

*Tatjana Muravska**

*Sergejs Stacenko***

The New Era of Industrial Policy: Navigating Innovation, Competitiveness, and Security in the European Union With Insights From Latvia

Abstract

Industrial policy has emerged as a crucial focal point for the European Union as it navigates the complexities of economic competitiveness and reevaluates its traditional comparative advantages. The EU and its Member States are actively reviewing current mechanisms designed to promote investments in the EU's technological, green, and digital transitions, with a particular emphasis on modernising standards that supersede those of individual countries.

This study aims to explore the essential role of industrial policy in enhancing sustainable competitiveness within the EU. It offers a comprehensive review of trends based on references from scholarly research, policy analyses by think tanks, and assessments from international institutions. This approach seeks to provide an understanding of the evolving landscape surrounding industrial policy and sustainable competitiveness in the EU. The research is grounded in an evidence-based methodological framework that synthesises insights from relevant literature sources and refers to the regulatory environments that influence investment decisions. This context is essential for understanding the complexities of industrial policy on the EU.

* **Tatjana Muravska** – Riga Stradins University, Latvia,
e-mail: tatjana.muravska@rsu.lv, ORCID ID: 0000-0003-4705-4690

** **Sergejs Stacenko** – Attorney at Law, Latvia,
e-mail: sergejs.stacenko@inbox.lv, ORCID ID: 0000-0001-7544-4229.

A case study of Latvia – an EU Member State with a growing focus on industrial, security, and defence policies and initiatives – underscores the need of aligning the EU's New Industrial Policy with national policies. The study concludes that technological and entrepreneurial activities, along with business investments, are essential drivers of the EU's long-term competitiveness.

Keywords: New Industrial Policy, Competitiveness, Defence Strategies and Initiatives, Foreign Direct Investments, Regulatory Environment, Transformation, Latvia's Technological Development

Introduction

The competitiveness of EU economy significantly depends on three key transformations: (1) accelerating innovation and identifying new engines of growth; (2) decarbonising production and consumption patterns while advancing the transition towards a circular economy; and (3) adapting to less-stable geopolitical environment, in which external dependencies are increasingly seen as strategic vulnerabilities and the EU can no longer rely on others to guarantee its security (Dragi, 2024, pp. 14–16).

Furthermore, the EU's competitiveness relies heavily on the effective implementation of the EU Industrial Strategy (COM(2020)102 final). This New Industrial Policy framework seeks to address global shifts in technology, digitalisation, and sustainability by applying a spectrum of incentives that promote strategic autonomy and resilience in crucial technologies while moving beyond traditional models (Borrell, 2020). This policy framework should be integrated with national industrial strategies to effectively regulate economic, technological, and developmental advancements while fostering innovation.

Additionally, the EU defence and industry policy – a relatively recent development in the context of the bloc's history – plays a crucial role in ensuring the EU's security and strategic autonomy while further reinforcing its industrial and technological landscape. A fundamental pillar of the defence industry is the European Defence Industrial Strategy [JOIN(2024) 10 final], which aims to ensure the timely supply of defence capabilities and enhance competitiveness by promoting common investments, collaborative R&D, and streamlined regulatory procedures. By promoting coordination and economies of scale, this strategy seeks to move beyond fragmented national approaches towards a more unified European defence industrial base. Furthermore, by fostering collaboration between the defence and civil sectors, it aims to stimulate innovation, enhance efficiency, and strengthen the overall competitiveness of the European defence industrial base.

The EU Council has formally adopted conclusions on the future of industrial policy (EUCO, 10127/24), underscoring the need for coordinated action in the realms of innovative technologies, regulation, and standardisation. These initiatives are intended to mitigate fragmentation within the Single Market and to establish a comprehensive regulatory framework that safeguards competition while ensuring equitable access to the Market. This objective is to be achieved through the implementation of shared or mutually recognised standards, particularly in the domains of innovation and digitalisation.

The EU has already enacted various legislative, policy, and funding measures to support these efforts. Furthermore, the Digital Decade Policy Programme (OJ 323/4, 19.12.2022, pp. 4–26), which follows the EU Digital Strategy [COM(2022) 4388 final, pp. 7–14], aims to modernise the regulatory framework and adapt EU funding instruments for the audiovisual sector, aligning them with evolving market trends, business models, and consumer behaviours in the context of the ongoing technological and digital revolution.

These legal frameworks and standards enhance both the competitiveness and cultural diversity of the EU's audiovisual industry, which constitutes one of the Union's comparative advantages and plays a vital role in fostering economic vitality and social dynamics in an increasingly interconnected world. By integrating these policies, the EU not only addresses contemporary challenges, but also highlights lays the foundations for a more resilient industrial future, encompassing industrial development, technologies, practices, and governance models.

The strategic objectives of the New Industrial Policy are facilitated by a robust regulatory framework, which, in turn, enhances competitiveness, fosters innovation, and promotes sustainable development. Clear regulations enable Member States to align their policies more effectively, thus minimising fragmentation within the Single Market. Furthermore, targeted investment in innovation is particularly important for key industries that are vital to the EU's economic ecosystem, including those that support renewable energy and clean technologies, aerospace and defence, digital technologies, advanced manufacturing, energy-intensive industries, and the creative and cultural sectors (Stacenko, Muravska, 2025, p. 130), etc. By directing resources towards R&D, the EU can improve these industries' capacity to innovate and adapt to changing market conditions. This, in turn, enhances their global competitiveness and ensures contribution to sustainability goals through innovative practices and products.

Another important factor is collaboration and partnerships among industry stakeholders, research institutions, and public authorities, which expands the effectiveness of innovation investments and support initiatives. Such cooperation can accelerate knowledge transfer and skills development, while enabling the pooling of resources and expertise that can lead to groundbreaking advancements, particularly in areas that align with strategic objectives and sustainability standards. Moreover, sustainability and competitiveness goals constitute foundational pillars of EU industrial policy.

By embedding sustainability into the innovation process, industries can reduce environmental impacts while ensuring long-term operational efficiency. Investments in green technologies and sustainable practices not only ensure compliance with regulatory requirements but also strengthen the export potential of European products and, consequently, enhance competitiveness.

This article aims to explore the essential role of industrial policy in enhancing sustainable competitiveness within the European Union. It provides a comprehensive review of relevant trends, drawing on references from scholarly research, think-tank analyses, and assessments by international institutions. This approach offers a deeper understanding of the evolving landscape of industrial policy and sustainable competitiveness in the EU. The research is grounded in an evidence-based methodological framework that synthesises insights from relevant literature sources and refers to the regulatory environments that influence investment decisions. Such a perspective is essential for understanding the complexities of industrial policy on the EU.

A case study of Latvia, an EU Member State with a particular focus on industrial, security, and defence policies and initiatives, illustrates the importance of aligning the EU's New Industrial policy with national policies. A key finding emphasises that strengthening the EU framework alongside national green, technological, security, and defence initiatives can generate welfare gains by fostering cooperation among stakeholders and promoting entrepreneurial activities and business investments. These efforts enhance both the economic competitiveness and comparative advantages of the EU and its Member States.

EU Industrial Policy and Competitiveness: Legal Framework and Future Strategies

The constitutional and legal foundations for linking industrial policy with sustainable competitiveness in the European Union are rooted in

several key treaties and regulatory principles. The Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) constitute the primary legal framework for EU action, including policies related to industrial development, sustainability, and competitiveness. In particular, Article 173 (OJ C 202/126, 2016) provides the legal basis for EU industrial policy, emphasising the need to strengthen the EU's industrial competitiveness within an open and competitive market environment.

Several specific articles in the TFEU relate to the internal market, competition policy, and environmental protection, which intersect with industrial policy objectives. In this respect, Article 11 requires that environmental protection be integrated into the definition and implementation of all Union policies (C202/53, 2016). At the same time, Article 3 (ex-Article 2) of the TEU underscores the Union's commitment to promoting the wellbeing of its peoples and ensuring sustainable development. The Consolidated Version of the Treaty on the European Union (OJ C326/17, 2012) further reinforces the importance of social, economic, and environmental rights, thereby guiding the EU's policies toward sustainable development while ensuring respect for fundamental rights.

Although not a treaty, the European Green Deal [COM(2019) 640 final] serves as a comprehensive strategic framework that outlines the EU's policies for achieving sustainability, addressing climate change, and fostering a competitive economy. It guides the integration of sustainability considerations into industrial policy.

A wide range of EU regulations and directives provide a legal framework for sustainable practices in industry, energy efficiency, and environmental protection (Bruegel, 2025, p. 3). For example, directives on waste management, energy efficiency, and emissions reduction establish binding legal standards that industries must follow.

EU research and innovation programmes also play a central role. Horizon Europe and its proposed successor framework for 2028–2034 provide financial and legal mechanisms for funding and promoting innovations that intersect with industrial policy. With a proposed EUR 175.3 billion budget (European Commission, 2025b), Horizon Europe 2028–2034 is intended to enhance Europe's productivity and competitiveness as part of the European Competitiveness Fund [COM(2025) 570 final], while also improving the wellbeing of millions of people across the continent.

The EU's strategic guidelines emphasise industrial policy that must support sustainability goals as part of its legal and policy framework. Each EU Member State has its own constitutional and legal frameworks

aligned with EU policies. National legal frameworks often provide specific measures and incentives to promote sustainable industrial practices and competitiveness. As a result, the constitutional and legal basis for bridging industrial policy and sustainable competitiveness is built on a combination of EU treaties, policy initiatives such as the European Green Deal, regulatory frameworks, national laws, and scholarly expertise working in conjunction with EU objectives. These elements collectively reinforce the notion that industrial policy must align with sustainability and competitiveness goals within the EU. The EU addresses this issue in the document *Long-term Competitiveness of the EU: Looking Beyond 2030* [COM(2023) 168 final]. Therefore, it is imperative that the EU adopts comprehensive strategies and collaborative efforts to enhance competitiveness and drive sustainable economic growth across its Member States.

As is common knowledge, the EU's approach to industrial policy has an eclectic and cross-cutting nature, combining interventionist and market-based policies to secure a framework of favourable conditions that ensure industrial competitiveness at both the EU level and the level of the Member States (McCann, Stierna, 2025, p. 10).

Industrial policy is implemented together with other EU policies, such as regional, cohesion, and trade policies, thereby fostering better exploitation of the industrial potential of innovation, research, and technological development (IMF, 2025). As a new initiative, the Green Deal Industrial Plan [COM(2023) 161 final; SWD(2023) 68] was introduced by the European Commission in 2023 with the aim of ensuring the transition to green growth and steady, sustainable development. Additionally, the Green Deal Industrial Plan seeks to enhance the competitiveness of the bloc's industry on the path to net-zero greenhouse gas emissions.

Moreover, there is strong demand for investment in the green transition. As a result, a new balance between sustainability requirements and strategic economic interests, especially in the areas of trade and investment, is essential. Strategic economic interests are intended to help to avoid an international competitive disadvantage for EU industry and the risk of a decline in foreign direct investments (FDI) in Europe. According to the Ernst & Young (EY) research, FDI in Europe declined for the second consecutive year in 2024, falling by 5% from 2023 to its lowest level in nine years. Furthermore, the 2025 EY European Attractiveness Survey shows that France, the United Kingdom, and Germany remain the top FDI destinations. However, they have experienced significant annual declines, with France recording a 14% fall, the UK 13%, and Germany recording a 17% fall (EY, 2025, p. 6). The observed decline can

be attributed to several interrelated factors, including sluggish economic growth, elevated energy prices, and a volatile geopolitical environment (Gabaldon, 2025, p. 7).

To respond to these challenges, the European Commission has endorsed a new political agreement designed to strengthen the EU's Foreign Investment Screening Mechanism (European Commission, 2025a). This systemic framework is intended to evaluate and monitor investments effectively, fostering a conducive environment for FDI while simultaneously ensuring alignment with European interests and enhancing economic resilience. Ultimately, this initiative aims to safeguard the integrity of the European market while promoting beneficial FDI. Moreover, all EU Member States are now required to implement screening mechanisms that include reviews of intra-EU investments involving foreign ownership, thereby broadening scrutiny.

The framework also extends to intra-EU investments that involve foreign ownership or control, thereby broadening the scope of scrutiny. The agreement establishes a unified approach for national screening procedures. This includes: the examination of dual-use and military items to mitigate security risks, critical sectors such as semiconductors; quantum technologies; artificial intelligence vital for technological sovereignty; and key infrastructure in transport, energy, and digital systems, all of which are essential for operational capabilities. Strategic raw materials and specific financial service providers will be scrutinised to maintain financial stability.

National screening rules should implement a two-phase process to ensure thorough evaluations and may retroactively screen unnotified transactions. Improved cooperation mechanisms will enhance information exchange, and an optional EU online portal may be established to simplify transaction notifications, subject to a request of nine Member States. Overall, this agreement represents a significant advancement in the EU's strategic oversight of foreign investments, aiming to safeguard economic security and promote resilience among Member States, while ensuring that foreign investments positively affect the economic landscape.

Consequently, governments can operationalise the structural changes necessary for economic growth, competitiveness, and job creation. Therefore, a shift from traditional types of industrial policies to an approach that embraces environmental and energy policies could accelerate structural transformation and enhance productivity of national economies (Stacenko, 2024, p. 78).

The move towards increased investments, enhanced competitiveness of the EU economy, and sustainable growth could be achieved through

the implementation of the EU industrial strategy, thereby strengthening the bloc's industry.

More generally, the Green Deal Industrial Plan aims to counter the EU's own import dependency on key commodities and technologies by placing it at the forefront of markets that will emerge or change as a result of global decarbonisation efforts. Maintaining the Union's security of supply and competitiveness in this shifting geopolitical environment lies at the core of the plan. For these reasons, the European Commission has proposed three legislative initiatives aimed at securing these objectives: (1) a reform of the EU's electricity market; (2) a strengthening of the supply of critical raw materials; and (3) an acceleration of the transition to climate neutrality by establishing the EU as the hub of clean technology industries.

Firstly, the reform of the electricity market is intended to: accelerate the expansion of renewable energy and the phasing-out of gas; make consumer bills less dependent on volatile fossil fuel prices; better protect consumers from future price spikes and potential market manipulation; and render the EU's industry cleaner and more competitive [COM(2023) 148 final, COM(2023) 147 final]. Electricity-market reform is also expected to reduce consumers' costs and to protect them by limiting the impact of fossil-fuel price fluctuations. It is anticipated that the reform will foster fair competition as regards renewables in the European wholesale energy markets and also enhance industrial competitiveness.

Secondly, to increase the EU's competitiveness, proposals have been introduced concerning critical raw materials, most notably represented through the Critical Raw Materials Act [COM(2023) 160, SWD(2023) 160, SWD(2023) 161, SWD(2023) 162, SEC(2023) 360]. The Act seeks to ensure the EU's access to a secure and sustainable supply of critical raw materials, thereby enabling Europe to meet its 2030 climate and digital objectives.

Thirdly, a proposal for a Net-Zero Industry Act [COM(2023) 161, SWD(2023) 68] aims to accelerate the transition to climate neutrality and create a simpler and more predictable legal framework for net-zero industries in the EU as part of Europe's Green Deal Industrial Plan. According to the legislators, the Act will support the EU's climate-neutrality commitment and the clean energy transition, strengthen the resilience of the EU's energy system, and contribute to establishing a secure supply of clean energy in line with REPowerEU [COM(2022) 108 final].

However, several challenges have arisen in the implementation of the Act. For instance, the advancement of new technologies may not

be fully optimised through the alleviation of regulatory burdens alone, primarily due to insufficient investment, which remains a critical factor in enhancing the competitiveness of the EU.

Consequently, the energy sector remains predominantly accessible to high-cost enterprises, thereby limiting opportunities for broader participation and innovation.

Latvia's Approach to Industrial Policy: Driving Economic Transformation Through Technological Innovation and Advancement

The economic transformation of Latvia is fundamentally dependent on the development of innovation and the enhancement of technological capabilities. The country is characterised as a small, open economy whose comparative advantage must stem from innovation, technological advancements, and improvements in productivity, which necessitates a transition towards a knowledge-based economy and the promotion of innovative activities across all sectors of the national economy. A vision of Latvia as a competitive and resilient participant in the global market includes five core strategic areas for growth: (1) green energy; (2) the defence industry; (3) capital market development; (4) regional growth; and (5) modern governance. It is widely recognised that a country's economic progress is intrinsically linked to the further development of its industrial base, as a precondition for the competitiveness of the economy.

Latvia's National Industrial Policy (NIP) for 2021–2027 (Cabinet of Ministers, 2021) outlines critical national priorities and measures aimed at advancing industry, improving access to finance, stimulating innovation and export, and a refining of the business environment. The NIP and its implementation strategy identify innovation as a cornerstone for boosting the competitiveness of Latvia's industrial sectors and raising productivity and export levels. The policy sets out specific objectives aimed at strengthening Latvia's innovation ecosystem, which encompasses promoting both public and private investment in research, development, and innovation, the cultivation of innovation ecosystems within larger enterprises, and the establishment of a legal framework for the creation of innovation zones.

As of 2025, Latvia is categorised as an Emerging Innovator, with a Summary Innovation Index of 56.7%, which is broadly aligned with the EU average of 56.4%. Latvia continues to lag behind in the adoption of new technologies, as highlighted in the European Innovation Scoreboard and the Independent Expert Report (2025). At the same time,

the country ranks among the 13 EU Member States that have recorded growth in innovation over the preceding year, with a growth rate of 1.5%, significantly exceeding the EU growth rate of 0.4% as indicated by the report (European Innovation Scoreboard: Latvia 2025, p. 2).

It is important to identify the considerable challenges facing the country while recognising the substantial progress that has been made in advancing its innovation landscape.

A decisive shift is necessary to transition from a labour- and resource-intensive economy to business models driven by knowledge, innovation, and technology through the effective implementation of industrial policy. This transition is crucial for ensuring industrial progress. While the country's economic structure demonstrates growth potential, there is an urgent need to focus on high-value sectors and increase private investment. Notably, growth in high-value-added sectors is hindered by low levels of innovation among SMEs and the slow adoption of green and digital practices. SMEs dominate Latvia's business landscape, representing 99.8% of all economically active enterprises (OECD, 2026), and contribute 70% of value added, which is significantly higher than the EU average of approximately 50% [SWD(2024) 614/2]. However, only a small proportion of these SMEs – equivalent to 45.6%, compared with the EU average of 50.1% [SWD(2025) 214 final] – introduce product and process innovations.

A recent OECD study highlights a dynamic yet fragmented SME ecosystem. Strong entrepreneurship, digital readiness, and openness to innovation coexist with persistent gaps in skills, finance, and innovation linkages. FDI has driven growth and productivity, but its benefits have not fully reached domestic SMEs (OECD, 2026). Moreover, 67% of enterprises are involved in low-tech manufacturing, reflecting low knowledge intensity [SWD(2023) 614 final]. Low investment in research and development (R&D) restricts SME productivity, resulting in reliance on low – and medium-tech industries and labour productivity that lags behind the EU average. Additionally, employment in high-tech manufacturing in Latvia is less than half the EU average, with state R&D investments heavily favoring large enterprises rather than SMEs (European Innovation Scoreboard, 2025, p. 4).

Several impediments hinder industrial advancement, particularly prevailing business frameworks that lack a strong emphasis on innovation. Furthermore, a significant portion of the state's R&D investment is directed towards innovations by large companies, whereas in Europe and beyond, the focus is increasingly on supporting SMEs, startups, and technology firms (OECD, 2025). These deficiencies contribute to limited

awareness among organisational leaders of the diverse range of innovative opportunities available. Therefore, sustainable economic growth can only be achieved through an emphasis on innovation and increased investment in competitive and innovative projects, which requires expanded funding from both the government and private sectors.

Low investment constitutes a major bottleneck to productivity, resulting in the slow commercialisation of research. However, in 2025, the Ministry of Economy in Latvia (MoE) achieved ambitious investment goals within its areas of responsibility, with EUR 3.7 billion invested in the national economy (MoE, 2025). Active efforts continue to support businesses in promoting exports, competitiveness, productivity, digitalisation, and energy efficiency. Investments that have fuelled Latvia's economic progress and modernisation are largely comprised of foreign direct investment.

As an EU Member State, Latvia receives EU cohesion funding, which constitutes a major source of FDI, primarily for economic and social development, through the European Social Fund, the European Regional Development Fund, the Cohesion Fund, and the Just Transition Fund. Under the current EU funding framework, Latvia has been allocated EUR 10.5–11.5 billion for the period 2021–2027. Grants from the EU Recovery and Resilience Facility continue to finance public investment and measures aimed at enhancing training and digital adoption among small businesses, with average annual spending of approximately 1.7% of GDP projected for 2025–2026 (EU Funds for Latvia, 2020).

Another source of FDI is investment by foreign-owned companies, which have continuously reinvested, expanded their operations, and strengthened supply chains, thereby driving industrial productivity, facilitating technology transfer, and improving corporate governance standards. Overall, FDI accounts for approximately 20% of the total value added (OECD, 2019). According to the Foreign Investors' Council in Latvia (FICIL), the stock of FDI has increased from EUR 500 million in the late 1990s to over EUR 18 billion at present, reflecting growing confidence in Latvia's business climate. These businesses employ over 27% of the national workforce and generate 41% of total economic turnover (FICIL, 2025).

Box 1. Foreign Direct Investment in Latvia

In 2025, new investment projects were launched, reaching a total value of EUR 1.01 billion and creating 1,350 new jobs. Key sectors include bioeconomy, smart energy, high value-added manufacturing, information and communication technologies (ICT), business services, and defence.

Key companies:

- The Japanese technology company Epson chose Riga for its European Business Services Centre, investing EUR 6 million and creating 150 jobs.
- The Canadian company NtangledState opened a digital services centre in Riga with an investment of EUR 25 million, creating 200 jobs.
- The Ukrainian company Pars Terminal commenced construction of a renewable fuel production plant in the Port of Riga with an investment of EUR 120 million.

Investment breakdown by sector:

- EUR 460 million in knowledge-intensive bioeconomy (5 projects);
- EUR 428 million in smart energy (4 projects);
- EUR 34 million in manufacturing (3 projects);
- EUR 21 million in digitalisation (11 projects);
- EUR 20 million in defence (3 projects);
- EUR 48 million in other sectors.

The *Plan of Action for Investment Attraction and Financial Accessibility in the Economy (2025)* aims to increase accumulated FDI in the equity of Latvian companies to EUR 32 billion by 2029.

Source: MoE, 2025; Cabinet of Ministries, No. 422, Official Gazette of the Republic of Latvia (Latvijas Vēstnesis), No. 135.21 (2025).

The development of the Latvian economy in 2025 continued to be influenced by deterioration of the geopolitical situation, Russia's war in Ukraine, ongoing since 2022, and the long-term economic effects of the conflict and associated sanctions have increased uncertainty dramatically. The impact of the energy crisis and the associated cost rises have been substantial for both the population and business communities. Indeed, spending on internal security and defence increased by 0.5% of GDP in 2025 and by an additional 0.9% of GDP in 2026 (OECD, 2025).

The Ministry of Economy has developed and implemented support instruments to strengthen Latvia's defence industry, providing at least EUR 270 million for 52 military projects, including support for dual-use products and technologies, and an informational report on the establishment of a new artillery production facility in Latvia has been prepared and approved by the Cabinet of Ministers, planning the creation of a joint venture in Latvia. The project is expected to attract over EUR 200 million in investment, with exports from the facility potentially exceeding EUR 3 billion over ten years (MoE, 2025).

A critical issue for economic competitiveness is Latvia's investment in research and development, which remains significantly below EU

standards. Gross domestic expenditure on R&D in 2024 was 0.92% of GDP. In terms of R&D activity, only 0.79% of the total workforce was engaged. The majority of researchers (53.6%) working in Latvia in 2023 were employed within the higher education sector, highlighting the degree to which R&D remains a largely academic endeavour in the country (Eurostat, 2025).

As presented in the European Innovation Scoreboard of 2025, Latvia ranks 13th in the EU for the share of the population with higher education, at 105.1% of the EU average, and 22nd for achievements in public-private co-publications, at 108.6% of the EU average. Moreover, the country ranks 25th in the EU for direct and indirect government support for business R&D, at 4.4% of the EU average. Considering the EU average of 13.1% for investment in innovation per employee, Latvia occupies the 26th position (European Innovation Scoreboard, 2025).

A shortage of strategic innovation management is evident, representing a critical barrier to achieving competitive advantages and fostering innovation. Cooperation between science and industry is inconsistent, the commercialisation of research results is slow, and there is insufficient coordination between ministries responsible for shaping science and innovation policy. These factors pose serious impediments to effective collaboration between research institutions and their capacity to respond to evolving market demands.

However, research institutions possess significant potential to deliver valuable technological advancements, particularly in the high-tech and energy sectors, where innovation is vital for addressing contemporary challenges. To leverage existing opportunities, Latvia requires a comprehensive governance framework that promotes collaboration between scientists and industry. Key strategic measures should include enhancing research commercialisation, establishing an effective innovation policy governance model, fostering science-based startups, and encouraging international patent registrations.

A notable reference is the *Policy Guidelines for Science, Technology Development, and Innovation for 2021–2027*, which outlines the strategic objectives and priorities for the sustainable and balanced development of a technologically advanced national economy, largely based on international cooperation (Cabinet of Ministers No. 246, 2021). A collaborative initiative between the Ministry of Education and Science and universities, under national and international agreements, is illustrated in Box 2.

Box 2. Cooperation Agreement Between Latvia and the United States in Science and Technology

The agreement marks a new phase in the relations between the two countries, promoting not only scientific progress, but also economic development and the strengthening of global innovation networks.

Key statements:

- “The U.S.–Latvia Agreement on Scientific and Technological Cooperation will encourage vibrant and innovative partnerships between our two countries. We hope this agreement will lead to new projects between American and Latvian scientists and researchers, deepening our scientific cooperation. The Agreement represents the floor – not the ceiling – of what our two nations can accomplish when we work together,” emphasised Christopher T. Robinson, the United States Ambassador to the Republic of Latvia.
- “As a science university that has made innovation as one of its priorities, the signing of this agreement is very significant for us, because collaboration between Latvia and the United States will give our scientists the opportunity to work closely with their U.S. colleagues, forging new contacts and new perspectives in the creation of innovative technologies. If we want to enhance our international standing, then we have to be active in the international arena, gaining the necessary experience from foreign colleagues and providing them with our expertise,” says Tālis Juhna, Rector of RTU.

Academic and institutional Partnerships:

- The academic partnership between Riga Technical University and Massachusetts Institute of Technology supports cooperation in the improvement of education in engineering, space and technology, including the *Open World* programmes.
- Cooperation with United States Agency for International Development facilitates support for digital transformation and cybersecurity initiatives.
- Security and Defence R&D allows partnerships focused on dual-use technologies such as drones, and further cooperation with Regional Cyber Defence Centre for the Baltics (Lithuania).
- Technology coordination enables cooperation in semiconductors and biotechnology.

Source: *The US–Latvia Science and Technology Cooperation Agreement*, Official Gazette of the Republic of Latvia, No. 2024/193.26.

This agreement enhances scientific and technological collaboration, highlighting the importance of research cooperation for economic

development and boosting Latvia's competitiveness in global markets. Building greater trust among stakeholders – government, educational institutions, and industry leaders – is crucial for creating a progressive economic strategy to foster Latvia's future growth. Any underperformance is compounded by business leaders' limited understanding of the range of diverse innovations available.

International cooperation provides Latvian scientists with broader opportunities to collaborate with leading universities and research institutes world-wide, thus enhancing the quality of research and increasing Latvia's international visibility in the field of science. Furthermore, solutions created through technological collaboration and subsequently implemented in Latvian companies will enhance their competitiveness and foster innovation across multiple sectors.

Towards Technological Sovereignty and Industrial Competitiveness

Over the past decades, EU has fallen behind other major economies and now finds itself in a weak position in high-knowledge-intensive technologies, particularly in digital communication, computer technologies, optics, and semiconductors. By contrast, the EU exhibits relative strength in less complex technologies and those associated with the green transition. By investing in research and development of clean technologies, the EU could become a leader in emerging industries, such as renewable energy and creative industries. This would not only create jobs, but also enhance competitiveness in global markets and ensure technological sovereignty, innovation, and European technological leadership (Bruegel, 2025, pp. 7–8).

However, the most significant concept is that of strategic autonomy, which constitutes another framework through which the EU expresses its position. This approach involves reducing dependence on external sources for critical goods, technologies, and services, including sectors such as defence, pharmaceuticals, and energy. Industrial policy can play a critical role in strengthening Europe's capacity to produce essential items domestically, thereby enhancing both national and collective security.

To a large extent, the EU is dependent on foreign sources for knowledge, technological components, and raw materials. Nevertheless, it has consistently pursued greater openness, especially in the fields of science, technology, and innovation. Indeed, the EU is characterised by immense complementarities in terms of technological competencies among Member States.

To encourage research and development in technologies, it is important to increase funding and foster public–private partnerships, which can stimulate innovation in general and green innovation in particular. Such a strategic push positions EU industries as global leaders in sustainability and green initiatives.

Collaboration also plays a significant role. Strengthening cooperation among industry stakeholders, governmental bodies, and research institutions is essential for fostering knowledge sharing and driving innovation. Collaborative efforts could substantially enhance overall competitiveness.

The integration of relevant stakeholders is vital in ensuring that all sectors are adequately represented in the decision-making process. Such inclusivity contributes to broad-based support and participation throughout the economy, leading to a more cohesive and effective approach.

Additionally, enhancing skills and facilitating workforce transitions are crucial. Developing education and training programmes that focus on green skills will prepare workforces for an evolving job market shaped by the energy transition. By equipping employees with the necessary skills, the EU can ensure that they are ready to meet new demands and emerging opportunities. Lastly, it is important to regularly monitor and adjust policies on a regular basis. Conducting ongoing assessments of the impact of climate policies on industry competitiveness is necessary to strengthen the EU's adaptive capacity. This evaluation process allows for timely adjustments, allowing the EU to remain flexible and responsive to changing economic conditions.

A key policy question concerns how access to technologies from outside Europe should be balanced with the domestic production of technologies within Europe. By addressing regulatory challenges, fostering innovation, and ensuring broad participation, the EU can work towards a sustainable and economically robust future.

Conclusions

The EU's competitiveness remains a major concern within the bloc, as it faces challenges from lagging innovation, digital-skills gaps, and fragmented markets, despite the size of its economy. Industrial policy is crucial for promoting sustainable competitiveness by encouraging industries to adopt practices that emphasise environmental, social, and economic sustainability.

Establishing a legal framework for the creation of innovation areas, where the coordination of innovative solutions and technology testing is

facilitated, is a widely supported approach that can enhance companies' capacity to develop exportable solutions in line with the EU and its Member States' economic comparative advantages and, consequently, to increase the overall competitiveness of the Union.

The combination of sound regulatory frameworks, strategic investments in innovation, and support for key industries – particularly those vital to the EU's economic ecosystem such as renewable energy, clean technologies, aerospace and defense, as well as digital and advanced manufacturing – together with strong collaboration and partnerships, skills development, and sustainability objectives, drives the EU's New Industrial Policy towards enhanced competitiveness and resilience. By fostering an ecosystem that integrates these interconnected elements, the EU can achieve its current objectives and adapt to future challenges, thereby ensuring long-term prosperity in a rapidly evolving global economy.

The case study of Latvia, as an EU Member State with a focus on industrial, security, and defence policies, highlights the need to reinforce the EU's New Industrial Policy in alignment with national innovation, defence, and security initiatives.

Although Latvia has significant potential for scientific and innovative advancement, its current processes require streamlining. To foster economic growth, Latvia should implement a cohesive strategy that promotes innovation and the commercialisation of scientific research, prioritising the transformation of research breakthroughs into market-ready products based on the country's comparative advantages. This study indicates that adopting a robust, evidence-based methodological framework for analysing industrial policies in the EU will enable policymakers to navigate the complexities of economic competitiveness more effectively. Such strategic positioning is essential for supporting future growth in a dynamic global landscape.

Furthermore, the shifting priorities of EU policymakers over time highlight the importance of Member State governments paying close attention to security and defence industrial policies.

Overall, the EU has made significant progress in formulating a strategy aimed at strengthening industrial competitiveness.

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