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EXECUTIVE DEBRIEF

CORPORATE GOVERNANCE AND INDUSTRIAL POLICY

An initiative of the ECGI Patrons Council

Brussels, 2025

ECGI Patrons Council Forum
Corporate Governance and Industrial Policy

19 November 2025, Brussels
(Held under the Chatham House Rule)

Europe stands at a critical juncture. For decades, the EU Single Market's triumph over state ownership and national industrial policies defined the European economic order. Yet today, in the face of rising geopolitical rivalry, regulatory divergence, and contested capital flows, that settlement is under pressure. The Draghi Report on Competitiveness has underscored Europe's urgent need to reconcile scale, innovation, and resilience — raising profound questions for corporate governance.

The morning session on *'The New Industrial Policy'* examined how Europe can recalibrate governance frameworks to align with long-term strategic priorities while preserving the integrity of the Single Market. The afternoon session on *'The New State Capitalism'* broadened the lens internationally, exploring how governments were extending political control deep into their economies — from Beijing's longstanding model of state-guided capitalism to what some commentators now called "state capitalism with American characteristics." For Europe, this invited reflection on its own history of state capitalism, and whether elements of ownership, control, golden shares, or more effective takeover protections should return — enabling boards to defend against foreign actors with potential conflicts of interest.

Held under the auspices of the European Corporate Governance Institute's (ECGI) Patrons Council, this event provided a trusted space for strategic dialogue among Europe's most influential leaders in industry, finance, and policymaking.

1. Europe's Competitiveness Crisis — Structural, Not Cyclical

Key Points

- Europe's economic growth has diverged significantly from the United States and Asia.
- Deglobalisation is reversing long-standing benefits from open markets and supply-chain stability.
- China's accelerated technological rise, scale, and engineering talent pool are reshaping global competition.
- Europe's internal market fragmentation continues to depress productivity, innovation, and capital flows.
- Shifts in global power reduce Europe's influence in economic and geopolitical decision-making.

Summary

Speakers emphasised that Europe's competitiveness challenge is structural, not cyclical. The persistent growth gap with the US and China has eroded Europe's fiscal capacity, investment attractiveness, and geopolitical leverage. Deglobalisation is increasing exposure to supply-chain shocks, while China's expanding technological and industrial base—supported by a deep pool of engineers and coordinated industrial planning—intensifies competitive pressure.

A recurring theme was Europe's self-inflicted internal fragmentation: differing securities laws, insolvency regimes, tax systems, and supervision structures impose substantial economic costs and limit the depth of European capital markets. These structural weaknesses reduce Europe's ability to shape global outcomes and participate effectively in emerging technological and strategic domains.

2. The Return of Industrial Policy

Key Points

- Industrial policy has re-emerged across major economies after decades of scepticism.
- China's model relies on development-bank financing, infrastructure-led growth, and coordinated state–industry planning.
- The US is deploying industrial tools including subsidies, trade policy, and, increasingly, strategic equity stakes.
- Europe is redefining its industrial strategy around the Draghi report's investment agenda.
- Priority areas include clean tech, deep tech, advanced manufacturing, defence, and strategic autonomy.

Summary

Industrial policy is now central to economic strategy globally. China's coordinated institutional framework—development banks, national industrial plans, and large-scale public–private mechanisms—has enabled rapid advances in electric vehicles, semiconductors, robotics, energy technologies, and high-speed rail. In the US, industrial policy is increasingly expressed through trade instruments, subsidy regimes, and selective equity participation in strategic firms. Europe is repositioning its industrial policy around the Draghi report's estimated €750–800 billion annual investment need, with an emphasis on scale, technological capability, and security of supply. Discussion underscored that the challenge is not ideological but practical: creating institutional arrangements capable of mobilising large volumes of private capital alongside public funds.

3. Corporate Governance Implications of Industrial Policy

Key Points

- Ownership structures and governance frameworks influence the effectiveness of industrial policy.
- Evidence shows government-owned firms tend to underperform in management quality and productivity.
- Governments increasingly use governance tools—golden shares, veto rights, enhanced voting rights, board appointments—without necessarily taking large ownership stakes.
- Long-horizon investments amplify the relevance of concentrated, informed, and active ownership.
- Public involvement in private firms raises risks of inefficiency, capture, and weakened takeover discipline.

Summary

The discussion highlighted how industrial policy reshapes corporate governance. Empirical studies show that government-owned enterprises—whether in Europe or China—consistently rank at the bottom of management-quality and productivity assessments. This has led governments to prefer governance levers over ownership, including golden shares, veto provisions, and state-appointed directors in strategic sectors. Such tools can insulate firms from hostile bids and shape board composition, but they also weaken discipline and innovation incentives if overused. Speakers stressed the importance of active, long-term ownership structures for investments characterised by long payback periods. The challenge is designing frameworks that protect strategic interests without compromising efficiency or creating avenues for political capture.

4. Defence Sector: Ownership, Control, and National Security

Key Points

- Defence companies differ in ownership and governance across jurisdictions.
- US defence firms are privately owned but subject to strong national-security oversight, including board-level clearance requirements.
- Chinese and Russian defence firms are fully state-owned.
- Europe displays wide variation—from dispersed ownership with no state involvement to formal state rights to appoint directors.
- National security concerns increasingly shape procurement, ownership, and cross-border operations.

Summary

An empirical study presented at the Forum compared ownership and governance structures in major defence companies globally. The US model features no state ownership but extensive regulatory control through procurement, classified information protocols, and board-level clearances. China and Russia maintain fully state-owned defence sectors. Europe's landscape is highly heterogeneous: companies such as Rheinmetall operate under dispersed private ownership, while others, such as Safran, combine ownership stakes, enhanced voting rights, and direct state-appointed directors with influence over board nominations. These differences shape access to supply chains, trusted jurisdictions, and the ability to engage in cross-border projects.

5. Pharmaceuticals & Life Sciences: Innovation, Capital, and Policy Environment

Key Points

- Pharmaceutical innovation requires long development timelines, high capital intensity, and significant R&D risk.
- The US market offers deeper capital pools, more favourable pricing and reimbursement, and larger incentives for innovation.
- Europe's early-stage biotech ecosystem relies heavily on fragmented public funding.
- Clinical trials and launches gravitate toward markets with stronger access, reimbursement, and adoption conditions.

- Certain therapeutic areas, such as antimicrobials, require public intervention due to weak commercial incentives.

Summary

Speakers highlighted structural differences between Europe and the United States in pharma and life sciences. The US market—twice the size of Europe's—provides deeper access to equity capital, higher R&D incentives, and more predictable reimbursement environments, leading companies to locate clinical trials and early launches there. Europe's early-stage biotech sector depends on fragmented regional or national funding schemes that struggle to support projects through scale-up. Examples were given of small European biotech firms conducting research activities abroad, including in China, due to more favourable conditions. In high-risk or low-return therapeutic areas, such as next-generation antimicrobials, public funding is essential to sustain innovation.

6. Competition Policy in a Changing Geopolitical and Industrial Context

Key Points

- Europe's competition framework focuses on market power, merger control, state aid, and fair access.
- Industrial policy objectives may conflict with traditional competition principles.
- Debates around "European champions" raise concerns about concentration and innovation.
- Internal barriers within Europe impose significant costs comparable to tariff-equivalent frictions.
- Competition and industrial policy can be complementary when designed appropriately.

Summary

Europe's competition regime was contrasted with emerging industrial challenges. While EU competition policy aims to maintain open markets and prevent dominance, industrial policy requires scale, investment, and resilience—sometimes pulling in different directions. Speakers noted that fragmentation within the EU's internal market imposes substantial economic costs: companies and investors face divergent rules, procedures, and market mechanisms across 27 jurisdictions. Participants reflected on the need to reconcile Europe's competition principles with industrial objectives without entrenching incumbents or stifling innovation.

7. China's Economic Model and Institutional Mechanisms

Key Points

- China's growth has been driven more by hybrid institutions (e.g., development banks, local financing platforms) than by traditional SOEs.
- Large SOEs remain politically important but often underperform in efficiency and innovation.
- China's development model combines outward competition, large-scale infrastructure investment, and long-term planning.

- China’s engineering talent base and rapid adoption capacity have accelerated technological capability.
- Domestic competition in some sectors has intensified to “involution” levels.

Summary

The examination of China emphasised the institutional mechanics behind its growth model. Development banks and public–private urbanisation and infrastructure structures played a decisive role in scaling technology and capital formation. SOEs remain influential but are consistently outperformed by private firms, echoing findings in other jurisdictions. China’s commitment to global competition—rather than purely domestic planning—has created strong performance incentives, supported by long-term industrial strategies and large pools of engineering talent. Speakers also noted the emerging challenge of “involution”: excessive domestic competition in sectors such as electric vehicles, illustrating both the strengths and strains of China’s model.

8. Public–Private Partnerships and Capital Markets

Key Points

- PPPs are essential for delivering large-scale infrastructure and technological investment.
- Success depends on contract design, allocation of risk, and alignment of incentives.
- Europe’s private capital markets remain shallow relative to the US, limiting long-term risk financing.
- Regulatory constraints on pension and insurance funds reduce domestic pools of patient capital.
- Mobilising private investment is central to achieving the Draghi report’s investment targets.

Summary

Speakers stressed that public budgets alone cannot meet Europe’s infrastructure, decarbonisation, and technological-investment needs. PPPs offer a mechanism to combine efficiency and innovation from private actors with public policy goals, but their outcomes vary widely depending on contract quality and governance. The panel noted Europe’s reliance on bank lending and underdeveloped private capital markets as major constraints on scale-up financing. Regulatory limitations in the pension and insurance sectors restrict long-term equity and infrastructure investment. Mobilising private capital at scale—through de-risking mechanisms, better-designed PPPs, and deeper capital markets—was presented as essential to Europe’s industrial ambitions.

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