

Italy, Germany and Europe in Times of Geoeconomic Disorder

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The Italian-German Strategic Dialogue is a forum for discussion and exchange between think tanks, diplomats, businesses and academics from Germany and Italy. The third edition of the Dialogue took place in Rome in September 2025, addressing European competitiveness and security guarantees for Ukraine within the broader framework of European strategic interests. The roundtable, organised by the Istituto Affari Internazionali (IAI) in collaboration with the Stiftung Wissenschaft und Politik (SWP) and the Hanns Seidel Stiftung (HSS), brought together leading Italian and German figures from government, industry, academia and the defence sector. Participants held an open exchange on how to strengthen Europe's resilience and reaffirm the strategic partnership between Rome and Berlin in a time of geoeconomic disorder. The meeting opened with remarks by Giancarlo Giorgetti, Italy's Minister of Economy and Finance.

The Italian-German Strategic Dialogue (IGSD) is a forum for discussion and exchange between think tanks, diplomats, businesses and academics from Germany and Italy. The first session, held in Rome in November 2022, explored the possibility of a formal agreement between the two countries aimed at expanding existing bilateral cooperation. This agreement was formalised the following year through an Action Plan, which identified think-tank collaboration as a key area for practical implementation. The second session, held in Berlin in January 2024, focused on economic security and defence, bringing together leading companies, civil servants and experts from both countries.¹

¹ The first edition of the Dialogue, titled "A Stronger Italian-German Partnership: Closer Cooperation in Time of Energy Crisis", was organised in November 2022. The second, devoted to the topic "The Italian German Action Plan and Its Consequences over Industry and Defence" in January 2024. See Federico Castiglioni, "The Italian German Action Plan and

The Italian-German partnership continues to serve as a cornerstone of European integration. Historically rooted in shared political values and deeply interconnected economies, the relationship between Rome and Berlin remains essential for maintaining European cohesion. In 2025, amid growing uncertainty in the global order, their cooperation has acquired renewed strategic importance.

The world economy is undergoing structural change. Supply-chain realignments, technological transformations and demographic shifts are converging with a renewed political rivalry. Within this shifting framework, Europe faces an urgent need to define and defend its strategic interests. Both Italy and Germany recognise that neither competitiveness nor security can be achieved in isolation: economic strength underpins strategic

Its Consequences over Industry and Defence", in *Documenti IAI*, No. 24|05 (April 2024), <https://www.iai.it/en/node/18389>.

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Report of the third edition of the Italian-German Strategic Dialogue (IGSD), organised in September 2025 by the Istituto Affari Internazionali (IAI), the Stiftung Wissenschaft und Politik (SWP) and the Hanns Seidel Stiftung (HSS). This paper does not necessarily and exclusively report the opinion of the organising institutions.



autonomy, and credible security guarantees ensure a stable environment for growth.

During the 2025 Dialogue in Rome, it was agreed that a broader European strategy aimed at a more resilient European Union reflects the strategic Italian and German national interests. The first roundtable, “Redefining European Competitiveness”, examined how the EU – and in particular Italy and Germany as economic engines of the bloc – can build a resilient industrial base in the post-Draghi Report environment. The second, “Securing Ukraine’s Future: Reconstruction and Security Guarantees”, explored the intersection between reconstruction planning and European security architecture. The discussions highlighted the need for a long-term vision, combining economic planification with strategic responsibility.

1. Redefining European competitiveness

The first roundtable of the Italian-German Strategic Dialogue focused on European competitiveness, an issue that lies at the heart of debates on Europe’s economic and political resilience. One year after the publication of the Draghi report on competitiveness,² participants discussed how the European Union could develop a coherent industrial strategy and strengthen its technological autonomy in an increasingly fragmented global economy. Italy and Germany together account for approximately 40 per cent of the EU’s total industrial production.³ Their structural similarities – such as a strong manufacturing bases, diversified regional economies, and an export orientation – make them natural partners in shaping the next phase of European industrial policy. Both countries recognise that competitiveness today extends beyond productivity and innovation alone, as it now encompasses energy security, technological sovereignty and social stability within a broader framework of European strategic interests.

Despite widespread recognition of these

challenges, progress in implementing the Draghi report’s recommendations has been slow. The report’s main objectives (e.g. completing the Single Market, increasing investment, and strengthening the green and digital transitions) continue to face bureaucratic and political hurdles. A major difficulty lies in aligning industrial policy initiatives with the forthcoming EU Multiannual Financial Framework (MFF) for 2028-2034, which will determine the Union’s capacity to invest strategically in innovation and infrastructure.⁴ For this reason, completing the Single Market emerged as a key priority in the discussion.

Capital and digital markets in Europe remain insufficiently integrated, despite regulatory efforts by the European Commission and the coordinating and supervisory role of bodies such as the European Securities and Markets Authority (ESMA). Both Italy and Germany have traditionally shown caution toward further transfers of sovereignty in this field. The disproportionate use of national subsidies and state aid during recent crises – particularly the 2022 energy crisis – has widened the gap between member states with greater fiscal capacity and those with limited room for manoeuvre. A shared European investment strategy, building on the experience of the NextGenerationEU and its main instrument, the Recovery and Resilience Facility, is a necessary step toward levelling the playing field and fostering convergence. Achieving a balance between national flexibility and European coherence will therefore be essential to building a genuine continental market for technology, finance and energy.

The ability of Italy and Germany to provide direction for the entire EU is even clearer when it comes to industrial policy. Many traditional, sector-specific models of industrial intervention have become inadequate for addressing contemporary challenges and today the EU seems hostage of a “strategic vacuum” between competition policy and coordinated investment policy. Without a coherent framework, there is a risk of overlapping initiatives, uneven state-aid and increasing fragmentation between member

² Draghi, Mario, *The Future of European Competitiveness*, September 2024, https://commission.europa.eu/node/32880_en.

³ Eurostat, *Industrial Production Statistics*, July 2025, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Industrial_production_statistics.

⁴ European Commission, *A Dynamic EU Budget for the Priorities of the Future - The Multiannual Financial Framework 2028-2034* (COM/2025/570), 16 July 2025, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025DC0570>.



states.⁵ A European industrial policy anchored in common objectives and supported by coordinated funding mechanisms is therefore indispensable. Four major transitions – energy, technological, geopolitical and demographic – are driving change across the continent. The energy transition is transforming production models and supply chains. Digital innovation, artificial intelligence and automation are redefining competitiveness factors. Geopolitical shifts are reshaping trade patterns and industrial dependencies. Demographic ageing is altering labour markets. Only a coordinated strategy that addresses all four dimensions simultaneously can sustain Europe's long-term competitiveness.

In this context, governments should act as strategic regulators rather than direct market participants. Their role is to create the enabling conditions for innovation, sustainability and competitiveness, while avoiding an excessive interventionism that produced inefficiencies and excessive public debt in the past.⁶ In this sense, member states are expected to guide the economy through incentives, partnerships and public-private collaboration rather than ownership or micromanagement. A good example of such a policy may be the defence sector, in which high-technology products meet an increasing demand. In areas such as aerospace, shipbuilding and advanced materials, Europe has already demonstrated that coordinated industrial efforts can sustain global competitiveness. Italy and Germany – already cooperating closely in naval and helicopter production – must give to their companies the means to compete fairly in the world stage, responding at the same time to the defence needs arising from Europe itself. This goal will be underlined by the upcoming European Defence Industrial Strategy (EDIS) announced in early 2025.⁷ Public reluctance to increase defence spending, though understandable, remains a constraint on innovation. Building a shared

narrative that links industrial growth, security and technological leadership is therefore essential.

From the roundtable emerged a clear recommendation to strengthen bilateral coordination between Italy and Germany within the broader framework of European initiatives across different fields. The two countries could develop joint programmes in green industrial technologies, defence, energy storage and AI-driven manufacturing, setting a precedent for other member states. Cooperation with non-EU partners – particularly in the Western Balkans, North Africa and the Indo-Pacific – is a way to diversify supply chains and reinforce Europe's global competitiveness.

2. Securing a stable future for Ukraine

A priority for Italy and Germany today is Ukraine's reconstruction and the provision of credible European security guarantees, two priorities that have become central to Europe's strategic agenda. The war's uncertain duration and Russia's unpredictable posture continue to stress the need for both immediate support and a long-term strategy for stability. For the sake of which, reconstruction and security are inseparable. Rebuilding Ukraine's infrastructure, economy and institutions depends on the establishment of a safe environment, while sustainable peace cannot exist without visible progress in reconstruction. Supporting Ukraine is not only a moral or humanitarian duty but also a strategic investment in Europe's own stability and credibility.

Reconstruction will require massive financial resources and a clear institutional framework. The World Bank's most recent assessment estimates total reconstruction needs at over 506 billion euros.⁸ A dedicated European development fund is being prepared, supported by the European Commission, the European Investment Bank and national financial institutions such as Italy's Cassa di Risparmio di Roma. Public-private partnerships, as in the case of KfW's projects in Ukraine, are crucial

⁵ Draghi, Mario, *The Future of European Competitiveness*, cit.

⁶ European Court of Auditors, *State Aid in Times of Crisis*, in ECA Special Reports, No. 21/2024 (October 2024), <https://doi.org/10.2865/3014987>.

⁷ Faure, Samuel B.H., "EU Defence Industrial Policy: Towards a New European Military-Industrial Regime?", in *LUHNIP Working Papers*, No. 2/2025 (23 January 2025), <https://leap.luiss.it/it/?p=7071>.

⁸ World Bank, *Updated Ukraine Recovery and Reconstruction Needs Assessment Released*, 25 February 2025, <https://www.worldbank.org/en/news/press-release/2025/02/25/updated-ukraine-recovery-and-reconstruction-needs-assessment-released>.



to mobilise capital and ensure efficiency in project implementation. Coordination among donors must be strengthened to avoid duplication and ensure that investments contribute to long-term transformation rather than short-term relief.

When it comes to reconstruction efforts, corruption remains a major challenge. Ukraine's governance weaknesses risk undermining reconstruction and eroding both domestic and international confidence. Anti-corruption benchmarks, transparent auditing procedures and conditionality mechanisms must therefore be embedded in all financial instruments.⁹ Ukrainian local authorities and civil society should be fully involved in monitoring and decision-making to enhance ownership and accountability. In order to build a stable and free Ukraine, security guarantees are the second essential pillar. A credible deterrence framework is indispensable to protect Ukraine's sovereignty and prevent renewed aggression. Models inspired by NATO's collective defence could include a standing command structure, integrated missile and air-defence systems, and pre-established operational coordination.¹⁰ Unfortunately, Europe is not in condition to provide these assets alone, as the continent itself is still dependent on US support and probably not fully able to ensure its own security. However, Italy and Germany can, given their size and technological readiness, support NATO or another ad-hoc coalition to help Ukraine to this end.

On the long-run, Kiev must be able to defend itself. Building autonomous defence capacities is vital to ensure self-sufficiency over time. Training programmes, industrial cooperation and technology transfers should be expanded to reinforce Ukraine's capabilities in air defence, logistics and cyber resilience. Weak or ambiguous guarantees could prove counterproductive, encouraging escalation without ensuring protection. This war has revealed Europe's structural industrial vulnerabilities. The continent remains heavily reliant on external suppliers for key defence inputs such as semiconductors,

batteries and propulsion systems.¹¹ Strengthening Europe's defence industrial base is therefore a strategic necessity and the first moves of the Commission, aimed at joint procurement, common standards and coordinated research, should be just the beginning of a more ambitious strategy.

Another challenge for Europe in general and Italy and Germany in particular is that public acceptance of defence investment remains limited. In many European countries, the defence sector still faces political and societal resistance and is felt as unnecessary or even dangerous. To counter this, a broader narrative linking defence spending to innovation, employment and technological advancement can help demonstrate that industrial rearmament contributes not only to security but also to competitiveness and growth. Lastly, any military assistance and reconstruction aid must be complemented by diplomacy and strategic clarity. A coherent political vision is essential to guide Europe's engagement in Ukraine and to define what a stable post-war order should look like. Managing relations with Russia – when conditions permit – will require coordination, patience and unity of purpose. Weapons and funds are necessary, but the ultimate guarantee of European security lies in political commitment and a shared sense of responsibility.

3. Shaping the new priority agenda

The 2025 edition of the Italian-German Strategic Dialogue confirmed that economic competitiveness and security are two sides of the same European strategic interest. Both Italy and Germany recognise that Europe's capacity to prosper and act more autonomously depends on the ability to combine industrial strength, technological innovation and collective security within a coherent political framework.

In the economic field, the European Union must accelerate the implementation of the Draghi report's recommendations by completing the Single Market, closing the investment gap and creating the conditions for a genuine European

⁹ European Commission DG for Enlargement website: *Ukraine Facility*, https://enlargement.ec.europa.eu/node/4865_en.

¹⁰ NATO, *Vilnius Summit Communiqué*, 11 July 2023, https://www.nato.int/cps/en/natohq/official_texts_217320.htm.

¹¹ European Commission DG for Internal Market website: *Critical Raw Materials Act*, https://single-market-economy.ec.europa.eu/node/2053_en.



industrial policy. Italy and Germany, as the Union's industrial core, are uniquely positioned to lead this effort. Joint initiatives in green technologies, digital infrastructure and advanced manufacturing could provide the critical mass needed to restore Europe's competitiveness on global markets. Strengthening the fiscal capacity of the Union and ensuring a level playing field between member states will be essential to prevent further fragmentation.

In parallel, the war in Ukraine has reaffirmed the need for a credible and united European security architecture. Supporting Ukraine's reconstruction and self-defence is not an act of charity but a strategic necessity. Europe's own stability depends on the success of Ukraine's recovery. Italy and Germany can play a leading role in coordinating reconstruction efforts through their financial institutions and development agencies, while supporting the emergence of a more integrated European defence industrial base.

At the political level, both countries should continue to promote a European strategic culture grounded in responsibility, solidarity and foresight. This entails strengthening transatlantic cooperation while developing Europe's ability to act alone if necessary. The long-term credibility of European security guarantees will depend not only on military capabilities, but also on the consistency of political commitment and the capacity to communicate this vision to European citizens. Looking ahead, the partnership between Rome and Berlin must evolve from coordination to co-leadership. By aligning their priorities, Italy and Germany can drive a new phase of European renewal: one that reconciles competitiveness with sustainability, sovereignty with cooperation, and economic ambition with democratic accountability. The Italian-German Strategic Dialogue will continue to serve as a platform for this ongoing exchange, linking governments, business and civil society in the effort to shape a stronger, more resilient and strategically autonomous Europe.

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The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, space, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*AffarInternazionali*), two book series (*Trends and Perspectives in International Politics* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

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