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EU Industrial Policy: Essentials and Prospects

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Abstract: Faced with challenges such as the restructuring of the European security order, declining economic competitiveness, and insufficient innovation leadership, the EU has begun to actively implement industrial policies. It leverages government intervention measures to ensure the security of industrial and supply chains, focuses on developing key green and digital industries, and protects and develops the single market, thereby safeguarding economic security and advancing strategic autonomy. The EU's industrial policies have achieved initial results, and it will rely more on industrial policy tools in the future. However, the EU's industrial policies are confronted with controversies over legitimacy and effectiveness, and it still needs to address challenges such as multi-level governance, fiscal constraints, and insufficient innovation.

Keywords: EU; Industrial policy; Government intervention; Economic security

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1. Introduction

This paper analyzes EU industrial policies since the mid-2010s, arguing that against the backdrop of geopolitical resurgence and great-power competition increasingly focusing on industrial rivalry, the role of government intervention in EU industrial policies has become highly prominent. The EU proactively guides industrial transformation through government intervention measures, with policy priorities including ensuring economic security by strengthening industrial and supply chain resilience, enhancing overall economic competitiveness by developing green and digital industries, and, in this process, promoting and developing the single market to boost the EU's economic sovereignty and strategic autonomy. Under the leadership of the new European Commission, the EU will attach greater importance to the role of industrial policies and gradually enrich relevant tools such as fiscal incentives, market protection, and legal norms. However, it faces dual controversies over policy legitimacy and effectiveness, and policy outcomes are feared to fall short of expectations.

2. Key tenets of EU industrial policy

Since the mid-2010s, the role of industrial policy instruments at both EU and member state levels has grown

increasingly salient within the economic sphere. Notably, under the impetus and tacit approval of the European Commission led by Ursula von der Leyen (since 2019), industrial policy initiatives at both tiers have expanded substantially, emerging as a pivotal driver of industrial structural transformation across the EU. The incoming European Commission (2024–2029) underscores the criticality of industrial policy and state intervention in attaining economic security and fostering technological innovation. Its industrial policy framework seeks to enhance industrial competitiveness by leveraging the single market's comparative advantages, fortifying innovation leadership, and realizing climate neutrality alongside economic security [1]. To this end, relevant policies are primarily oriented toward three interrelated dimensions.

2.1. Emphasis on supply chain security

The EU has intensified financial support for domestic industries. For instance, the EU provides support and guidance to domestic industries through the "Important Projects of Common European Interest" (IPCEI). IPCEI constitutes a key instrument of the EU's industrial strategy. To date, the European Commission has approved 10 comprehensive IPCEI projects, covering value chains related to batteries, cloud and edge computing, health, hydrogen, and microelectronics, creating favorable conditions for these projects to obtain dual financial support from both the EU and member states [2].

Meanwhile, the EU also employs policy tools such as anti-subsidy measures to protect the development of domestic industries. For example, in accordance with the provisions of the *Foreign Subsidies Regulation* (FSR), for foreign enterprises that receive "foreign subsidies" in investment and participation in government procurement and thereby distort competition in the EU single market, the EU requires them to declare the subsidy situation and has the right to initiate subsidy investigations. Based on the investigation results, it can even require enterprises to withdraw from investment and procurement projects.

The EU also attaches importance to leveraging international cooperation to avoid vulnerability risks caused by geopolitical factors. In fields such as energy, semiconductors, and critical raw materials, the EU actively advocates "de-risking" and promotes cooperation with so-called "like-minded" partner countries to enhance the resilience of industrial and supply chains. For example, in the field of critical raw materials, to reduce excessive dependence on a single country, the EU has introduced the *Critical Raw Materials Act*, increased the extraction of important raw materials such as lithium and graphite within the EU, and established a "Critical Raw Materials Club" to ensure the security of raw materials in the process of green and digital transformation.

2.2. Advancing green and digital sectors

Since 2023, the EU has promulgated such policy documents as the *Green Deal Industrial Plan (GDIP) for the Net-Zero Age* and the *Net-Zero Industry Act*. In February 2025, the European Commission unveiled the *Clean Industrial Deal (CID): A Joint Roadmap for Competitiveness and Decarbonisation*, further articulating its commitment to fostering localized production of clean technology products. Through policy synergies in domains including mobilizing public-private investments, mitigating external reliance on raw materials, facilitating international collaboration, and ensuring social equity, the EU endeavors to emerge as a global pacesetter in sustainable development [3]. Between 2015 and 2024, the "new three" industries— encompassing photovoltaic products, electric vehicles, and lithium batteries— received no less than €25.2 billion in fiscal subsidies at the EU level and €40.3 billion at the member state level.

In the realm of digital sectors, the EU accords priority to constructing a digital innovation ecosystem,

striving for global leadership in technological innovation, industrial advancement, and digital governance. In recent years, it has introduced a suite of policy instruments, including the EU *Digital Compass 2030*, the *European Data Strategy*, the *White Paper on Artificial Intelligence*, and the *Chips Act*, which collectively create enabling conditions for the development of digital industries from the perspectives of funding, service provision, and regulatory frameworks. In the domain of digital norms, building upon the *General Data Protection Regulation* (GDPR), the EU has successively enacted legal instruments such as the *Data Act*, the *Data Governance Act*, and the *Artificial Intelligence Act*. These establish technical standards and regulatory protocols for data transmission, the research and development of large AI models, and other related activities. Additionally, through the *Digital Services Act* and the *Digital Market Act*, it regulates the conduct of digital giants, thereby consolidating the EU's discourse power in global digital governance.

2.3. Developing the single market

Since the mid-2010s, the EU has attached greater importance to safeguarding the order of the single market through integrated legislative and regulatory coordination. For instance, subsidies provided by member states to the new energy vehicle industry must be pre-reviewed by the European Commission to ensure that such subsidies are directed toward technological research and development rather than merely protecting domestic enterprises. This prevents member states from seizing market share through excessive subsidies, which could lead to the fragmentation of the single market. Funding and project support at the EU level have also injected momentum into industrial development within the single market. Since 2018, the European Commission has approved state aid for at least one comprehensive IPCEI each year. To date, the total amount of approved state aid and expected private investment in research and development for nine comprehensive IPCEIs has exceeded €91 billion, a level of investment comparable to the EU's "Horizon Programme."

In recent years, the EU has successively responded to multiple public crises, such as the COVID-19 pandemic and the energy crisis. In response, the European Commission has established dedicated emergency tools, focusing on monitoring the operation of supply chains for strategic goods and services, and retaining the authority to require member states to prioritize the production of goods in short supply. These measures ensure the free flow of key goods and services during crises [4].

3. Prospects for EU industrial policy

Despite advantages such as a unified single market and high policy predictability, the EU confronts challenges regarding policy legitimacy and effectiveness. Amid escalating geopolitical uncertainty and intensified global industrial competition, sustaining efficient implementation of industrial policies remains a formidable endeavor for the EU.

3.1. Enabling conditions for EU industrial policy advancement

To avoid marginalization in global value chains, the EU must augment industrial policy support to enhance technological innovation and industrial competitiveness. Recent geopolitical shifts have destabilized the EU's long-standing commitment to a "liberal international order." Perceptions of de-globalization, geopolitical crises, and eroding economic competitiveness persistently drive EU industrial interventionism. Notably, the U.S. *Inflation Reduction Act* under the Biden administration acted as a critical catalyst for strengthened EU

intervention of industrial policy [5]. Internally, structural adjustment pressures in traditional sectors—steel, chemicals, automotive manufacturing—necessitate digital and green transitions. Industrial policies thus serve as mechanisms to redirect resources toward transformative industries, accelerating upgrading for sustainable development.

Expanding policy instruments enhances cross-EU coherence and coordination, facilitating scaled policy implementation. The EU will deploy tools such as Horizon Europe (2025–2027), the European Fund for Strategic Investments (EFSI), and "Erasmus+" to mobilize public-private investment in strategic sectors, leveraging R&D and innovation for industrial renewal. Ursula von der Leyen's proposal for a permanent EU joint debt-issuance mechanism aims to institutionalize long-term strategic investment and crisis response capacity, optimizing industrial policy efficacy.

The EU will further unleash the advantages of the single market, integrate resources through policy guidance, and enhance industrial competitiveness. The *2025 Annual Single Market and Competitiveness Report* outlines measures to narrow innovation gaps, advance decarbonization, develop circular economies, and fortify supply chain resilience—all to boost economic competitiveness [6]. A robust R&D and industrial base, coupled with a vibrant SME ecosystem, provides foundational support for intra-bloc resource integration via industrial policy.

3.2. Legitimacy controversies surrounding EU industrial policy

EU-level industrial policies face controversies over democratic legitimacy and lack a robust institutional framework backing. Ideologically, the EU's legitimacy hinges predominantly on the "market myth", with societal consensus broadly skeptical of government intervention. Far-right parties, adhering to a "national priority" core narrative, oppose supranational coordination of industrial policies, advocating for the redirection of resources—including subsidies and tax incentives—toward domestic enterprises. The growing influence of such parties will impede the formulation and implementation of integrated industrial policies.

Opacity in decision-making and implementation exacerbates criticism. Core policy frameworks emerge from closed negotiations between the European Commission and member states, lacking public participation. Under IPCEI, for instance, definitions of "European interests and values" are internally determined by the Commission, with civil society and SMEs marginalized in subsidy standard-setting processes [7].

3.3. Constraints on policy efficacy

Current policies fail to establish a sustainable industrial competitiveness framework. The EU's fragmented governance inhibits concentrated resource allocation for key industrial breakthroughs, while member state divergences complicate coordination. Intra-institutional frictions—such as tensions between the Directorate-General for Competition (emphasizing free markets and SMEs protection) and the Directorate-General for the Internal Market (advocating intervention)—challenge von der Leyen's leadership and inter-departmental coherence [8].

The EU's support for industrial policies is constrained by fiscal restraints and debt rules. From the perspective of fiscal capacity, although the EU economy managed to grow marginally amid multiple pressures in 2024 and showed a moderate recovery in the first quarter of 2025, the manufacturing PMI has not yet rebounded above the neutral threshold. Future economic growth will rely more heavily on member states' investments in infrastructure and defense. This implies that the EU still faces challenges in reducing fiscal deficits while

maintaining the intensity of fiscal expenditures. In terms of debt rules, some heavily indebted Southern European countries currently remain under pressure for structural adjustments, making it difficult for them to promote industrial upgrading through large-scale investments.

The EU's stringent legal and regulatory framework exacerbates the innovation burden on enterprises, undermining innovation's role as a driver of industrial upgrading. The EU has long prioritized the protection of users' data privacy and emphasized the necessity of "trustworthy" AI. For instance, the *General Data Protection Regulation* (GDPR) imposes strict stipulations on enterprises' information processing methods, significantly increasing compliance costs for digital enterprises and creating substantial obstacles to financing for small, medium-sized, and start-up enterprises—ultimately impeding the enhancement of competitiveness among EU-based digital enterprises. The EU's *Artificial Intelligence Act* sets high standards for the transparency and interpretability of data and algorithms among large-model enterprises, which also adds to the compliance burden on corporate innovation.

4. Conclusion

Amid intensifying great-power rivalry, proliferating geopolitical conflicts, and accelerated technological revolution, the EU faces increasing strategic anxiety and eroding economic competitiveness. With its focus on forging a geopolitical identity and strategic autonomy surging, state intervention in industrial policy has grown apace. Under the new European Commission, industrial policy—rooted in technological and supply chain autonomy and leveraging rule-formulation—promotes green and digital sectors through EU coordination to enhance aggregate competitiveness.

This policy shift reflects both reactive adaptation to deteriorating geopolitical and geo-economic landscapes and proactive efforts to advance integration and strategic autonomy. Despite unlikely optimal outcomes, the EU's commitment to stronger intervention persists. It must overcome governance flaws, inadequate innovation, and funding constraints—formidable hurdles indeed.

Disclosure statement

The author declares no conflict of interest.

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