoms, and economic opportunity within the EU.

Competitive Harmonisation provides a bold framework for modernising the EU's institutional and economic landscape. By streamlining horizontal and sector-specific laws, it addresses regulatory fragmentation, barriers to scaling, and underutilised trade opportunities, positioning the EU as a model for high-quality regulation and a global leader in economic opportunity.

At its core, the framework champions a cohesive Single Market that fosters economic freedom, entrepreneurship, and global trade. By reducing legal fragmentation and avoiding arbitrary notions of sovereignty, Competitive Harmonisation also offers a pragmatic blueprint for resilience and prosperity across Europe.

Key Principles of Competitive Harmonisation

The principles of Competitive Harmonisation draw on the foundational aspirations of the Single Market, as articulated in landmark reports such as the Delors Reports, the Monti Report, the Lisbon Strategy, and more recent frameworks like the Five Presidents' Report, the Letta Report, and the Draghi report.[15] These seminal works consistently emphasised the transformative potential of the Single Market to enhance Europe's competitiveness, foster economic growth, and bridge gaps between Member States. At their core, these principles align with the original rationales for creating a unified market: reducing barriers to trade, increasing efficiency, and enabling European businesses to compete intra-EU and globally. Notably, if timely ambitiously enforced, they offer the most promising path to addressing Europe's persistent business scaling problem, which is exacerbated by legal fragmentation and linguistic diversity amplifying the deterrent effects of complex regulations on cross-border trade and investment.

[15] For a recent discussion of these reports, see, e.g., ECIPE (2024). Reinventing Europe's Single Market: A Way Forward to Align Ideals and Action. Available at https://ecipe.org/wp-content/uploads/2024/05/ECI_24_PolicyBrief_11-2024_LY05.pdf.

Below, we outline the three foundational principles of Competitive Harmonisation, building on the analysis above, including Europe's business scaling challenges and the EU's institutional reliance on incremental reforms, and insufficient alignment with international norms.

1) Legal Liberalisation and Coherence with a Focus on Horizontal Policies

The principle of legal liberalisation and coherence address the foundational goals of the Single Market and the critical barriers hindering Europe's economic potential. Legal liberalisation embodies the core freedoms of the Single Market: the movement of goods, services, capital, and people. Simplifying regulations and improving mutual market access across Member states are vital for unleashing business activity and productivity, particularly in highly regulated sectors and professions. However, as highlighted in the Draghi and Letta Reports, fragmented regulations and high compliance costs continue to impede the scalability of businesses, especially SMEs and start-ups, which are disproportionately affected by these challenges and face limited access to venture capital. Dismantling these barriers by prioritising the simplification of horizontal regulations allows businesses to scale more effectively across the EU, unlocking their growth potential and access to capital.

Divergent tax systems, labour laws, and capital market regulations create unnecessary complexity and compliance burdens, particularly for small businesses. Harmonising regulations in critical areas such as taxation, labour market and social security laws, corporate governance, and capital market regulation – which matter for any business in cross-border trade and investment – is essential for creating a more integrated and efficient Single Market. Initiatives like "28th regimes" could provide a framework for unified regulations, reducing barriers and fostering growth.

2) Acceptance of International Norms and Global Interdependencies

The second principle emphasises the importance of integrating EU Member States into global value chains and fostering collaboration with like-minded democracies. Expanding regulatory partnerships and engaging in international fora contribute significantly to Europe's competitiveness in innovation and trade, enabling industries to remain agile and outward-looking. However, addressing Europe's economic challenges requires a readiness to act as both a participant in global rules-setting and a subscriber to international norms when reforming existing regulations, designing new ones, or even discarding outdated policies.

Europe's success lies not in unilateral rule-setting but in positioning itself as a proactive contributor to global regulatory frameworks. Rather than retreating into regulatory isolation under the guise of protecting "EU sovereignty" or "EU values," Europe must align its framework with global standards. This approach reduces barriers and strengthens Europe's role as a collaborative and influential actor in shaping global economic governance.

By embracing global standards and fostering openness, Europe can improve access to advanced technologies and international markets, addressing the investment and innovation gaps identified in the Letta and Draghi Reports. Such an outward-facing approach ensures that EU businesses can not only compete but thrive globally, reinforcing Europe's leadership in international trade and technological standards while avoiding the stagnation associated with regulatory insularity.

3) Fostering Innovation and Technology Diffusion

Fostering innovation and technology diffusion requires a coordinated approach to streamline regulations, invest in digital infrastructure, and address systemic barriers to technology adoption.[16] Key regulatory areas include harmonising ICT standards, simplifying compliance with GDPR for SMEs, and ensuring a predictable framework for emerging technologies like AI and cloud computing. These reforms would reduce compliance costs, enhance interoperability, and allow businesses – especially SMEs and start-ups – to adopt and scale new technologies more effectively. Investments in broadband, AI, and cloud infrastructure are essential for closing regional gaps, particularly in Central and Eastern Europe, where digital adoption lags significantly behind Western and Nordic Member States.

Equally important is fostering openness to global innovation and enhancing digital skills. Aligning EU regulations with global standards and reducing barriers to trade in technology-intensive goods and services will improve access to cutting-edge technologies. For example, facilitating cross-border data flows and adopting international best practices in cybersecurity can accelerate digital transformation across industries. To support these efforts, the EU must also invest in STEM education and reskilling programmes to bridge its ICT skills gap, ensuring a workforce capable of driving and sustaining innovation. By addressing these priorities, Europe can secure its position as a global leader in technology and innovation.

This principle applies not only to the private sector but also to the modernisation of public services, which are crucial for economic efficiency and citizen wellbeing. Governments across the EU must embrace digital transformation by adopting, for example, "cloud first" strategies, which can significantly improve the delivery of public services by enhancing efficiency, reducing costs, and breaking down data silos created by outdated legacy systems. Public procurement policies must be designed to avoid stifling innovation, ensuring that they facilitate, rather than hinder, the adoption of advanced technologies and global best practices. Modernising public services with secure, flexible cloud infrastructure enables EU governments to drive innovation, achieve fiscal savings, and enhance service quality in healthcare, education, and other key sectors.

[16] See, e.g., ECIPE (2024). Enhancing Technology Diffusion in the EU amid Tough Structural Challenges. Available at https://ecipe.org/wp-content/uploads/2024/09/ECI_OccasionalPaper_05-2024_LY06.pdf.

What Competitive Harmonisation Is Not

EU policymaking rooted in Competitive Harmonisation rejects outdated industrial policies that promote protectionism and interventionist measures over innovation and dynamism. Unlike the policies that favour “picking winners” or over-regulating industries, Competitive Harmonisation advocates for a regulatory environment built on non-discrimination, openness, and innovation, which is necessary for long-term global competitiveness.

This framework critically reassesses disproportionate regulatory initiatives, such as ex-ante competition mechanisms and excessive oversight of technology platforms. While these measures target specific concerns, they often impede innovation, constrain market dynamism, and fail to align with the evolving needs of EU citizens and industries.

Rather than creating complexity and uncertainty, Competitive Harmonisation prioritises simplicity, predictability, and proportionality in policy design. This approach addresses systemic challenges like regulatory fragmentation and high compliance costs, reducing inefficiencies while enabling businesses to grow and scale. It redirects resources to areas that have the potential to create long-term value, such as fostering innovation, reducing the scale gap, and improving digital infrastructure.

Strategic Priorities for Implementation

To effectively operationalise Competitive Harmonisation, several strategic priorities must be addressed:

- **Removing Internal Barriers to Cross-Border Trade and Investment:** Harmonising key regulations across the Single Market, particularly in areas such as taxation – covering VAT, sales taxes, capital income tax, labour income tax, and corporate income tax – and labour markets, including labour contract law and social security systems, is crucial for reducing compliance costs and facilitating cross-border trade and investment. Ambitious reforms in these areas would directly address Europe’s scale problem by removing obstacles that impede firms – especially SMEs – from expanding and competing effectively across the Single Market.

- **Fostering International Legal Cooperation:** Deepening regulatory partnerships with third countries to align and harmonise national laws and standards is essential for enabling access to advanced technologies and enhancing the global competitiveness of European industries. Such cooperation would not only help bridge the EU’s lag in venture capital availability and innovation compared to the US but also position the EU as a leader in shaping the quality of laws and regulations globally. By adhering to the Organisation for Economic Co-operation and Development (OECD) guidelines for good regulatory design[17], the EU can

[17] See OECD (2025). OECD Best Practice Principles for Regulatory Policy. Available at https://www.oecd.org/en/publications/serials/oecd-best-practice-principles-for-regulatory-policy_g1g3fcdf.html.

promote economic development worldwide, setting a benchmark for effective, transparent, and innovation-friendly regulatory frameworks.

- **Driving Innovation:** Attracting investment in R&D and facilitating access to large-scale venture capital is essential for closing Europe's innovation gap. Targeted incentives, such as tax credits and full expensing for technology-driven sectors, would enable businesses to scale and invest in transformative technologies.

- **Updating EU and Member State Competition Policy:** Competition policy must evolve to adopt a dynamic perspective on competition[18], focusing on fostering innovation, business scale, and long-term market dynamism rather than preserving static market structures. Policies should account more prudently for global market dynamics instead of being narrowly focused on Member State or EU regional markets. This shift is essential to enabling European businesses to achieve the scale necessary to compete with global giants, thereby improving productivity and reducing inefficiencies. A more forward-looking competition framework will help create conditions for European firms to innovate, expand, and thrive in an increasingly interconnected and competitive global economy.

- **Modernising Public Services:** EU governments must embrace advanced digital services, such as "cloud-first strategies," to modernise public services, boost efficiency, and reduce costs. By eliminating data silos and leveraging cutting-edge technologies, especially cloud (e.g., IaaS, PaaS, SaaS) and cloud-based AI, they can enhance service delivery in critical sectors like healthcare, education, and infrastructure, setting a benchmark for technology adoption.[19] Achieving this requires public procurement processes designed to foster innovation and avoid outdated practices that impede the adoption of advanced technologies.

- **Improving Digital Infrastructure and Technology Diffusion:** Enhancing digital infrastructure and technology diffusion, supported by non-discriminatory rules for AI, cloud networks, and computational technologies, is vital for Europe to access advanced technologies and contribute to global research and development. Accelerating digital adoption and fostering cross-border collaboration in these sectors will unlock Europe's growth potential, as emphasised in the Letta and Draghi Reports.

- **Addressing Skills Gaps:** To effectively address Europe's skills gaps, higher education and vocational training systems must evolve beyond traditional government-driven models and adopt more flexible, market-oriented approaches. This includes fostering public-private partnerships and integrating modular solutions like micro-credentials, which deliver faster, industry-aligned training tailored to emerging

[18] See, e.g., Petit (2024) et al. on the natural evolution of antitrust law towards the dynamic competition approach. Situating The Dynamic Competition Approach. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4689177.

[19] See, e.g., ECIPe (2025, forthcoming). Boosting Efficiency and Quality in EU Public Services: The Need for a European Cloud-First Strategy.

sectors such as digital engineering, AI, and advanced manufacturing.[20] Micro-credentials can equip workers with specialised skills in high-demand areas, enabling businesses to innovate and scale more effectively. By aligning these programmes with international standards, Europe can enhance cross-border labour mobility, ensuring its workforce remains globally competitive. Additionally, embedding lifelong learning pathways into the system will empower workers to continuously adapt to technological advancements and shifting economic demands. This transformation would create a dynamic, demand-driven skills ecosystem that not only supports business innovation and productivity but also ensures workforce resilience and adaptability in an ever-changing economic landscape.

5. POLITICAL LEADERSHIP FOR COMPETITIVE HARMONISATION

If Brussels and the Member States fail to move beyond rhetoric and deliver meaningful reforms, the Europe risks stalling its progress on economic and legal integration. Meanwhile, emerging nations globally – beyond the US and China – keep advancing industrially and technologically, leaving Europe at risk of falling behind in influence and competitiveness.

To address this challenge, political leadership for Competitive Harmonisation must originate from Member States, either collectively under the framework of existing EU institutions or through coalitions of willing partners. In the case of the latter, entrusting reform initiatives to forward-looking (groups of) governments ensures that Competitive Harmonisation remains rooted in the principle of subsidiarity, enabling the development of meaningful reform initiatives that are both pragmatic and strategically aligned with the overarching ambitions of a much more unified European Single Market.

Avoiding Further Fragmentation through Coordinated Lawmaking

To start with, EU Member States have a pivotal role in ensuring that national laws support the EU legal and economic integration. National governments should thus avoid adopting unilateral regulations that create unnecessary barriers to trade, investment, or labour mobility within the EU. Unilateral actions "deepening fragmentation" increase compliance costs and discourage businesses from engaging in cross-border activity. Instead, Member States should prioritise policy coordination and legal harmonisation, fostering an environment where businesses and individuals can thrive across the EU.

Leveraging Multilateral Fora for Coherent Regulation

To safeguard the Single Market's integrity and bolster Europe's global competitiveness, governments must decisively reject unilateral national and regulatory isolation. Clinging to vague interpretations of "EU values" or "sovereignty" as barriers to reform risks undermining the

[20] See, e.g. ECIPE (2024). Increasing Economic Opportunity and Competitiveness in the EU: The Role of Micro-Credentials. Available at https://ecipe.org/publications/eu-competitiveness-micro-credentials/.

collective strength of the EU, eroding its influence on the global stage, and deepening internal legal and economic fragmentation.

Instead, EU governments must embrace a forward-looking approach, actively engaging in multilateral fora such as the OECD, the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), and the World Trade Organization (WTO). These institutions play a pivotal role in shaping global standards and regulatory practices that drive international competitiveness. By aligning EU regulations with best practices developed within these frameworks, Member States can ensure coherence, eliminate regulatory silos, and position Europe as a leader in setting the rules of global economic governance. This proactive engagement is not just a necessity but an opportunity for Europe to strengthen its voice and amplify its impact in a rapidly evolving global economy.

Preventing Regulatory Isolation through Evidence-Based Policies

To maintain its global relevance, the EU must avoid regulatory isolation, particularly when measures are disproportionate or rooted in vague interpretations of EU values. Overly restrictive regulations risk alienating international partners and limiting reciprocal access to global markets. High-quality impact assessments should underpin all regulatory initiatives, focusing on global benchmarks and exploring approaches from other regions. By drawing on international best practices in regulatory objectives and policy design, EU policymakers can develop regulations that are effective, proportionate, and globally competitive, positioning Europe as both a collaborator in shaping and a subscriber to international standards.

Mobilising Multilateral Groupings for Competitive Harmonisation

Multilateral platforms such as the Digital 9 (D9)[21] and the New Hanseatic League[22] can serve as critical drivers for reforms that enhance the Single Market. The D9 can offer leadership in digital policy innovation, creating pathways for cross-border alignment on emerging technologies like AI, cybersecurity, and data governance. Meanwhile, the New Hanseatic League can provide a strong foundation for advancing fiscal responsibility and market liberalisation, combat protectionist EU instincts and initiatives, and enabling the harmonisation of tax systems and financial integration across Member States.

Regional groups like the Visegrád Group (V4)[23] and the Three Seas Initiative (3SI)[24] can play a transformative role in tackling persistent regional disparities in economic development, bridging

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[21] See, e.g., CEPA (2024). Boosting Europe's Digital Leaders: A New Momentum for the D9+, Available at https://cepa.org/comprehensive-reports/boosting-europes-digital-leaders-a-new-momentum-for-the-d9/.

[22] See, e.g., Sandbu, M. (2024). To really change the EU, the northern flank must take the lead. EU Opinion expressed in the Financial Times, 6 October 2024. Available at https://www.ft.com/content/dfca0d5f-ca8a-465e-ab89-e5e61319f297. The author argues that while there is broad consensus on the value of Mario Draghi's recommendations for boosting productivity, political divisions, national rivalries, and technical complexities continue to hinder the pooling of resources and sovereignty needed for their implementation. A promising solution lies in forming "coalitions of the willing," such as the Nordic-Baltic Six and the New Hanseatic League, which could spearhead initiatives like a Capital Markets Union (CMU) and a "28th regime" for corporate law. These coalitions could serve as pioneers of deeper integration, providing a blueprint for progress and potentially unlocking EU-wide deadlocks.

[23] See https://www.visegradgroup.eu/home.

[24] See https://3seas.eu.

investment gaps, countering discriminatory state aid practices, and addressing disproportionate EU policy initiatives that hinder access to global technologies and stifle economic renewal. By bringing fresh momentum and unprecedented impetus from Central and Eastern Europe (CEE), these groups have the potential to ensure that Competitive Harmonisation is not only fully realised but also taken seriously by more mature and traditionally more influential (Western European) Member States. By prioritising legal harmonisation in critical horizontal policy areas, the V4 and 3SI can help promote a coherent, inclusive, and more equitable framework for deeper EU integration, reshaping EU policy priorities and driving meaningful change.

Testing Reforms through Established Cooperative Models

Long-standing cooperative frameworks like the Benelux Union[25] and the Nordic Council[26] can also spearhead unprecedented initiatives for harmonised national laws that significantly reduce compliance costs and enhance cross-border trade and investment. These groups could leverage their well-established history of trust, strong institutional capacity, and deep economic interdependence, enabling them to implement harmonisation initiatives with exceptional efficiency and effectiveness, first and foremost horizontal policies.

6. CONCLUSION: OVERCOMING POLITICAL IDEOLOGY TO REVITALISE THE SINGLE MARKET

The EU's current framework pairs high standards with legal complexity. Competitive Harmonisation aims to preserve these standards while streamlining regulations to facilitate intra-EU trade and investment. Competitive Harmonisation offers the best insurance policy against Europe's relative economic decline, ensuring resilience against any geopolitical challenge that may arise. By reducing legal complexity while maintaining a "single high standard", it enables businesses to scale more efficiently within the EU, strengthening European industries' position in an increasingly competitive global economy.

EU industry and technology indicators speak for themselves. The EU must tackle persistent challenges like regulatory fragmentation, the scale gap, and underinvestment, which continue to undermine its economic potential. These issues are further exacerbated by Europe's linguistic diversity, amplifying the negative impact of legal fragmentation. Differing languages deepen complexity, inflate compliance costs, and deter businesses – especially SMEs – from scaling across borders, leaving the Single Market underutilised.

Compounding this is the EU's reliance on incremental reforms, which failed to address the structural barriers holding back progress. Competitive Harmonisation offers a bold and groundbreaking framework to streamline rules, bridge these divides, and unlock the full potential of Europe's businesses.

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[25] See https://www.benelux.int/de/.

[26] See https://www.norden.org/en/nordic-council.

Without ambitious, comprehensive reforms, the EU and individual Member States risk missing critical opportunities for economic and technological renewal, leaving the region behind in an increasingly competitive global economy.

Overcoming Legal Fragmentation

Incrementalism and the consensus-driven processes of the EU have often resulted in piecemeal changes that fail to tackle systemic inefficiencies. This cautious approach has perpetuated barriers within the Single Market, delaying vital reforms. Openness to international markets and technologies, combined with evidence-based policymaking, is essential for enhancing Europe's investment appeal, fostering innovation, and closing its technological gap.

Reforms must go beyond incremental adjustments by prioritising the reduction of internal legal barriers and harmonising key horizontal laws, such as rules for taxation, labour markets as well as competition and technology policies.

Collaborative efforts among open coalitions of willing Member States present the most effective way to circumvent the paralysis caused by the EU's consensus and veto mechanisms. While designed to ensure unanimity, these processes often hinder swift decision-making and leave the EU vulnerable to inaction. By embracing flexible and forward-thinking coalitions, Europe can foster innovation, implement meaningful reforms, and promote deeper economic cohesion. These efforts set a vital precedent for the structural changes needed across the Single Market. Regional initiatives such as the Benelux Union, the Nordic Council, Digital 9, the Visegrád Group, and the Three Seas Initiative are well-positioned to lead targeted legal harmonisation efforts that deliver tangible results. Common can bring clear benefits of deeper integration and serve as a model for broader EU-wide adoption of bold reforms. By successfully implementing legal harmonisation at a regional level, these initiatives can incentivise others across the Union to follow suit, fostering greater collaboration and driving the adoption of more efficient, cohesive policy frameworks throughout Europe.

Leadership and Action

Groundbreaking reform requires decisive political leadership to break free from the constraints of incrementalism and national interests. Europe's political leaders must champion legal harmonisation and embrace collaborative initiatives that tackle structural inefficiencies and regulatory fragmentation. This would demonstrate a true commitment to European integration, moving beyond vague political notions of "sovereignty" or "EU values" – notions that, as the EU's poor economic and technological performance increasingly highlights, have failed to propel Europe towards leadership in either sphere. By prioritising reform over rhetoric, Europe can create a resilient, competitive Single Market that fosters economic activity, attracts investment, ensuring it has the political and economic clout to lead in driving global economic standards, shaping technological innovation, and establishing itself as a competitive force in critical future industries.