

Europe is finally flexing its innovation muscles

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John Thornhill john.thornhill@ft.com

Donald Trump is not subtle. By erecting an Ultimate Fighting Championship arena outside the White House for his forthcoming 80th birthday, the US president has shown his love of contests that involve fists, feet, knees and elbows.

It has taken some time for European leaders, more accustomed to the Queensberry Rules that made boxing less brutal, to understand Trump's style of geopolitical pugilism. But in releasing its tech sovereignty package this week, the EU has shown it is starting to adapt.

Thankfully, it has resisted the urge to leap into the ring with Trump. There would only be one winner in that contest given the strength of US technological, financial and military muscle. The brutal reality is that in many areas, Europe remains inextricably dependent on US technology. Its definition of sovereignty says it should remain grounded in "openness, partnership and fair competition".

Instead, the EU proposes some sensible measures to encourage more investment in cloud infrastructure, chip manufacturing and cheaper energy generation. Its aim is to triple EU data centre capacity within seven years, mobilising about €200bn of mostly private investment. France has already shown the way by bagging €75bn of investment from Japan's SoftBank and a further €5bn from French private equity firm Ardian.

The EU's proposals are rightly focused on stimulating private sector investment. To that end, the European Commission's most novel initiative is to promote open-source technology. That should accelerate the adoption of AI across many industries. It may also help reduce the €264bn Europe spends a year on predominantly US proprietary IT products and services.

In spite of the ambient Euro-gloom, the region still boasts extraordinary assets, especially when the UK, Switzerland, Norway and Ukraine are included. For the moment, Europe remains a net exporter of industrial goods — although the Chinese are working hard to change that. It is strong in areas such as material sciences, pharmaceuticals and robotics that can benefit hugely from AI.

Nor is it short of money, enjoying vast pools of private capital. If it could create a VC money-mobilisation machine on a par with the US, that would transform Europe's scaling capabilities. The Commission is doing its bit by seeding a €5bn Scaleup Europe Fund, run by Swedish investment firm EQT. Europe's giant institutional funds desperately need to join the game.

Europe is also home to thousands of world-class scientists and researchers, an increasing number of whom are launching spinout companies. That has helped seed a vibrant early-

stage start-up ecosystem.

The Built in Europe campaign, launched this week by the British VC firm Balderton and more than 100 tech founders, contends that the European tech sector has evolved from potential to demonstrable success. The sector has grown from 4 per cent of European GDP in 2015 to 15 per cent last year. “The ferocity of ambition is high,” says Suranga Chandratillake, a Balderton partner. “You can find fantastic founders building really interesting things across the continent.”

A string of big fundraisings (by European standards) has shown how much the region’s ambitions have grown. Three AI start-ups, AMI Labs in Paris and Ineffable Intelligence and Recursive Superintelligence in London, have collectively raised seed rounds of \$2.8bn, unthinkable even a few months ago.

Other sectors are buzzing, too. Europe now accounts for 43 per cent of global VC funding in the quantum economic computing sector, overtaking the US, according to PitchBook. Three German nuclear fusion start-ups, Focused Energy, Marvel Fusion and Proxima Fusion, have raised more than \$500mn since the start of last year. Europe’s defence tech sector is also booming after huge spending increases, particularly by Germany.

The region is unquestionably upping the pace of its tech investment, even if it remains dwarfed by the colossal spending under way in the US. Delivering on long-delayed plans to deepen the EU single market, complete the bloc’s capital markets union and push a more European preference in public sector procurement would certainly help accelerate the process.

It would be crazy to deny the challenges Europe faces. But nor should we deny the progress that has been made. It is finally flicking the switch from defensive regulation to creative innovation. That hardly guarantees success in a cage fight with global tech giants. Nonetheless, it is a welcome sign of intent.