



The pursuit of competitiveness and the high stakes of territorial myopia

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Contents

Abstract	2
1 Introduction: Europa at a Crossroads	4
2 The mirage of catch up: Chasing parity in the wrong places.....	5
2.1 The Draghi Report and its discontents	5
2.2 The illusion of uniform convergence	5
3 Building on existing potential.....	6
3.1 Path dependence and related diversification	6
3.2 The rewards of place-sensitive innovation.....	6
4 Technology adoption: between brownfield digitalisation and disruptive breakthroughs.....	7
4.1 Brownfield digitalisation as a low-hanging fruit.....	7
4.2 The perils of disruptive overreach.....	7
5 Bridging the competitiveness divide	8
5.1 Territorial inequality and political risks.....	8
5.2 Cohesion Policy and place-driven competitiveness.....	8
6 Harnessing endogenous strengths through technology.....	9
6.1 Reinforcing core sectors	9
6.2 Incremental transformation of existing industries.....	9
6.3 The role of human capital and talent retention.....	9
7 Rethinking industrial strategy: A three-pronged approach.....	10
7.1 Prioritise related diversification over catch-up.....	10
7.2 Support brownfield digitisation as a catalyst for inclusion	10
7.3 Refine Cohesion Policy for place-sensitive competitiveness	10
8 Politics and governance: Implementing a different strategy.....	12
9 Conclusion: The need to avoid territorial myopia	14
References	15

Abstract ^{1 2}

The European Union (EU) is facing a widening productivity gap in comparison to the United States and China, prompting a re-evaluation of its competitiveness agenda. Informed by the *Draghi Report* (2024), it seems likely that the EU strategy will focus on large-scale investments in technologies and sectors where Europe remains relatively weak. This article argues that, rather than attempting to outpace the United States or outproduce China in areas where it already lags, the EU should instead capitalise on its existing strengths. By fostering related diversification and promoting incremental technological adoption in sectors where Europe already performs strongly, the EU can draw on path dependence and brownfield digitalisation to enhance its competitiveness. A differentiated strategy rooted in territorial strengths may not capture headlines, but it offers a more grounded and politically sustainable approach. In doing so, Europe could both sharpen its competitive edge and reconnect with disaffected citizens, avoiding the risks of territorial myopia. For if Europe is bound to struggle at imitation and catching up, it might as well succeed at being itself .

¹ Keywords: Competitiveness, industrial policy, regional inequality, place-sensitive strategies. related diversification, economic geography, Europe

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1 Introduction: Europa at a Crossroads

Europe stands at a crucial juncture. Long viewed as a titan of global trade and industrial prowess, it now grapples with a seismic shift in economic and political power toward the United States (US) and China. The Draghi Report (2024) lays bare the continent's productivity woes: flagging growth, spiralling energy costs, and a creeping sense of geopolitical irrelevance, which is becoming exacerbated during the second Trump presidency in the US. Yet its proposals, however well-intentioned, tread a perilous path: the pursuit of development in precisely those areas where Europe lags the furthest behind. In seeking to catch up to Silicon Valley's tech dominance and Shenzhen's manufacturing prowess, the European Union may, ironically, deepen its own competitiveness gap.

What if instead of looking at Europe's weaknesses relative to the rest of the world, Europe's diagnosis centre around what it already has? This implies a change of perspective: not playing catch up, but harnessing Europe's considerable potential and strengths and using technology generated elsewhere in the world to make sure that a) we continue to excel at sectors in which Europe still holds a global leadership; b) and facilitate the rear adaptation and reinvention of existing potential and strength, leveraging on Europe's dynamic sectors and considerable human capital, to make sure that Europe's competitiveness is enhanced.

For decades, Europe's dynamism has sprung from its multiple entrepreneurial ecosystems (Stam, 2015): Germany's Mittelstand machine tool experts; Denmark's wind energy pioneers; and France's aeronautical clusters, to name a few. Rather than imposing a one-size-fits-all approach to industrial policy and technological adoption, a more nuanced path beckons; one that builds on the continent's endogenous capacities, using emerging tools like artificial intelligence (AI), digitalisation, and automation as catalysts for reinvention, rather than mere instruments of catch-up. This paper argues that such a place-sensitive strategies (Iammarino et al., 2019) offer a more robust trajectory for sustaining Europe's economic future. By doubling down on existing strongholds in, among others, pharmaceuticals, chemicals, and aeronautics, while simultaneously rethinking how traditional sectors might evolve, Europe can carve out a path that is at once globally competitive and intrinsically resilient.

The stakes could not be higher. Clinging to the idea of uniform convergence in a continent riven by divergent histories, institutions, and capabilities is not just misguided. It is potentially self-defeating. Recent scholarship suggests that a blind chase after sectors where Europe is already on the back foot may well produce diminishing returns, exacerbating, rather than narrowing, inequalities both within and between Member States (Boschma, 2023; European Commission, 2024). Tellingly, the very diversity that policymakers sometimes view as Europe's Achilles' heel might in fact be its most potent weapon. Harnessing it calls for a paradigm shift in how we conceptualise competitiveness, guided by evolutionary economics, path dependence, and place-sensitive strategies. Through this blend of frameworks, we can chart a future that maximises Europe's inherent strengths and leverages the transformative power of new technologies, without succumbing to the territorial myopia that risks not only bypassing Europe's economic potential (European Commission, 2024), but also exacerbating the galloping discontent currently gripping the continent (Rodríguez-Pose et al., 2024).

2 The mirage of catch up: Chasing parity in the wrong places

2.1 The Draghi Report and its discontents

The Draghi Report (2024) presents a grim outlook for Europe’s competitiveness by mid-century if current productivity trends continue. At face value, its remedies —massive investment in digitalisation, decarbonisation, and defence— appear sensible. Yet, a deeper examination reveals a risk: in racing to match American tech giants or Chinese supply-chain titans, Europe overlooks areas where it is already ahead or at least better positioned to succeed. The result is a chase for parity in domains that demand vast resources, dizzying economies of scale, and, often, structural advantages that Europe may not match in the short or even medium term.

Evolutionary economic geography offers a counterpoint. As posited by Boschma and Frenken (2018), regions thrive by building on their historical, path-dependent strengths. Mainz’s pharmaceutical breakthroughs with BioNTech, Toulouse’s aerospace ecosystem, or Denmark’s life sciences clusters did not materialise from pan-European directives alone; they evolved incrementally within specific local frameworks of institutions, expertise, and tacit knowledge (Grillitsch & Hansen, 2019). The Draghi Report’s broad-brush approach, by contrast, risks conflating strategic diversification with the wholesale adoption of sectors where Europe remains a laggard. This is a discrepancy that could drain resources from areas that hold the most promise, such as those in which Europe already leads global innovation.

2.2 The illusion of uniform convergence

In parallel, an underlying assumption of pan-European strategies —and, most notoriously, of the European Cohesion Policy— is that every European region, provided they receive enough financial and policy support, can ascend the development ladder. This notion of convergence is not only elusive. It can also become self-defeating. Many European regions are locked into specific development paths shaped by their institutional legacies and socio-economic structures (Iammarino et al., 2019). Attempts to impose an external blueprint —be it in AI, semiconductors, or next-generation manufacturing— can miss the local context that makes or breaks industrial renewal.

Instead of seeking parity across the board, a more fruitful policy might focus on accentuating differences in what, after all, is a very diverse polity of 27 member states. Cultivating pockets of excellence and allowing them to flourish (Capello & Lenzi, 2013) with the right type of investment and support, can become a more realistic path to recover Europe’s lost competitiveness. The paradox here is that Europe’s internal disparities, often seen as a liability, can become a source of strength when policy recognises and invests in region-specific competences. From Emilia-Romagna’s prowess in automotive SMEs to Wallonia’s century-old chemical base, these “modes of innovation” ecosystems have proven capacities to adapt incrementally and remain competitive (Boschma, 2023). By treating them as assets rather than anomalies, Europe could avoid the often desired dream likely to end in a trap of trying to replicate Silicon Valley on every street corner.

3 Building on existing potential

Building on existing potential involves much more than simply injecting resources into already successful regions or hoping that struggling ones magically catch up. It requires a nuanced diagnosis that recognises each region's distinctive economic DNA —its industrial heritage, institutional ecosystems, and accumulated know-how— and then applies targeted interventions to reinforce or adapt these strengths. In thriving regions, this means continuing to invest in R&D consortia, fostering cross-sector collaborations (especially in areas like AI, digitalisation, and green technologies), and ensuring access to the skilled workforce needed to maintain a global lead. Meanwhile, for more vulnerable places, the focus shifts toward breaking structural barriers by upgrading human capital, cultivating innovation intermediaries that can bridge gaps in local capabilities, and attracting new talent and investment in ways that align with each territory's specific assets. By doing so, Europe as a whole can create a more balanced and sustainable competitive landscape that does not sacrifice its inherent regional richness.

3.1 Path dependence and related diversification

At the heart of most successful economic transformations lies the concept of path dependence, that is, the idea that regions evolve based on historically entrenched capabilities, networks, and routines (Martin & Sunley, 2006). Over time, these create a form of regional DNA that guides economic adaptation. When diversification does occur, it usually unfolds in related sectors, where competencies can be transferred without severing the ties that bind skilled labour, institutional support, and local knowledge flows (Boschma, 2023; Frenken & Boschma, 2007).

In practical terms, this means that a Bavarian machine tool firm is more likely to pivot into AI-driven maintenance solutions than to leap into quantum computing. Likewise, a Northern Italian textile cluster can integrate digital platforms to streamline supply chains but might struggle to establish a cutting-edge biotech hub overnight. As Capello and Cerisola (2024) observe, the more a new industry deviates from established local expertise, the higher the risk of resource misallocation, and the weaker the potential for sustainable growth.

3.2 The rewards of place-sensitive innovation

Smart specialisation (Foray, 2014) builds on these evolutionary insights, offering a middle way between top-down directives and laissez-faire regionalism. By identifying areas of regional comparative advantage, policymakers can channel investments where they have the greatest impact. Denmark's biotech success, for instance, thrived on the confluence of public R&D, a tradition of patient capital, and a robust network of universities and research institutes. The synergy between local conditions and targeted investment created a breeding ground for world-class innovation.

Yet, the Draghi Report's agenda, which leans heavily on centralised, pan-European R&D programmes, risks overlooking these nuanced ecosystems. Place-blind policies can inadvertently weaken local competitiveness by diverting funds to ill-fitting sectors. As Rodríguez-Pose, Dijkstra, and Poelman (2024) caution, ignoring territorial diversity might stir societal dissatisfaction, fuelling the very Euroscepticism policymakers hope to quell. A cohesive Europe cannot simply pursue uniform measures; it must recognise and celebrate its regional heterogeneity, especially when it comes to innovation and industrial transformation.

4 Technology adoption: between brownfield digitalisation and disruptive breakthroughs

4.1 Brownfield digitalisation as a low-hanging fruit

The Draghi Report correctly pinpoints AI, digitalisation, and automation as levers for productivity growth. However, the report often frames these technologies in terms of blockbuster disruption. Such thinking overlooks a crucial avenue: brownfield digitalisation, or the modernisation of established industries through incremental technological upgrades. This is less flashy, but potentially more impactful.

Consider Inditex in Spain's Arteixo, which harnesses machine learning to optimise logistics. Or Germany's Mittelstand, where AI-driven predictive maintenance seamlessly slots into pre-existing production lines (McKinsey Global Institute, 2023). These examples underscore how digital tools can help strong incumbent sectors evolve rather than pivot entirely. By doing so, Europe leverages robust industrial ecosystems, while mitigating the steep learning curves and investment risks of chasing disruptive new industries. Brownfield digitalisation aligns with evolutionary theory's emphasis on adaptive change, where each incremental step builds on prior strengths (Capello & Lenzi, 2013).

4.2 The perils of disruptive overreach

When policymakers romanticise the idea of 'the next big thing,' they often downplay the structural complexities that hamper large-scale industrial transformations. Hoping for Wallonia's chemical industry to become a hotspot for quantum computing, for instance, can undermine existing supplier relationships, degrade tacit knowledge networks, and leave companies bereft of the skilled labour they need to compete.

Evolutionary scholars refer to this as *unrelated diversification*: a path that bears high risks and uncertain payoffs (Boschma et al., 2023). While Silicon Valley thrives on radical disruption, Europe's strength has historically been in cumulative innovation: evolving clusters that incrementally integrate new technologies into legacy systems. Place-sensitive strategies that support related diversification, rather than jumping to unrelated frontiers, stand a better chance of sustained success. Technology diffusion is most effective when it builds on existing industrial capabilities, rather than attempting to create entirely new ecosystems ex nihilo.

5 Bridging the competitiveness divide

5.1 Territorial inequality and political risks

The Draghi Report's silence on Europe's entrenched competitiveness divide and its failure to acknowledge the political ramifications of the proposals for investment could be its Achilles' heel. Regions that are already well-endowed —Bavaria, Île-de-France, Stockholm— might swiftly adopt advanced technologies, soaking up investment and talent. Meanwhile, peripheral regions like Thessaly (Greece) or Lubelskie (Poland) risk falling even further behind or being stuck in permanent structural development traps (Diemer et al., 2022). The upshot is a two-tiered Europe, where resentment and disaffection jeopardise the EU's political cohesion and the very existence of European integration (Rodríguez-Pose, Dijkstra, and Poelman, 2024).

From a policy standpoint, ignoring these disparities is not just unjust. It equates to self-sabotaging. As the Barca Report (2009) famously argued, place-blind policies can create deserts where there could be gardens. The cost of territorial myopia is not merely economic. It erodes the social fabric and fuels political backlash, from populist parties to Eurosceptic sentiment (Rodríguez-Pose, 2018; Rodríguez-Pose et al., 2024). Criscuolo et al. (2019) further highlight how uneven productivity gains can exacerbate distrust in institutions, undermining the overall cohesion of the single market.

5.2 Cohesion Policy and place-driven competitiveness

Where does that leave EU Cohesion Policy, which allocates billions to regions perceived as 'laggards'? One potential reorientation is to shift from compensatory funding —aimed at plugging deficits— to a performance-based model that incentivises each region to exploit its inherent assets. This is the spirit of smart specialisation, but with a sharper focus on local potential rather than broad uniformity (European Commission, 2024). Examples include targeted support for shipbuilding heritage in Gdańsk or agro-industrial clusters in Murcia.

Critically, this does not mean abandoning less developed regions (European Commission, 2024). Instead, it entails developing "innovation intermediaries" and networks that channel knowledge spillovers from leading clusters to follower regions (Lee, 2024). Estonia's Digital Innovation Hubs exemplify how tech-savvy areas of Europe —and, especially, those in traditionally lagging regions— can support rural SMEs, bridging the digital divide. Through collaboration rather than top-down mandates, Europe can bring peripheral areas into modern value chains without forcing them to become something they are not.

6 Harnessing endogenous strengths through technology

6.1 Reinforcing core sectors

If Europe is to remain globally competitive, it must bolster the advanced sectors that already confer a comparative edge. Pharmaceutical hubs in Germany, chemicals in Wallonia, and aeronautics in Toulouse, just mention a few, are not relics of a bygone era; they are engines of innovation that can integrate AI, sustainable technologies, and automation to remain at the cutting edge. Denmark's transition from maritime expertise to wind energy leadership underscores how related diversification can breathe new life into traditional competencies (Grillitsch & Hansen, 2019).

On a policy level, strengthening core sectors can entail creating specialised R&D consortia, offering tax incentives for technology transfer, and establishing supportive regulatory frameworks that encourage experimentation. For instance, Novo Nordisk's breakthroughs in obesity drugs owe much to Denmark's dense web of life science start-ups, regulatory clarity, and culture of open innovation (Grillitsch & Hansen, 2019). Such ecosystems are not conjured overnight; they are fostered through decades of cumulative learning and targeted interventions.

6.2 Incremental transformation of existing industries

Equally important is the gradual reinvention of existing sectors through new technologies. While automotive SMEs in Emilia-Romagna may not be easily adaptable to quantum computing, they can adopt advanced robotics, digital twins, or internet of things (IoT)-driven supply chain management to boost efficiency and climb up the value chain. This strategy resonates with the evolutionary concept of *branching*: industries evolve into adjacent niches, leveraging existing skill sets and networks rather than discarding them (Frenken & Boschma, 2007; Davies & Maré, 2021).

Such transformations hinge on policy incentives that lower barriers to tech adoption. More emphasis on SME digitalisation could offer grants and subsidies for incremental modernisation. Local or regional tech-transfer offices would amplify these efforts, ensuring that even smaller businesses can integrate advanced tools. As Capello et al. (2025) argue, targeted measures that encourage re-shoring and modernisation can spark a self-reinforcing cycle of growth, provided they are aligned with local potential.

6.3 The role of human capital and talent retention

A crucial but sometimes overlooked dimension in industrial transformation is human capital. While advanced technologies can inject new life into existing industries, the success of any such project rests on a skilled workforce. Europe's historic strength in research-intensive sectors stems partly from world-class universities and vocational training systems. Yet, the challenge of retaining talent—and distributing it evenly across regions—remains formidable. Places that lose their brightest minds to established tech hubs often struggle to reinvent themselves.

Policy measures could include scholarship programmes tied to regional work placements, tax credits for companies that invest heavily in employee upskilling and reinforcing cross-border educational initiatives. By integrating these measures into a broader strategy of brownfield digitalisation, Europe can ensure that the adoption of AI, digitalisation, and automation does not lead to a zero-sum scramble for talent but rather a more balanced regional distribution of highly skilled labour.

7 Rethinking industrial strategy: A three-pronged approach

Although Draghi's diagnosis of Europe's competitive malaise rightly pinpoints the urgency of reversing stagnant productivity trends and technological shortfalls, his proposed remedies use a broad-brush to tackle the contents malaise and overlook its multiple, variegated realities. By focusing on sweeping, large-scale investments in areas, the proposed policies neglect the diverse expertise, local industrial cultures, and institutional frameworks have shaped distinct avenues of European growth (Boschma, 2023). In this section, we propose a complementary strategy: one that recognises and amplifies the assets Europe already has. By building on regional strengths and leveraging well-established capabilities, European economies can forge a more sustainable path toward competitiveness that aligns with Draghi's central insights yet remains grounded in the unique talents and heritage found across the EU.

7.1 Prioritise related diversification over catch-up

Policymakers should realign incentives to favour the natural evolution of existing clusters, rather than allocating vast resources to close competitiveness gaps in unfamiliar terrains. This involves channelling investment into R&D for, for example, AI-driven drug discovery, sustainable aviation fuels, or green hydrogen. These are all areas where Europe's industrial DNA is strongest. These are not half measures; they reflect the reality that incremental leaps can be more transformative than moonshot attempts to transform economies when anchored in robust ecosystems.

Moreover, the concept of *related variety* provides a theoretical underpinning for this approach. Balland et al. (2020) highlight how regions achieve the best innovation outcomes by branching into industries related to their existing capabilities. The synergy of competences, institutions, and supply chains fosters a ripple effect that benefits not just the newly adopted technologies but also the core industries that spawned them.

7.2 Support brownfield digitisation as a catalyst for inclusion

Closing Europe's productivity gap involves making advanced technologies accessible to SMEs and existing companies and sectors. Yet, the process must be sensitive to territorial disparities. By establishing regional digital hubs and providing upskilling programmes for workers, the EU can seed a more democratic distribution of innovation capacity. Catalonia's *Industry 4.0* centres provide a case in point, illustrating how tailored resources enable local firms to embrace IoT solutions and data analytics (McKinsey Global Institute, 2023).

This approach also mitigates the risk of a fragmented labour market, where only the most advanced clusters reap the benefits of AI and automation. By systematically rolling out resources — finance, expertise, and digital infrastructure— European policymakers can ensure that these technologies do not exacerbate the competitiveness divide but instead serve simultaneously as tools for regional renewal and for convergence.

7.3 Refine Cohesion Policy for place-sensitive competitiveness

EU Cohesion Policy needs to recover its original aims and move from subsidising lagging-behind regions to empowering. This means linking funding to performance metrics and rewarding bottom-up initiatives that leverage local assets. Successful regions should be encouraged to share best practices, forging cross-border partnerships that diffuse knowledge without imposing a one-size-

fits-all template. The result will be a system of interlinked but distinct regional economies, each drawing strength from its specific heritage and sectoral advantage.

For example, the *High-Level Group on the Future of Cohesion Policy* (European Commission, 2024) advocates a performance-based approach that recognises regional diversity. By integrating this with the evolutionary logic of local specialisation, policymakers could enable each region to thrive on its own terms, thereby reducing the need for ubiquitous 'catch-up' programmes. As Barca (2009) argues, place-based strategies can simultaneously bolster innovation and social cohesion, especially when they activate latent regional capabilities.

8 Politics and governance: Implementing a different strategy

Draghi (2024) outlines a dire outlook on Europe's future competitiveness yet neglects to explore the profound political consequences that his proposals to address this problem could unleash. In a continent already grappling with rising populist sentiment and growing regional disparities, this omission leaves a critical gap in understanding how policy prescriptions might exacerbate or mitigate existing social and political fault lines.

All development strategies are territorial and the concentration of investment in particular places can have serious political implications, especially when the expected returns of investment are likely to be highly unevenly distributed. If most the competitive regions already have a head start, won't they simply pull further ahead? The answer lies in governance. EU-wide frameworks must ensure that any intervention to improve competitiveness is based on a close diagnosis of existing potential everywhere in Europe. But also the institutional scaffolding to participate in value chains. Moreover, cross-regional collaborations can channel knowledge flows between leading and follower regions, bridging gaps rather than cementing them (Lee, 2024; Tripl, Zukauskaitė, & Healy, 2020).

Implementing a differentiated strategy also demands a cultural shift in how policymakers conceptualise Europe's future. Instead of talking about "closing the gap" with the US and China, leaders should focus on the distinctive capacities that can make Europe a global trailblazer in, say, green technologies, sustainable manufacturing, or life sciences. Such a narrative acknowledges the continent's diversity as a competitive strength and invests political capital in turning that diversity into innovation-driven prosperity (European Commission, 2022).

Indeed, implementing a truly differentiated strategy requires forging consensus across Member States with divergent priorities. There are some that champion a strongly centralised approach, while others push for subsidiarity and local empowerment. Whether more or less centralised, a differentiated strategy can only succeed if it is based on a strong knowledge of local conditions which requires reliable regional or even local data and expertise. The success of technology-centric policies depends on the coherence of governance structures and the ability to align incentives across various tiers of administration. Only by striking this delicate balance can Europe avoid the pitfalls of halfway measures that yield neither global leadership nor robust local ecosystems.

A successful differentiated strategy requires that the involved levels of government have both the capacity and the quality to identify the best approach in the various places. High quality, efficient and reliable public services are not evenly distributed across EU regions. The most recent European Quality of Government index (Charron et al. 2024), the sub-national Business-Ready reports ⁵ from the World Bank and the Eurovoices ⁶ project of the World Justice Project all show that more progress is needed to improve the quality of public services. Low government quality has been shown to lower economic growth (Ketterer et al. 2018, Peiró-Palomino 2019), trade (Barbero et al. 2023) and innovation (Rodríguez-Pose et al. 2014) in EU regions .

Finally, adopting policies that will further concentrate territorial activity while failing to address deep-seated territorial imbalances risks igniting the wave of discontent that can upend even the most well-structured strategies. Forum Disuguaglianze Diversità (2024) warns that comprehensive

⁵ [Subnational Business Ready](#)

⁶ [World Justice Project EUROVOICES](#)

EU policies that overlook local conditions may backfire politically, especially in regions where Euroscepticism is already entrenched.

The solution is not to abandon lofty ambitions but to embed them in a nuanced recognition of local challenges and strengths. This is approach that resonates with the overall aims of European integration. By demonstrating tangible benefits to often-overlooked communities, policymakers can build a broader base of support for integration and innovation-led growth.

9 Conclusion: The need to avoid territorial myopia

Europe's choice is stark: persist with a monolithic, catch-up agenda that may drain resources in an unwinnable race against our competitors or recognise that its future lies in the polymorphic strengths of its diverse territories. Territorial myopia is the real danger economic and political danger. If Europe becomes fixated just on where it lags and attempts to shoehorn every region into the same mould, the economic and political risks will only mount. A more promising path would be to channel investment new technologies into the places where they can thrive and trusting that Europe's inherent diversity will prove an asset, not a hindrance.

By doubling down on core sectors — such as pharmaceuticals, chemicals, aeronautics— and incrementally transforming current industries, using new technologies such as AI and automation increase their performance and complexity, Europe can foster a new wave of competitiveness. This approach must be underpinned by a nuanced cohesion policy that targets place-based potential rather than uniform catch-up, alongside governance structures that facilitate cross-regional knowledge exchange. The stakes go beyond economics. In a climate of rising Euroscepticism, a policy that rewards endogenous strengths and does not abandon many European territories to stagnation (Diemer et al., 2022) may help mend the fractures threatening European unity.

Ultimately, the question is not whether Europe can outspend the US or outscale China in raw technological terms. Rather, it is whether the EU can harness its internal variety to produce a competitive edge that is both durable and equitable. Leveraging local strengths need not mean ceding leadership in emerging sectors; rather, it can allow each region to serve as a laboratory of innovation, collectively pushing the frontier of what is possible in AI, green energy, automation, and beyond. If Europe embraces this path, it can reinvent its industrial destiny not by imitating Silicon Valley or Shenzhen, but by harnessing its distinct heritage to lead on its own terms.

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