Together makes progress

The path to global competitiveness for Europe and the Middle East

Strategic imperatives for business and governments to enable growth, resilience and prosperity

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This is the story of two regions with differing economies, societies and histories but with similar opportunities in an increasingly unsettled geopolitical landscape. Europe has experienced flatlining growth since the Global Financial Crisis of the late 2000s, whereas the Middle East has established an ambitious programme of investments and innovation to accelerate its economic diversification. The gap in growth between Europe and the US continues to increase, whilst the Middle East is delivering comparatively faster growth in GDP than the US, but from a much smaller base. Despite their different starting points, however, there is a huge opportunity to radically transform the economies of both Europe and the Middle East to provide a prosperous future for all their citizens and maintain their continued influence in a rapidly changing world.

The situation in Europe

On 9 September 2024, Mario Draghi announced a widespread call-to-action to the European Parliament, an imperative to act now to stop Europe's "slow agony" of economic decline and to begin to tackle the region's structural barriers to growth.

Optimism for a solution to the challenge was high, and the flurry of EU legislative proposals that followed suggested that real changes were afoot.

Draghi is not alone in the priorities he put forward. Across Europe, it is difficult to ignore the structural challenges to growth. A number of publications outlined strategies for improving competitiveness.

Figure 1. Regional and national publications in Europe outlining strategies for competitiveness

Publication	Publisher
A Competitiveness Compass for the EU[1]	European Commission
Much more than a market[2]	European Commission
The future of European competitiveness[3]	European Commission
Competitiveness for a new time[4]	Norway government
The UK's modern industrial strategy[5]	UK government

The competitiveness gap is widening

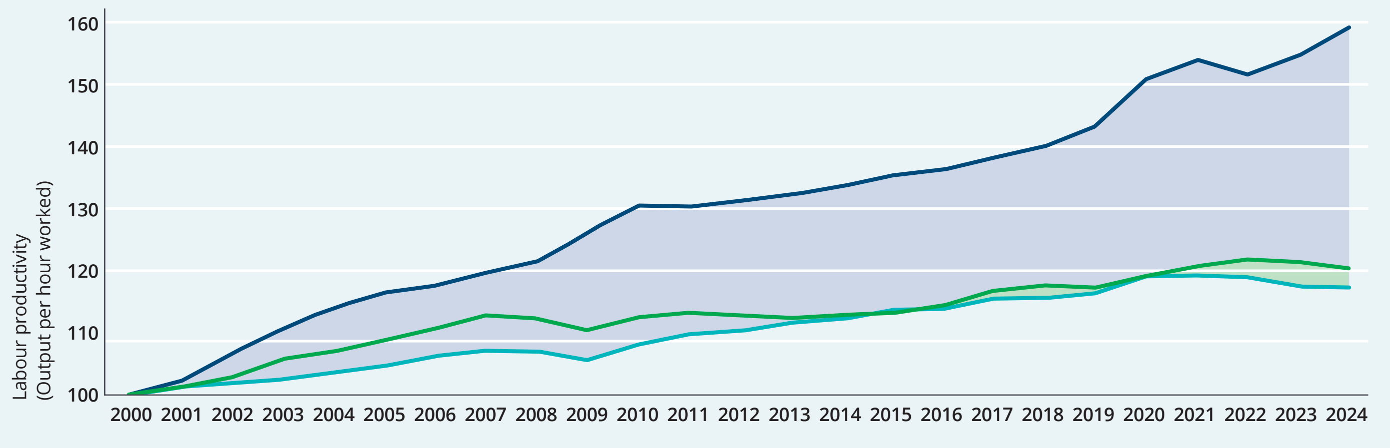
Fast forward a year and much has changed politically and socially across Europe. But material economic progress on prosperity and competitiveness is less apparent. Indeed, the uncomfortable reality is that the gap in both productivity growth and GDP between European countries and the US is widening.

There are a number of major barriers in Europe to increasing competitiveness and improving prosperity.

- **The speed of innovation and the adoption of new age technology and AI.** Between September 2024 and September 2025, the US built 40 new large foundation models, China 15, the Middle East at least 4, but the EU just 3.[6]
- **Industrial energy prices.** On average, these remain 50% higher in Europe than in the US, undermining competitiveness in energy-intensive industries and emerging sectors such as data centres that power the AI economy.[7]
- **Sourcing critical materials.** At a time when the fast-evolving geopolitical situation is threatening the status quo of international relations, Europe's dependence on other countries for sourcing critical goods and materials is seen as a major threat to national resilience.
- **The flow of risk capital and access to retail savings for investment to enable scale financing.** There is no clear path to financing the transformation that European economies need, and in the past 12 months the estimated cost of the incremental investment required has increased from €800 billion a year to €1,200 billion.[8]

Taken together, these barriers create a continuing low growth environment in Europe. This is apparent from a comparison of average living standards between Europe and the US. At a time when real annual wage growth has stalled in Europe at an average of 0.5% since 2008, disposable income per capita has been almost twice as high in the US.[9] Much of the difference in productivity growth between Europe and the US has been driven by performance in the digital and technology sectors. According to the Bloomberg 500 Index the so-called 'Magnificent 7' now account for 33% of the value of the US stock market.[10] The US economy has also been more resilient than Europe to external pressures and shocks, whether it be the economic impact of the COVID-19 pandemic or increased energy prices following Russia's invasion of Ukraine.

Figure 2. US productivity growth outstrips growth in the Eurozone and the UK



Sources: Bureau of Labor Statistics (BLS), Office for National Statistics (ONS), Eurostat

The situation in the Middle East

At the same time as Europe has struggled, the rate of growth in the Middle East has accelerated. The Gulf Cooperation Council (GCC) area grew its GDP at double the rate of the US between 2002 and 2023, supported by generally strong, albeit volatile, oil prices and domestic investment in technology. In the past 12 months, as Europe has grappled with political and economic pressure and the impact of US import tariffs, the GCC has largely maintained its trading relationships with all major global powers.

But beneath the headlines the region has its own challenges to delivering consistent growth. In particular:

- **Economic dependence**. Despite a recent focus on economic diversification, GCC governments remain dependent for income on hydrocarbons – which account for 40% - 50% of GDP. Volatility in receipts means investment in multi-year policies can be challenging to predict.
- **Geopolitical tensions within the region**. Investor confidence has dampened, creating uncertainty about the medium-term outlook.[11]
- **Intra-regional competition**. Driven by overlapping national visions in key GCC markets, is creating oversupply in some sectors.
- **Access to talent**. The Middle East typically relies on attracting international talent. This is particularly important as the region's ambition is to build and own local AI infrastructure ('sovereign AI') so that is not dependent in the future on any other country for critical AI services.

A model for growth

They have different starting points for growth, but the challenges facing Europe and the Middle East suggest there is significant commonality in their future priorities. In our view, despite the diversity of economies and societies, there are five shared imperatives.

Figure 3. Five critical imperatives for Europe and the Middle East

#1
CLOSE THE INNOVATION GAP

Build and adopt home-grown tech-enabled IP that competes with the US and China and release scale productivity

- **Home-grown scale-ups**
- **AI-enabling infrastructure**
- **Gigafactories**
- **Scale adoption of innovation**

#2
INCREASE SECURITY AND RESILIENCE

Develop strategic autonomy in critical assets, services and infrastructure to protect against volatile externalities

- **Industrial defence base**
- **Cyber & digital resilience**
- **Domestic procurement**
- **Critical raw materials**
- **Critical service continuity**

#3
DECARBONISE FOR COMPETITIVENESS

Drive a balanced energy transition to secure material and lasting reductions in energy prices for growth

- **Domestic production, clean tech and nuclear**
- **Grid development**
- **Energy services for energy-intensive sectors**

#4
STRENGTHEN HEALTH AND SOCIAL FOUNDATIONS

Transform the delivery of critical health, social and education services to create a resilient, skilled workforce

- **Health transformation**
- **Bio-medical R&D and procurement**
- **Education, social & childcare**
- **Next gen skills development**

#5
FINANCE COMPETITIVENESS

Unlock an additional c. €1,200 billion of annual incremental investment to fund European transformation and create new ways to mobilise private finance, increase the flow of risk capital and reduce friction in cross-border financing

- **Savings and investment union**
- **Capital markets transformation**
- **Private credit funds**

For each of these five areas, there are examples of progress that showcase a pathway forward if scale can be achieved.

Figure 4. Examples of progress across Europe and the Middle East

Priority	EU	Non-EU Europe	Middle East
Innovation gap	Deutsche Telekom and Nvidia announced a €1 billion AI data centre in Munich to create secure high-performance platforms for critical and regulated enterprise.[12] ASML invested €1.3 billion in French scale-up, Mistral AI.[13]	**UK** start-up Nscale raised $1.1 billion to expand AI infrastructure.[14]	The **UAE** announced a multi-billion dollar deal to host the largest STARGATE data centre cluster for firms like OpenAI.[15] **Saudi Arabia's** Public Investment Fund launched a $40 billion AI fund called H'umain to increase data centre capacity to over 2,200MW.[16]
Security & resilience	Security Action for Europe loans: €150 billion instrument adopted in May 2025 as part of Rearm EU to unlock up to €800 billion in defence spending.	**Norway's** Digital Security Act created resilience requirements for critical societal and digital services. Commitments to grow defence spend to 3-5% of GDP.[17] Norway's biggest ever defence procurement deal signed with UK in a £10 billion partnership.[18]	$1billion deal for **UAE** defence group EDGE, including requirement for local production.[19]
Decarbonise (energy prices)	The Clean Industrial Deal has mobilised over €100 billion for EU clean manufacturing.[20] CISAF is granting up to 50% electricity price relief for energy-intensive businesses until 2030.[21]	A **Nordic** partnership is investing in small modular reactors for nuclear power.[22] In the **UK**, the British Industry Supercharger is set to provide up to a 90% discount on electricity costs for energy-intensive sectors like steel and chemicals.[23] Also, the UK's Critical Mineral Strategy sets a 10-year vision to ensure a resilient supply of Rare Earth Elements needed for economic growth and the energy transition.[24]	In **Saudi Arabia**, Aramco and Siemens have partnered on a direct air capture pilot to remove 12 tonnes of CO2 per year.[25] In the **UAE**, Masdar and the Emirates Water and Electricity Company have launched a combined solar and battery storage project to address intermittency issues.[26]
Social foundations	The Digital Europe Programme provides €1.3 billion in new investment in AI, cybersecurity and digital skills.[27]	**Norway's** Health Pilot is a public-private collaboration to deliver more sustainable services without increasing the cost burden.[28]	**UAE** reformed visa processes to target AI talent, whilst **Saudi Arabia** has increased female participation in the labour force to over 30%.[29] Financial inclusion initiatives for under-served populations such as migrant workers include **UAE's** national payment platform linked to its Jaywan card,[30] and the launch of secure e-wallets such as STC Pay, and digital banks including Saudi Arabia's Vision Bank and the UAE's Wio.[31]
Scale finance	The Scale-up Europe Fund will provide more than €10 billion for EU tech growth.[32] European Investment Bank's 'Tech EU' (2025–2027) will invest €70 billion to mobilise approximately €250 billion for technology and digital sectors.[33]	The **UK's** modern industrial strategy has attracted £250bn of incremental private investment into its 8 key sectors since June 2025.[34]	Besides heavy investment in scaling AI, Middle East is heavily focused on investing in a broader technology innovation. **Saudi Arabia** is home to Aramco Ventures, while **Qatar** plans to invest more than $1 billion in local VCs. The **UAE** backs accelerator initiatives such as Dubai's DIFC Innovation Hub and Abu Dhabi's Hub71.[35]

The role of business and government

Collective action, across Europe in particular, is required to achieve impact at scale. There are standout examples of progress, but they are outliers. The task of aligning efforts will be no small undertaking, and the political complications are acute. Making private sector investment at scale central to the agenda must be key to creating opportunities.

Urgency is crucial. There is no lack of understanding of the issues, or lack of desire to act. But in a complex operating environment, building and sustaining momentum is proving difficult – and this is a problem when the US and China are both moving faster.

It is a mistake to assume that this is an issue for politicians and governments to resolve. Business must play a pivotal role in enhancing competitiveness and creating prosperity.

An investment-for-growth agenda creates new opportunities for businesses, not least because continuing with the status quo risks, as some commentators suggest, sleepwalking into a future of stagnation and decline that would be damaging to all. It is notable that only two of the top 30 highest-valued companies by market capitalisation are headquartered in Europe and only one is headquartered in the Middle East.[36]

Governments' focus on reducing energy prices, on becoming more productive, secure and resilient, and on unlocking scale finance has benefits for business, by increasing the requirement for:

- Home-grown intellectual property, which would then release further funding and tax breaks in the research and development space.

- Domestic procurement, which should drive in-market demand for goods and services that have historically been sourced internationally. It may also drive M&A activity as existing businesses look to change their corporate structure to maximise domestic market demand.

- Infrastructure to service diverse demands for AI, semiconductor and technology hardware, grid development for energy transition, connectivity and transportation, which should enable capital programmes that open pathways to secure critical assets and services.

- Public-private partnerships, creating new investment models, new routes to market and access to new skills and expertise for the partnering entities.

The priority for business in this volatile environment must be the pursuit of competitive advantage, derived from new sources of growth, increased resilience and delivering demonstrable and predictable returns.

Business can take steps now to create prosperity and competitiveness through:

- New growth: Accelerate innovation, rethink services, explore what new market conditions make possible what wasn't possible before, and move at speed to make use of changing research and development rules, including simplification of regulation, changing policies to increase access to funding or tax breaks.

- Business transformation through AI and technology: Drive productivity through technology, leading to cost savings, increased volume, talent engagement and customer satisfaction.

- Strategic autonomy for resilience: Identify critical resources and services that can be kept within close control and take steps to in-shore operations.

- Leadership systems: Embed leadership and governance models that allow more agile management of the uncertainty that drives big swings in performance.

- Collaboration: Develop ecosystems and partnerships to build scale and access new capabilities.

Questions for business leaders in Europe and the Middle East

The experiences of navigating years of uncertainty have made businesses more agile, flexible and able to seize opportunities wherever they arise. That should stand them in good stead for 2026.

The challenges faced in recent years, such as geopolitical uncertainty, reduced rates of growth and a focus on cost reduction, are unlikely to disappear as the year unfolds.

The resilience to cope with shocks will be the basis of where improved growth will surface in the year ahead. Those businesses with inherent agility in decision-making, in culture and workforce, in customer services, in financing, supply chain, operations and in technology will fair better in finding growth.

As the year begins executives across Europe and the Middle East will be asking themselves some, if not all, of the following questions:

- **How is your business positioned to take advantage of emerging government policies to increase global competitiveness?**
- **What are your ideas for growth, making the most of new technology, regulation, investment and access to markets?**
- **Is your business moving fast enough on technologies that will define your future competitiveness?**
- **How is your business building resilience – not just efficiency – into its core operations?**
- **How is your business thinking about risk and governance, given the scale of the opportunity ahead and the complex competitive landscape?**
- **What critical skills are emerging, and how are you investing in upskilling your workforce and attracting new talent to meet future demands?**
- **What are the potential impacts of energy transition, or other resource constraints, on operations and supply chains in specific areas?**

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Deloitte.

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