

THE EU'S TECH DILEMMA UNDER TRUMP: HOW TO SET HIGHER AMBITIONS THAT EUROPE CAN ACTUALLY ACHIEVE

10 RECOMMENDATIONS FOR A TARGETED EUROPEAN TECH STRATEGY

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10 recommendations for a targeted European tech strategy

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This paper is the third in a series on the EU's digital agenda (see publication [one](#) and [two](#)).

The long-standing challenges for EU tech policy have become more urgent in 2025. As pressures mount in a new geopolitical reality, the EU must now craft a strategy that is bold in ambition, but focused and achievable – while addressing the reasons past strategies have failed. This paper offers ten analytical points to guide such policy effort

#1. The EU must raise its tech ambitions in the Trump age. In 2025, the Trump administration's attacks on EU laws such as the DMA, DSA, and AI Act have an impact primarily because of Europe's relatively unilateral dependence on critical tech services. This dependency now risks compromising the EU's rule of law – the US is not just pushing back on the *Brussels Effect*, but seeks to constrain Europe's capacity to regulate its own markets. European democracy is at stake. At the same time, tech and security are becoming more intertwined. In response, European leaders from Friedrich Merz and Emmanuel Macron to Pedro Sánchez are aligning around a new consensus that the status quo is unsustainable and that reducing Europe's technological dependencies must be a top strategic priority.

¹The contributors are members of a network bringing together seven think tanks from small, digital frontrunner states in the EU (D9+ states) to foster a dialogue on the EU's digital agenda. Think Tank EUROPA is receiving financial support from Google to establish and run the network.

#2. The EU's tech strategy must reflect Europe's political and financial limits as well as market and technological realities.

Much of the core recipe remains the same as before Trump: Global competitiveness and tech sovereignty require deep single market integration and large-scale investments in innovation and infrastructure, working in tandem. But the Commission's current strategy is unlikely to deliver. It is constrained by underlying structural barriers, falling in four categories:

- A) **The key reforms needed to restore Europe's tech competitiveness still face considerable challenges.** The Commission's new tech strategy closely follows the blueprint set by the Draghi and Letta reports in promoting the growth of local tech firms. Many of their proposals are sound in theory but will be challenging in practice. It remains unlikely that member states will get behind proposals like full capital market integration, a streamlined digital single market, a vastly larger EU budget, and coordinated national investments, especially when these demand sovereignty transfers to Brussels. In many countries the political balance is currently shifting to the right, dominated by concerns for national sovereignty. The urgency of Europe's security and competitiveness crisis may not be enough to break the political deadlock.
- B) **Even if implemented, these reforms would take years to yield results and won't necessarily enhance sovereignty given how far the EU is behind the US and China.** New measures to raise productivity may foster growth. But single market reform alone will not revive Europe's tech sector, and innovation does not automatically translate into control over critical infrastructure.
- C) **Market integration must be accompanied by smart investment, but national funds are being drawn toward defence and energy security.** As a result, the EU cannot compete across the board and must instead make hard choices in tech. The pivot to mobilizing private capital using the EU budget to absorb investor risk is a necessary adjustment, but insufficient on its own.
- D) **The Commission is too focused on helping European tech firms grow and not on increasing demand for their services.** The Draghi report highlighted that Europe's sluggish economic growth was largely caused by the unwillingness of European firms across most sectors to experiment and integrate new technologies into their businesses to boost productivity.

#3. The EU needs a mission-based strategy that is ambitious but tightly focused; the urgency of the moment means Europe can no longer rely on long-term reform to ensure its resilience.

A targeted tech strategy should focus first on what is critical and feasible. Eliminating all dependencies is neither feasible nor necessary for the EU to protect its ability to regulate. This is not a point about more granularity, but fewer, clearer priorities. Without it, the EU risks repeating the mistakes of spreading too little funding across too many priorities. A targeted *Competitiveness Fund* in the next seven-year budget is a welcome start.

#4. The Commission's current approach fails to address why past reform efforts have stalled or how to break the pattern.

As noted above, the Commission lacks a convincing analysis of why the same structural barriers that have hindered past reforms – ranging from political resistance to poor coordination and a lack of money – would now be overcome. Without addressing these constraints, the EU risks another round of underwhelming results.

#5. One of two core priorities in the EU's tech strategy should be productivity.

Even if Europe lags in tech, it can still reap the growth and welfare benefits of innovation financed elsewhere, above all through wider tech adoption. The EU must focus more on encouraging firms across the economy to digitise and adopt new tools – even if that means adopting a mix of foreign and local tech services, at least in the short term. Increasing tech adoption demands a skilled workforce that can implement solutions, but it also requires hard choices. In some areas like large language models, which may soon become commodified through lower development cost, Europe may do better to adopt foreign technology to drive productivity rather than invest scarce resources building domestic alternatives.

#6. The second core priority is to distinguish between must-have sovereignty needs and broader competitiveness goals.

Given the political and budgetary constraints, the EU would benefit from focusing on a few strategic points in the tech value chain where it can establish leverage and promote mutual dependencies, as we argued in a [previous paper](#). In some areas, the EU must also secure its critical infrastructure through investment or public procurement reform, for example in critical cloud infrastructure, which increasingly serves as the backbone of the digital economy, from data storage to AI compute and deployment.

#7. Forthcoming public procurement reform should be used to foster open and competitive digital markets.

One way to achieve this is by favouring interoperable and open-source solutions, which lower entry barriers for new players, as well as providers that comply with European legislation such as the DMA, antitrust rules, and the Data Act. This would allow more innovative firms to compete in markets that are currently dominated by a few suppliers. As the Commission has already suggested for procurement of defence products, clean energy, and critical medicines, it could consider “Buy European” clauses in critical tech while taking account of any potential costs to productivity that might entail.

#8. Reducing red tape and regulatory overlaps is beneficial; but if done in the wrong way, it also carries risks. Two risks stand out:

- A) **The Commission may pick the wrong fights and distract the EU from more urgent reform.** Simplification currently dominates the policy agenda even if it is not the most pressing challenge facing European tech – a lack of capital, a fragmented single market, and scattered investments are far greater obstacles. An excessive focus on simplification may consume political capital that should be spent on improving the quality of EU law-making and ensuring laws are designed to deliver regulatory objectives in the most efficient way. For example, research suggests that the GDPR poses the most significant regulatory hurdles on tech innovation: Inconsistent national enforcement fragments the digital single market and provides competitive advantages to large firms that can afford to absorb the costs of complying with different interpretations of the law across Europe. Policymakers should assess whether the GDPR and its enforcement can be reformed in ways that ease business burdens without weakening data protection.
- B) **The simplification drive risks giving European regulation a poor reputation.** Many tech start-ups want both less and more EU regulation – less bureaucracy, but also new EU-wide rules that harmonize 27 frameworks for establishing a business or streamline GDPR enforcement. Significant burdens often come from differences in national standards and implementation of EU law. Sometimes true simplification means harmonising through horizontal EU legislation. The Commission faces a delicate balancing act: While it must reassure critics it will not add to burdens, introducing new laws are often necessary to pave the way for a digital single market. The current debate risks giving the idea that all new EU regulation harms competitiveness.

#9. Getting the most from limited resources will require breaking traditional budget siloes. For example, as tech and security priorities overlap, member states should increasingly view investments in critical tech infrastructure as eligible under growing defence funding. Supporting tech clusters and fostering ecosystems will be key in this regard. To counteract the imbalances created when investments cluster in specific countries, the upcoming MFF should consider the potential of cohesion policy to be made more future-oriented and innovation-focused. Expanding performance-based financing as in the RRF may also help to make existing funding tools more effective.

#10. Finally, in the short term, one of the single most important drivers of European tech competitiveness is enforcement of certain digital rules that foster open and competitive markets, for example the DMA. While broader reform is under development, the best immediate step is to enforce existing rules that promote open markets and innovation, and which give European tech firms new opportunities for growth. Despite the global push for consolidation of economic power, fair and open markets remain one of the best tools for long-term growth.