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Debate: "Restoring the EU Competitiveness: Challenges and opportunities in the context of the twin green & digital transition"

- European News in the Spotlight -

online Event (Zoom)

- Event Report -

The European Institute of Romania (EIR), in partnership with the Embassy of Romania in Sweden, organized, on **Thursday, 23 March 2023**, the conference entitled *Restoring the EU Competitiveness: Challenges and opportunities in the context of the twin green & digital transition*. The event is a part of the series ***European News in the Spotlight***, aiming at informing the public about the role of the Council of the European Union in coordinating various policies in specific areas, tackling topics of interest on the agenda of the current Presidency.

The opening session included a welcoming address of Mrs. **Oana-Mihaela Mocanu**, Director General, European Institute of Romania and His Excellency, Mr. **Daniel Ioniță**, Ambassador of Romania in Sweden, and official interventions from Mrs. **Daniela Gîțman**, State Secretary for European Affairs, Ministry of Foreign Affairs, Romania, and Her Excellency, Mrs. **Therese Hyden**, Ambassador of Sweden to Romania.

This section outlined the context of the debate, mentioning the priority given by the current trio to a stronger and more effective competitiveness within the EU, the 30th anniversary of the Single Market and its role as a source of wealth, welfare and international standing for the EU, as well as the importance of better communicating with the public about the benefits and shared responsibilities as a EU member state. The speakers also referred to the challenges faced by the EU in ensuring a green future for its industry, strengthening the internal cohesion, while also supporting its partners undergoing various crises. The complex geopolitical environment has exposed the vulnerabilities of the European economy, but also underscored the strong European interconnections, the link between security and economy, and the driving force of innovation, technology and access to resources for economic competitiveness. The Single Market is the main achievement of European integration and the main engine for EU competitiveness, but it has to continue to adapt to new challenges, underpinning long-term productivity, skills development, research and innovation, social cohesion, as well as a fair global free trade.

The event's main expert guests were Mr. **Mats Engström**, Senior Adviser, Swedish Institute for European Policy Studies, Mr. **Andras Inotai**, Ph.D., Professor emeritus, Institute of World Economics, Budapest, and Mrs. **Laura Marinaș**, Director General, Ministry of Investments and European Projects, Mr. **Valentin Lazea**, Chief Economist, National Bank of Romania.

Mr. **Octavian-Dragomir Jora**, Professor, Ph.D., Habil., the Bucharest University of Economic Studies and Founder of *The Market for Ideas* magazine, served as moderator of the debate, raising insightful questions and comments on the topic.

Mr. **Mats Engström** presented the following ideas:

Social inclusion, public administration as well as financial stability are preconditions for competitiveness.



☑ The green transition faces the challenge of bringing economic benefits to all parts of the EU. In addition to skills sets, targets and regulations play an important role for innovation.

☑ The political context is changing and is influencing, among others, the area of critical raw materials.

☑ In the digital field, the EU should recognise its strengths: industrial production, the Internet of Things (IoT) and Artificial Intelligence. In Romania there is some progress in the software field, but to further develop this area a higher priority should be given to equipping people with vocational digital skills.

☑ The Lisbon agenda for competitiveness envisioned that the EU would be the world's most competitive economy by 2010. This shows the difficulty of foreseeing the future (people did not imagine the productivity boom that took place in China, for example), and that the EU's agenda needs to be complemented by action at the level of every member state.

Prof. **Andras Inotai** presented the following points:

☑ The EU has significant experience in the field of price competitiveness, which sometimes is overestimated, based on cheap labour (self-destructive devaluation on the national currency). In addition, there is the quality competitiveness.

☑ There is the element "just in time" which means that if an entity can produce at an exact time what the market needs, then the entity will be competitive. In addition, the offer has to meet the demand.

☑ The supply chains also represent an important factor of competitiveness, especially since the green, digital and geopolitical challenges the EU is facing are intertwined.

☑ Sustainable competitiveness has to be targeted and it needs to answer questions related to elements such as demography, education, economy and finance, environment, social and mental health. In addition, social cohesion is an important part of this notion.

☑ The EU has developed a new industrial policy, considering its need to recalibrate and focus on key industries, suppliers and key infrastructure, while also maintaining the right balance between selective protectionism and openness to trade and investment. The role of the industrial policy should be to preserve the capability of production.

☑ The new industrial policy should be financed by a new EU sovereign fund, while the regulations for state aid need to be relaxed. Additionally, the financial framework should change its priorities in accordance with the new industrial policy and the digital economy.

☑ The rare earths are very important for the future competitiveness, and the EU aims to diminish its dependence from external sources until 2030, with any supplier ensuring less than two thirds of the EU's needs. Currently, 62,9% of the rare earths are coming from China.

☑ Lithium, a critical element of the batteries of electric cars, is available in some member states (Portugal, Czech Republic, France and Sweden), new deals were signed with Chile and New Zealand, while other negotiations are undergoing with Canada, Kazakhstan, Namibia and Ukraine. In addition, there are discussions for a formal agreement with the USA to create an international framework which will include the main suppliers and users of rare earths.

☑ The digital economy is rapidly changing, affecting social cohesion, leading to questions regarding the need to ensure a balanced speed of the development and the



coordination of the available financial resources. The success of digital transition is not an economic issue, but rather a question of how rapidly the entities adjust to changes. Thus, a fair redistribution of the money is needed in order to avoid social problems.

In order to keep social cohesion, a mental preparation for the future is needed, to develop an *European identity*.

Mrs. **Laura Marinaş** underlined the following elements:

For the next 30 years, the EU's economic growth and competitiveness will be driven by the twin transition, which requires structural changes, new approaches and technologies, making full use of digitalisation and innovation, as well as the development of new competencies, new knowledge. Moreover, the twin transition should take into account the distribution of EU funds according to the specific level of development and potential of the regions.

During the current programming period, Romania has allocated 31 billion EUR under cohesion policy, and a total allocation, including the public contribution, of 46 billion EUR. These funds will be distributed in 16 programs comprising 8 regional programs, addressing specific needs and ensuring the application of the principle "no one is left behind."

Romania allocated 6,5 billion EUR for developing activities in the ICT sector and the small and medium enterprises (SME), as key actors in the ecosystem of innovation, research development and for growing competitiveness.

The education and employment programs provide 1,3 billion EUR for ensuring equal access to quality education and relevant skills for the future needs of the labour market.

The just transition program allocates over 2,5 billion EUR to support 6 counties in addressing the challenges of the green transition, including unemployment and business opportunities.

In addition, there are the funds under the National Recovery and Resilience Plan (NRRP), providing over 3 billion EUR for SME, energy, digitalisation and research development.

The implementation of the NRRP will start in the second quarter of this year). In order to ensure transparency to the access of funds, a consolidated timetable was published in February 2023 with the call for projects under all 16 programs and the NRRP. This is a unique initiative at the level of the EU allowing all interested applicants to check the available opportunities, ensuring predictability and better conditions for accessing these funds.

In order to reduce the administrative burden without affecting the quality of implementation and conformity with the EU rules, a revised legal framework is expected to be approved in order to improve, simplify and increase the interoperability of existing systems for ensuring increased absorption of EU funds.

Mr. **Valentin Lazea** noted the following:

Considering the multipolar world and the current crisis, the EU was not properly prepared to adapt and respond. Several reasons for this situation were mentioned: the long-term outsourcing of the EU defence to the US, as well as the outsourcing of the EU capabilities, especially through the dependence on Russian energy supply and Chinese manufacturing.



☑ The EU lacks a leader in terms of strategic European thinking, with the possible exception of France and the former EU member, the UK. Germany is trapped in the model of a globalised economy.

☑ As of 2020, Romania ranked fourth in the EU regarding the military expenditures as a percent of GDP, while Germany ranked 18th (with 1% military expenditures from the GDP) and Sweden – 14th (1,1%). In terms of energy independence in 2020, Romania ranked second in the EU (28% energy imports), Germany ranked 16th with 63% of energy imports, and Sweden was 3rd with 33% energy imported. In terms of innovation, the EU is behind the US: out of 58 top research fields, 50 were located in North America and 8 in China. As this overview shows, the EU was too reliant on outside powers, a situation which needs to change, irrespective of the costs, but considering the strategic competition within which the EU has to act.

☑ The European Commission has identified 137 goods with dependencies on third country suppliers (e.g., pharmaceutical ingredients, batteries, cloud and edge computing, cyber security, hydrogen, IT software, photovoltaic panels, raw materials, semiconductors). The response of the Commission was to reinforce the Single Market through the creation of *industrial alliances* between the EU and like-minded countries, for ensuring the access to specific products or developing strategic industrial projects, such as battery production or microelectronic production.

☑ OECD considers Romania' industrial base as quite diversified and with a potential high value added. However, Romania is only an emerging innovator, like all other Central-European countries, except for the Czech Republic, which is a moderate innovator (a step ahead of the other mentioned countries).

☑ Besides extending cooperative frameworks with like-minded partners, the EU should capitalise on the potential of all Central and Eastern European countries in these systems.

☑ Germany would like to redirect the energy intensive production such as ammoniac or aluminium to countries like Romania or Bulgaria. This process would be fair if the latter countries would receive some parts of the new industrial knowledge (e.g., in semiconductors).

During the **questions and answers session**, the following remarks emerged:

☑ The Romanian authorities' mindset for achieving the targets in the NRRP should treat the funds as capital: instead of spending the money on social programs, the goal should be on investing. Unfortunately, Romania and other member states, including Germany, do not have a pan-European, but finding alliances and accepting compromises should become a priority.

☑ There is a need for long-term thinking. The NRRP encompassed huge analytical work and the member states brought together experts working in an innovative manner. Therefore, there is a need to institutionalise this kind of work.

☑ Compromise and sovereignty are important within the EU, and the member states need to maintain a certain degree of room for manoeuvre between compromise and solidarity.

☑ The consolidated development of digital skills among the citizens depends on school teachers, digital experts and the vocational trainers from the skilled workforce. A relevant example in this sense is the Swedish one, where the employers and trade unions have agreed on a programme where people can take time off from work with a good compensation to upscale different sets of skills, such as digital ones.



Restoring the EU competitiveness requires a global perspective and better partnerships with states in other parts of the world. The whole EU would benefit from more focus on: improved research and development; more investments in skills and education on all levels; continuing the green transition, with intelligent solutions for energy supply and urban development; EU-level investments (both funding and regulatory framework); means to enhance the societies' resilience and capacity to adjust; market integration; and effective approaches to deal with the demographic challenges.

EU competitiveness should contribute to a better preparation for future challenges, ensuring EU-level strategic thinking and compromises between the member states, and considering the needs of vulnerable groups.

The video recording of the event is available [here](#).

Report by

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