

# The Return of Industrial Policy in the EU: A Chance for Central and Eastern Europe?

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## Abstract

This contribution explores the Visegrad four's (V4) responses to the revival of industrial policy in the European Union (EU). To a region so highly industrialised, and so dependent on foreign firms, this revival brings mixed blessings. Industrial policy focused on 'European champions' is driving investment towards core regions and firms, possibly at the expense of the peripheries. At the same time, emphasis on European value creation and production networks could open new opportunities for the region's sputtering growth model. In analysing the V4 policy-makers' response to two instruments – Important Projects of Common European Interest and Foreign Direct Investment (FDI) screening – we find that they are keenly aware of both threats and opportunities created by the EU-level industrial policy, but that few take steps to actively shape these instruments. If they do, they typically push them back towards traditional liberal market principles. We argue that, despite a powerful rhetorical pivot towards 'open strategic autonomy', EU industrial policy remains constrained not only by remnants of ideological liberalism but also by the fact that many smaller members see little opportunity in the more proactive supranational industrial policies and prefer to cleave to the liberal status quo at the EU level – even when domestically they embrace very different principles.

**Keywords:** Central and Eastern Europe; foreign investment; industrial policy; subsidies

## Introduction

To say that industrial policy is back on the European Union's (EU's) agenda would be an understatement. Long considered anathema to the union's liberal market-making project, it is now proffered as a solution to all ills plaguing the Union's economy – from lagging productivity and international competitiveness to climate change, energy security, defence preparedness and pandemic resilience (Di Carlo and Schmitz, 2023; McNamara, 2024). At the same time, it is an open question whether the changing rhetoric is matched by an equally strong transformation of actual policies. As of 2025, the EU has a multitude of new instruments to facilitate investments in priority industries and technologies, support cross-border collaboration and industry alliances, and protect European firms from foreign competitors. On the other hand, with the relatively modest budget and unchanged distribution of competences between the Commission and member state governments, the EU still has a stronger capacity to regulate competition than to facilitate the structural transformation of the continent's economy (Meunier and Mickus, 2020; Schneider, 2023).

The 'Visegrad four' (V4) – Czechia, Hungary, Poland and Slovakia – are amongst Europe's most highly industrialised economies. They have built their growth strategies around attracting foreign direct investment (FDI) into complex, capital intensive manufacturing and drawing on the EU single market as a source of both capital and exports (Bohle and Greskovits, 2012; Vukov, 2023). They are also heavily dependent on traditional industries

such as the automotive sector, which have recently come under a lot of pressure from foreign competition as well as from the EU's own decarbonisation plans. They thus have a lot at stake in the European industrial transition, yet they are not exactly in the driving seat. Their dependence on FDI means that key corporate decisions are taken at headquarters located in other countries. Meanwhile, EU industrial policy is being steered primarily by a Franco-German partnership (Bora and Schramm, 2025; Di Carlo and Schmitz, 2023), leaving limited space for smaller member states to directly shape the agenda.

In this contribution, we ask how these semi-peripheral economies view the EU's industrial policy turn and how they respond to initiatives largely designed by and for core European states. We seek to understand the way in which V4 policy-makers weigh the opportunities and threats posed by these instruments and the extent to which they contribute, directly or indirectly, to their evolution at EU level.

Because the European industrial policy landscape is evolving at such a rapid pace, a comprehensive assessment is challenging. We therefore zoom in on two specific measures within the broader spectrum of instruments designed to respectively promote and protect EU industries: efforts to support the creation of transnational value chains via Important Projects of Common European Interest (IPCEIs) and attempts to police foreign investments in the EU through the FDI screening mechanism. We chose these instruments because they have been in place for long enough for us to observe how they are implemented by the member states, as well as any resulting adaptations. As they affect directly the key levers of the V4 traditional industrial policy toolbox – reliance on FDI and strategic use of state aid to promote investment – we also believe the V4 should have a significant interest in their design and implementation.

Our symposium contribution first reviews the literature on the revival of industrial policy in the EU, teasing out implications for the V4. We then investigate the process of adoption of two new industrial policy measures, IPCEIs and FDI-screening mechanism, and the V4's position on them. Finally, we review the national-level policy documents across the V4 to see how they reflect the EU's industrial policy shift and extent to which they draw on the new framework in advancing their own policy goals.

Our findings suggest that despite an overall positive tone towards the promises of EU industrial policy, the V4 frequently express reservations about concrete instruments being used by larger member states to promote protectionist goals within the single market. In terms of policy influence, when it comes to IPCEIs, we find little evidence of V4 involvement in shaping the policy, though we find some reactive activism to revise it in order to make it more inclusive as well as to reinforce some of the liberal principles of state aid. On FDI screening, we equally see few attempts at shaping the policy agenda during its initial design, with the partial exception of Hungary. We also find that the V4 use the instrument fairly conservatively: even governments that are otherwise happy to defy EU rules in the pursuit of economic re-nationalisation (Schnyder et al., 2025) eschew these tools when it comes to imposing commitments on key industrial investors, though such requirements could be beneficial to local economies and potentially address some of the well-recognised limitations of the FDI-led growth model.

At the theoretical level, our findings highlight the indeterminate nature of experimentation currently taking place in core-periphery relations within the EU, as outlined in the Introduction to this Symposium (Avlijas et al., 2026). Measures that enlarge policy space for the periphery may lead to experiments that challenge the constitutional set-up of the

Union, as documented elsewhere in this symposium, but they may also provoke a defensive reaction, resulting in alliances that push the EU's own policy experiments back to the liberal status quo, as in the case of IPCEI – or, in other cases, force them to take a more decisive shape, as in the case of investment screening.

## I. What Is in It for Central and Eastern Europe?

To understand how the EU's turn towards industrial policy shapes opportunity structures of the V4's manufacturing-dominated economies, it is necessary to keep in mind the key tensions within this experiment. Whilst there is general agreement in the literature that a shift is under way from the once dominant regulatory, market-making paradigm of European economic governance, the precise outlines of the new paradigm remain difficult to pin down (McNamara, 2024; Schneider, 2023). Indeed, it is often difficult to distinguish clearly policy continuity from policy change because, for all the geoeconomic bluster, the constitutional basis of the EU market remains unchanged. In it, industrial policy is constrained by a double bind<sup>1</sup>: member states refuse to give the European Commission sufficient competences to conduct a genuinely supranational industrial policy, whilst the Commission's strict policing of competition rules leaves member states limited space to intervene with market forces.

Escaping this double bind has proven difficult. The European Commission's bids to secure a sizeable supranational fund for industrial investments, along the lines of the proposed European Sovereignty Fund have yielded little result (Bourgerie-Gonse, 2023).<sup>2</sup> Instead, the EU has tried to repackage its modest budget into 'de-risking' tools to incentivise private lending, often in partnership with European and national development banks (Gabor, 2023; Lepont and Thiemann, 2024; Piroška and Epstein, 2026), and selectively suspended its otherwise rigorous state aid regime to allow more national-level support for industry (Meunier and Mickus, 2020). This is balanced by various mechanisms of supranational oversight, with the Commission checking that the money is 'proportional' and channelled towards EU-sanctioned objectives and encouraging cross-border projects (Di Carlo and Schmitz, 2023).

Things are no easier when it comes to the measures intended to protect European firms from foreign competitors. As long as these can be couched in terms of 'leveling the playing field', as in anti-dumping or anti-subsidy investigations, the Commission is in the driving seat, though enforcement can still prove difficult, as in the case of conflict over countervailing tariffs on Chinese electric cars. Once the policy rationale is redefined in security terms, as protection of strategic assets or public interest, the Commission is on much shakier ground. The solution then is again to allow member states some license to discriminate against foreign investment, whilst the Commission supervises and attempts to co-ordinate their actions.

<sup>1</sup>The concept of the double bind was previously most systematically used in the context of social policy making (Hemerijck, 2004).

<sup>2</sup>One obvious exception is, of course, the Recovery and Resilience Facility (RRF), the 2020 extrabudgetary fund created to support address the consequences of COVID-19 pandemic for Europe's economy. Although a portion of the funds targets green and digital transition, and some of the funding was repurposed for supporting energy transition as 'RepowerEU' in the wake of Russia's invasion of Ukraine, the RRF was not originally intended as an industrial policy tool and is meant to expire in 2026. Attempts to create an EU-level industrial investment fund, such as the frequently announced European Sovereignty Fund, have so far not made much progress.

Some observers have been quick to condemn this balancing between greater decentralisation and supranational co-ordination as risking undermining the whole edifice of the single market (Poitiers and Weil, 2022): less a 'European' industrial policy than a permission for the largest member states to pursue their own. Others, however, see in them contours of a new form of governance (Fabbrini, 2024), opportunity to draw on national experimentation to improve supranational tools (Zeitlin and Rangoni, 2025) or even the rise of a new 'developmental network state' (Di Carlo and Schmitz, 2023).

For the V4, as Europe's industrial semi-periphery, these trends in EU industrial policy pose a number of risks as well as opportunities. Their FDI-dominated, export-led economies have indeed been fundamentally shaped by the EU's single market, and they have for the most part played by its rules (Bruszt and Langbein, 2020; Medve-Bálint and Élterő, 2024; Vukov, 2023). These have always made exceptions for using public funds to encourage investment in poorer regions and for correcting market failures in the provision of research and development (R&D) and training. Under these rules, the V4 could not support less competitive domestic industrial champions but were free to offer subsidies to attract competitive foreign ones (Šćepanović, 2013). As net beneficiaries of the EU budget, they could also use EU funds to further enhance their attractiveness to foreign investors (Medve-Bálint, 2014).

Crucially, the same rules that steered V4 strategies towards FDI capped subsidies in the wealthier European states, limiting competition for investment and with it the costs of the V4's FDI-led growth strategy. This arrangement has come under pressure as, since the mid-2010s, the gradual relaxation of EU state aid rules allowed all European regions to provide ever higher amounts of subsidies to an ever greater range of activities. The 2014 'smart specialisation' framework extended aid eligibility to encourage clusters of 'excellence' in all European regions (Wigger, 2023), periodic revisions to the General Block Exemption Regulations broadened the range of priority industries and raised thresholds on aid amounts (Di Carlo et al., 2024; European Commission, 2023) and the Temporary Crisis and Transition Framework in the wake of the COVID-19 pandemic lifted all breaks on aid connected to energy transition (European Commission, 2023). Most recent innovations allow member states to offer 'matching aid' to counter offers companies receive outside the EU and broaden the notion of 'innovation' to include the manufacture of products already produced elsewhere, as long as the facility is 'first of its kind' in Europe [European Commission, 2023 Regulation (EU) 2023/1781, 2023].

Proliferation of protective measures also poses potential risks to the V4 economic model. As economies dependent on foreign direct investment, they have capitalised on the EU's liberal investment regime, which both allowed EU companies to freely invest in the region and made it attractive for extra-EU investors seeking a toehold from which to serve Western European markets. EU-level measures designed to protect European champions and advanced technologies from foreign takeover – such as the FDI Screening Mechanism and Foreign Subsidies Regulation – offer few direct benefits to economies that have no champions to guard and could deter non-European investors at precisely the moment when European firms are increasingly focused on their home markets.

These changes in the EU rules also coincide with increasing awareness of internal weaknesses of the V4's current growth model. Analysis of industrial policy documents

published by various governments in the region since the mid-2010s reveals widespread perception of vulnerability due to the region's position at the relatively low-end of European manufacturing networks. Nearly all documents mention low rates of domestic capital accumulation and value-added, and some explicitly refer to the risk of falling into a 'middle income trap' (Government of Poland, 2017; Government of the Slovak Republic, 2021). Whilst acknowledging the importance of foreign direct investment as the engine of economic growth, the 2024 Czech National Economic Strategy, for example, warns of the 'annual transfers abroad of hundreds of billions of crowns' in the form of dividends (Ministry of Industry and Trade of the Czech Republic, 2024, p. 11), whilst other documents point to dependence on foreign technologies resulting in lower profitability of local firms, and thus lower contributions to the national budget (Ministry of Industry and Trade of the Czech Republic, 2023, p. 6). Poland's Strategy for Responsible Development similarly concludes that dependence on foreign investment costs Poland annually about 5% of GDP (Government of Poland, 2017, p. 6).

Some of the attempted remedies involve attracting more complex FDI activities, especially those involving R&D activities, technology transfer or higher wages (Czechia, 2019; Ministry of Development and Technology of Poland, 2023; Slovakia, 2018). Equally prominent, however, are the plans to support domestic companies in moving towards higher production tiers, and away from the position or, as one Czech strategy would have it, 'chronic subcontractors' (Ministry of Industry and Trade of Czechia, 2021, p. 3). Supporting endogenous firms is seen as the path to a virtuous circle in which domestic accumulation would lead to investment in higher value-added functions and more technology- and knowledge-intensive activities. Different governments have tackled this task with varying degrees of assertiveness and success. Poland and Hungary have openly pursued a strategy of 'economic nationalism' to reduce the influence of foreign companies in some sectors, though rarely in industries directly exposed to international competition (Bohle and Greskovits, 2019). Going furthest, in its 2017 'Strategy for Responsible Development', Poland set out to create national champions even in highly competitive export industries and has backed these plans with concrete resources such as the Polish Development Fund (Naczyk, 2021; Piroška and Epstein, 2026). Hungary's most recent Competitiveness Strategy 2024–2030 similarly highlights support for domestic suppliers and the development of national champions in industries ranging from food to Information and Communication Technologies (Ministry of National Economy of Hungary, 2024, p. 4).

Strengthening the domestic business sector has, however, remained an uphill struggle. With EU state aid rules leaving little space to focus specifically on domestic firms, research by Medve-Bálint and Éltető (2024) shows that foreign firms continue to account for a lion's share of investment subsidies in V4. Could changes in the EU rules create space to advance the V4's dreams of industrial upgrading? We can give a partial response to this question by looking at the design of new EU instruments related to industrial policy. At the most abstract level, the EU's own policies appear to be validating the intuition that capital 'has nationality' (Tusk, 2025), and that objectives other than efficiency are relevant for domestic development. In more concrete terms, EU initiatives to direct industrial support towards new sectors and deepen cross-border European value chains might help these countries diversify from their specialisation in mature manufacturing industries and might allow at least some domestic firms to reach higher value-added.

In the following sections, we investigate the V4's engagement with two of the more prominent recent tools of EU industrial policy: IPCEIs, a scheme devised to promote European companies' presence in cutting-edge technologies, and FDI screening mechanism, a tool originally designed to secure Europe's 'strategic autonomy' in sensitive industrial sectors.

## II. State Aid Reform and IPCEI

Previous research has highlighted IPCEIs as the flagship examples of industrial policy experimentation within an emerging 'networked developmental state' in the EU (Di Carlo et al., 2024). They also encapsulate the difficulty of balancing decentralisation and supra-national co-ordination in EU industrial policy. Formalised in 2014 as part of the modernisation of EU state aid, the scheme allows member states to subsidise investments that make a 'very important contribution to the growth, jobs, and competitiveness of the Union's industry and economy' (European Commission, 2014). Compared to other schemes that permit state aid to innovation, IPCEI cover projects that are closer to commercialisation and allow more generous aid than projects exempted under 'regular' R&D subsidies. In return, however, they must meet stringent criteria: creating 'European added value' by contributing to objectives set out in EU strategic documents and producing 'benefits extending to a wide part of the Union. They are also scrutinised by the Commission to ensure aid is necessary and proportional.

These guardrails are meant to keep this experiment in industrial policy anchored in the liberal principles of using subsidies strictly to correct for market failure. It is somewhat ironic that precisely these guardrails have been blamed for biasing the benefits of IPCEI towards larger member states and companies (Lopes-Valença, 2025; Schmitz et al., 2025; Voszka, 2024). The focus on breakthrough innovations, the requirement to create spillovers throughout the value chain and the need to co-ordinate cross-border projects demand not only financial resources but also technical and administrative capacities that smaller players are unlikely to muster (Lopes-Valença 2025).

Our analysis of IPCEI-related state aid also confirms that IPCEIs mainly benefit large core economies of the EU over economies such as V4. This is starkly evidenced by the fact that all but one IPCEI to date have been co-ordinated by either France or Germany. Data from the available IPCEI files show that Germany, France and Italy have allocated upwards of 80% of all IPCEI funding (Confederation of Swedish Enterprise, 2024; European Court of Auditors, 2024), most of it to very large, well-connected firms (Schmitz et al., 2025). By contrast, V4 companies' share in total state aid allocated through nine IPCEIs between 2018 and 2025 is 3.4%, around one-fifth of their population share within the EU and well below their share of industrial value-added (Table 1).

Until the reform of IPCEIs in 2021, the ad hoc nature of the scheme also disadvantaged member states with weaker informal connections in Brussels, a complaint coming from Hungarian civil servants dealing with EU funds (Voszka, 2024, p. 64; also Schmitz et al., 2025, p. 13). It is no wonder that during the consultation on the revision of the IPCEI scheme in 2021, the Commission received numerous complaints from companies and governments concerned about its distortive aspects. Both governments and private actors from smaller EU states criticised the administrative costs of setting up IPCEIs, the long approval periods and the skewed distribution of funding, arguing for more

Table 1: V4 Participation in EU IPCEI.

Sector	Year	No. countries/ co-ordinating	Total aid	V4			
				Company	Aid (EUR)	Size	Funding source
Batteries	2019	7/France	€3.2 bn	Elemental (PL)	76 mn	Large	ERDF
				Eneris (PL)	—	Large	Withdrawn
				Umicore	—	MNE	Other funding
	2021	12/Germany	€2.9 bn	EnergoAqua (SK)	15 mn	SME	National
				InoBat (SK)	5 mn	SME	National
Hydrogen	2022	15/Germany	€5.4bn	ZTS (SK)	15 mn	SME	National
				Iveco (CZ)	30 mn	MNE	National
				Synthos (PL)	24 mn	Large	ERDF
				NAFTA a.s. (SK)	36 mn	Large	RRF
	2022	13/ Netherlands	€5.2bn	PKN Orlen S.A.	511 mn	Large	RRF
	2024	7/Germany	€6.9bn	RONA (SK)	28 mn	Large	n.a.
				Polenergia H2Silesia (PL)	142.8 mn	Large	RRF
				Eustream (SK)	364.7 mn	Large	RRF
	2024	6/Germany	€1.4 bn	Tomark (SK)	59.2 mn	SME	RRF
Cloud infrastructure and services	2023	7/Germany	€1.2 bn	4iG (HU)	6.5 mn	Large	n.a.
				E-Group (HU)	60 mn	SME	n.a.
				Atende (PL)	4.3 mn	Large	RRF
				CloudFerro (PL)	22 mn	SME	RRF
				Oktawave (PL)	10.4 mn	SME	RRF
Microelectronics	2018	5/Germany	€1.9 bn				
	2024	14/Germany	€8.1 bn	Codasip s.r.o (CZ)	42.8 mn	SME	RRF
				Mycroft (CZ)	13.4 mn	SME	RRF
				Bizzcom (SK)	22.4 mn	SME	RRF
				Continium technologies (SK)	51.4 mn	SME	RRF
				Tachyum (SK)	27.8 mn	SME	RRF
				Semikron (SK)	37.6 mn	MNE	RRF

Table 1: (Continued)

Sector	Year	No. countries/ co-ordinating	Total aid	V4			
				Company	Aid (EUR)	Size	Funding source
Health	2025	6/France	€1 bn	Biomedical Engineering (SK)	35.08	SME	n.a.
				Sensible Bio (SK)	48.87	SME	n.a.
				BioTalentum (HU)	54.85	SME	n.a.
				Gedeon Richter (HU)	10.41	Large	n.a.

Source: Own compilation based on the European Commission website on IPCEI, state aid decisions, company websites and national authorities.

sparing use of the instrument (Government of Sweden, 2021). At the same time, the most systematic opposition to the instrument did not come from the V4 but from Nordic countries whose company associations were particularly vocal, complaining that the scheme created an uneven playing field for companies from smaller states whose governments found themselves incapable of co-ordinating such complex projects (Eisl, 2022).

Central and East European reactions to the biases of the IPCEI were far more subdued. Although Poland, Slovakia and Czechia all co-signed the ‘non-paper’ co-ordinated by the Swedish government calling for more ‘selective’ use of the instrument, they largely stayed out of the consultation process. Only the Polish authorities submitted substantive comments on the framework, whilst no private actors or associations participated. A wider reading of policy documents from the region shows in fact a fairly positive view of IPCEIs, highlighting their potential to ‘strengthen the position of domestic entities in the European technology ecosystem’ (Ministry of Digitalization of Poland, 2025, p. 33). When the Visegrad countries did express reservations about IPCEI, however, these tended to cleave back to the ‘old’ objectives of state aid, including balanced geographic development and support for smaller companies.

The Czech Strategy for the Single Market, written ahead of its presidency of the Council of EU, thus warns that IPCEI must be ‘open’ and ‘inclusive’, especially to smaller companies and startups (Ministry of Industry and Trade of the Czech Republic, 2021, p. 34). Polish authorities were even more emphatic about the need to ensure ‘geographical balance’ in the IPCEI, calling for the future selection criteria to include obligation to involve ‘at least one partner from the so-called cohesion countries’ (Ministry of Development and Technology of Poland, 2019, p. 7), and were adamant that IPCEI should not extend to actual production and should not increase the risk of intra-EU relocations.

The updated IPCEI framework indeed reflects some of these demands. The Commission’s 2021 Communication on IPCEI stipulates that all member states must have a ‘genuine opportunity’ to participate and that a ‘minimum of four’ must be involved per project, (European Commission, 2021). Co-operation between large and small and medium enterprises (SMEs) and support for development of more disadvantaged regions

are also explicitly mentioned, though not as formal conditions (p. 6). The Commission promises to make sure that any aid that incentivises relocation would be blocked (p. 9). Such adjustments may provide a toehold for smaller companies from more peripheral member states to join emerging European technological value chains. Many actors from the region certainly seem to share this view: except for the 2018 IPCEI on microelectronics, all IPCEI to date have featured participants from at least one Visegrad state. Slovak companies participate in as many as eight IPCEIs – one more than Spain – followed by Poland (7), Hungary (3) and Czechia (2). With the exceptions of IVECO in Czechia and Semikron in Slovakia, most of the firms are domestically owned. This is unusual in comparative terms as multinational corporations typically receive the lion's share of regular state aid in these countries and account for most corporate R&D spending (Medve-Bálint and Élterő, 2024; Medve-Bálint and Šćepanović, 2020). Though the list of beneficiaries includes some of the largest regional companies, it also features a remarkable number of smaller and relatively recently established firms (Table 1).

The absence of foreign firms is consistent with V4 governments' complaints that the most innovative aspects of R&D by outside investors tend to remain in their home countries, leaving the local subsidiaries focused on production rather than technological development. Another explanation could be that for the amount of work IPCEIs require from the applicants, the grants allocated by these states so far have been modest – with the exception of the hydrogen infrastructure projects, all are below EUR 100 mn. As IPCEIs do not come with a separate source of funding, member states must finance them from the already existing budgets. No government in the region has an IPCEI-dedicated fund, which means that the Commission's approval of an IPCEI is merely a permission to apply for aid, but no guarantee that it would actually be awarded. In at least one case involving a Polish battery recycling company, the firm had to withdraw from an approved IPCEI after failing to secure the necessary resources (European Court of Auditors, 2023a).

One major exception is funding under the RRF, which, as Eisl (2022) has argued, has been instrumental for V4's increased participation in IPCEIs. Czechia, Poland and Slovakia have all earmarked funding for IPCEI in their National Recovery and Resilience Plans, and the Slovak Innovation and Energy Agency also became responsible for the management of applications for IPCEI. Hungary is the only exception, and the RRF funding for Hungary, in any case, remains frozen. In Table 1, we also included the analysis of individual awards, where available, showing that other EU funds have also been used as sources of financing, though not in a systematic manner.

On balance, the EU's more permissive approach to state aid in the context of IPCEI has been received in V4 with caution. Potential threats in the form of subsidy competition with core countries have been met with demands to reinstate 'old' principles of state aid, including proportionality and correction of geographic imbalances, and the V4 have, together with other smaller EU members, objected to the more daring experiments with subsidies under IPCEI, such as their extension to production. At the same time, the V4 have also not exactly leapt at the opportunities provided by IPCEI. Support for companies wishing to participate in such projects has been slow to evolve, often facilitated by ad hoc coalitions to secure networks and funding (Toplišek, 2024). As far as IPCEI are concerned at least, rather than driving experimentation in ways that potentially challenge the EU's market order, the V4 appears invested in preserving it.

### III. Managing FDI

Instruments like IPCEI aim to support the international competitiveness of European companies, but recent years have also seen a proliferation of more aggressive defensive mechanisms (Di Carlo and Schmitz, 2023). Whilst such protection is still predominantly justified by reference to the market liberal principles of reciprocity and ‘level playing field’, growing geopolitical concerns have also led to more security-oriented instruments, such as the EU Foreign Investment Screening Mechanism directive and the Foreign Subsidies Regulation (Meunier and Nicolaidis, 2019).

The emphasis on security is meant to differentiate the EU FDI screening from the more traditional instruments of investment control, which focus on economic benefits (such as local content requirements, obligation to form joint ventures etc.) but which have been outlawed by the EU’s own principles of freedom of establishment and non-discrimination, as well as by international agreements under World Trade Organization (WTO) (Bauerle Danzman and Meunier, 2023). That said, two features allow the member states to potentially blur this distinction in practice. First, the wording of the regulation encourages screening for investments ‘likely to affect security or public order’ (Regulation (EU), 2019, p. 3), which is broader and more vague than the grounds for derogation stipulated in the Treaties (OECD, 2022). Second, its very nature as a security instrument limits the competences of the EU. The original 2019 regulation merely allowed EU member states to introduce national screening mechanisms. Whilst it laid broad principles for screening, and introduced the obligation for the member states to report their activities to the Commission, the implementation remains decentralised and highly uneven (European Court of Auditors, 2023b). This is not to say that the Regulation has provided a *carte blanche* for protectionism, and in fact, most European countries have used the instrument sparingly. Nevertheless, cases like the French government invoking food security to oppose takeover of the supermarket value chain Carrefour by a Canadian company (Leali, 2021), or the Swedish authorities demanding majority Swedish ownership, and intellectual property rights as a condition for establishment of a Chinese battery anode factory (SVT, 2025) suggest there is space to pursue targeted economic objectives under the framework. Examples are hard to come by as most cases are processed confidentially, but even the European Court of Auditor’s 2023 report noted that some of the investment conditions seemed ‘inconsistent with a market economy’ (European Court of Auditors 2023b, p.32).

This may offer an interesting opening to the V4, which have long struggled to convince foreign companies to increase local value added of their operations, for example, by setting up R&D centres, and strengthen technological and skill spillovers to local firms. Early expectations that such spillovers might occur automatically have proven false. Recent documents such as the Hungarian Smart Specialisation Strategy (NRDI, 2021) point out, for instance, that ‘the multiplier role of multinational companies is not properly exploited’ and that entrepreneurial knowledge transfer is ‘negligible’ (p. 87). Whilst all documents acknowledge that FDI will continue to play a crucial role, especially in the creation of new technology-intensive sectors, there is obvious desire to ensure that this time it delivers more than just investments. Thus, the Czech semiconductor strategy acknowledges that ‘in the short term’, it is necessary to attract foreign firms to the country but warns that ‘in the long term it is not desirable for the Czech Republic

to serve only as a production hub of lower added value' and advises that incentives should be reserved for companies that locate regional headquarters in Czechia or form joint ventures with Czech companies (Ministry of Industry and Trade of the Czech Republic, 2024, p. 55). Poland's Productivity Strategy even mulls that 'smaller, technologically advanced' FDI projects might be preferable in terms of spillovers 'provided they are integrated with local businesses and academic community' (Ministry of Development and Technology of Poland, 2022, p. 124). Since the late 2010s, all countries in the region have indeed adjusted investment subsidy rules to favour higher value-added activities. The strictness of conditions varies: whilst in Slovakia investments with an R&D component qualify for additional incentives (Slovakia, 2018), in Poland and Czechia, manufacturing investments can only receive support if they create R&D employment, pay above-average regional wages or spend a minimum amount on collaboration with a local research institution (Czechia, 2019; Ministry of Development and Technology of Poland, 2023).

In theory, a screening mechanism could strengthen the bargaining power of governments, especially if all EU states take seriously the objective to protect the security of supply and strengthen localisation of competencies. However, we find limited evidence that the V4 have so far treated the instrument in this way. With the exception of Poland, which already had a screening mechanism before the adoption of EU regulation, all regional governments initially opposed the idea of an EU-level FDI screening tool (Chan and Meunier, 2022), and some policy documents even express fears that the proliferation of EU rules might act as a deterrent to investments (Ministry of Industry and Trade of the Czech Republic, 2023).

Though eventually all four voted in favour of the Regulation, implementation so far has been fairly conservative. Screening mechanisms of Czechia and Slovakia follow closely the provisions of the EU regulation: they include mandatory screening, including for greenfield investments, on grounds of security and public order, and apply to any entity based or controlled from outside the EU. The sectoral basis for mandatory screening is, however, rather narrow and only covers manufacturing insofar as it concerns production of dual-use and military equipment – even though authorities reserve the right to pursue ex-officio screenings in other sectors too (Czechia, 2021; Slovakia, 2022). The Polish screening mechanism has a somewhat wider scope, including chemical, pharmaceutical and heavy metal industries, as well as all investments in publicly listed Polish companies. On the other hand, it automatically exempts not only EU entities but also investors from all OECD countries (Poland, 2020). In practice, too, these three countries have applied the mechanism very cautiously. Apart from a single satellite installation by a Chinese company in Czechia, no investment has faced opposition or conditions in these three countries since the start of screening (Table 2).

The one major exception to this cautious approach is Hungary. In 2020, as part of COVID-19 emergency measures – since then prolonged indefinitely – the country adopted a screening mechanism which explicitly invokes protection of Hungary's economic interests (Hungary, 2020). Mandatory for all investments over approx. EUR 900000, it covers a wide range of industries from pharmaceuticals and medical equipment to machinery, vehicles, and building material (Hungary, 2020). Hungary does not publish screening reports and has notified very few cases to the Commission (European Court of Auditors, 2023b), but on at least one occasion, its practice clashed with single market

Table 2: Characteristics of V4 FDI Screening Mechanisms.

	<i>Introduced</i>	<i>Definition foreign investor</i>	<i>Sectors</i>	<i>Trigger for mandatory screening</i>	<i>Cases reviewed until end-2024</i>	<i>Cases blocked or conditionally approved</i>
Czechia	2021	Citizens of/entities registered in countries other than EU, or entities controlled by them	Critical infrastructure; critical ICT infrastructure and basic services; development and production of dual-use goods; large media outlets	'Effective control', various definitions	11	0
Hungary	2018; expanded 2020	Citizens of/entities registered in countries other than EU/EEA/Switzerland, or entities controlled by them	Energy; transport and logistics; communication (including media), defence and security (manufacture and services); basic services; manufacture of chemicals and pharmaceuticals; critical industrial sectors (electronics, mechanical engineering, steel production and vehicle manufacturing); sales activities; agriculture and food processing; construction and building materials, critical raw materials	Investment value of HUF 350 mn	n.a.	n.a.
Poland	2015, expanded 2020	Citizens of/entities registered in countries other than EU/OECD, or entities controlled by them	Critical infrastructure; software development and operation for critical infrastructure; energy; telecommunications; transport and logistics; defence and security, including manufacture of military equipment; production of chemicals and fertilisers; manufacture of medical equipment and pharmaceuticals; food processing; all publicly listed companies	Companies with turnover of at least EUR 10 mn	13	0
Slovakia	2022	Citizens of/entities registered in countries other than EU, or entities controlled by them	Critical infrastructure, ICT infrastructure, essential services, large media outlets, including platforms; development and manufacturing of defence products; development and manufacturing of dual use products; development and production of biotechnology for the health sector	'Effective participation', defined as min. 10% voting rights	10	0

Source: Own compilation based on PRISM dataset (Bauerle Danzman and Meunier, 2023); national legislation, national reports.

rules egregiously enough to end up before Court of Justice of the European Union (CJEU): in 2020, it forbade acquisition of a Hungarian building materials company by Xella, a multinational firm ultimately owned by an Irish national, but registered in Bermuda.

If the FDI Regulation blurred the distinction between economic and security interests, the CJEU attempted to reassert the basic principles of freedom of investment. Its judgement rebuffed Hungary's argument that local supply of construction gravel constituted a security concern large enough to violate freedom of establishment and warned that the mechanism must not be 'misapplied so as [...] to serve purely economic ends' (CJEU, 2023). It also insisted that application of security screening to EU entities controlled from outside of the EU must be limited to those where such control represents an artificial construction expressly for the purpose of circumventing screening (CJEU, 2023). Interestingly, whilst the Xella case is widely seen as one of the triggers for the revision of the FDI regulation, the Commission's proposal in fact goes against the Court's interpretation. It expressly includes EU companies controlled from outside, even for genuine economic reasons, and argues that the strict interpretation of derogations from the freedom of establishment does not apply to non-EU investors (European Commission, 2024). Whilst leaving out gravel, the proposal also introduces a comprehensive list of industries that must be covered by national screening mechanisms, including amongst other semiconductors, and energy storage technologies such as batteries.

In fact, the Commission's argument in favour of tightening the Regulation is precisely that it has not been applied effectively, with many states not reporting their screenings (European Court of Auditors, 2023b). This includes countries like the Netherlands and Luxembourg, but also Hungary, which in 2023 and 2024 attracted a third of all Chinese investment in the EU. The concern with Hungary acting as the Trojan horse for Chinese investors may also explain the willingness of other member states to support the Commission's proposal of a more centralised screening mechanism. However, whilst this may address security concerns of the core EU members, the revisions do not go as far as to include economic objectives, and the CJEU's rulings create an opening for companies willing to challenge the blurring between security and economic interests.

At the same time, Hungary is at the centre of another battle to leverage market access for industrial policy goals. In 2025, the Commission invoked the Foreign Subsidies Regulation to investigate China's BYD's electric vehicle investment in Hungary, in the first use of this instrument against a greenfield investment. Whilst the object of investigation are potentially unlawful subsidies awarded to BYD in China, the Commission official's language around the case has openly references issues of technology and value sharing, with the Commission's trade director Sabine Weyand saying the EU was 'not interested in simple assembly operations' (Bounds et al., 2025).

As with the IPCEI, a softening of EU's rules with regard to equal treatment of foreign investors was not met with outright enthusiasm amongst the V4. Though asking more of foreign investors has long been on the agenda in these countries, they all originally opposed investment screening in the name of liberal market principles and only Hungary was willing to experiment with it. The fact that Hungary got simultaneously in conflict with the CJEU for taking the mechanism too far in protecting a local company, and with the Commission for refusing to apply it against critical foreign investors, is also a good illustration of the difficulties the EU is experiencing in steering its own policies in a

new direction whilst containing the challenges these shifts pose to the integrity of the single market. Whilst the Court sought to restore the primacy of the liberal principles, the Commission took this as an opportunity to take further its own experimentation with market protection.

## Conclusion

EU industrial policy is very much in transition. The discourse around Europe's 'strategic autonomy' is bold, but the actual policy adjustments have been incremental. For the most part, the EU has merely extended exemptions from its state aid rules and broadened already existing security and reciprocity arguments to protect key industries. This approach reflects the fundamental constraints of the EU's constitutional framework – the double bind that prevents both genuinely supranational industrial policy and large-scale interventionism by member states.

The resulting policy bricolage is not especially well suited to the needs of the EU's most industrialised semi-periphery. But does it constitute a threat to their economic models, or an opportunity to change them? And are they able to influence the development of EU policies to better serve their upgrading ambitions?

Our examination of two key instruments – IPCEIs and the FDI screening regulation – has revealed a picture of cautious optimism and gradual adaptation. Whilst cautiously optimistic about EU industrial policy, the V4 remain concerned about it being used for protectionist purposes by larger member states and look for ways to reinforce original principles of state aid to prevent subsidy races and preserve opportunities for catch-up development. Whilst IPCEIs are not designed for smaller firms and mostly serve the needs of large value chain integrators, revisions to the framework have given opportunities to some firms from the region to participate, often using EU funds to finance their involvement. We found, perhaps surprisingly, less activism in the use of the FDI screening mechanism, with the notable exception of Hungary, which has seized upon it to protect some domestic firms, though there is no evidence it has used it to extract more value from foreign investors.

Hungary's aggressive application of screening to EU firms – combined with its welcoming attitude to high-profile Chinese investments – seems to have catalysed EU-level efforts to make FDI screening rules more comprehensive and supranational and forced the Commission to spell out more clearly the economic objectives of its FDI policy. We also want to make explicit the limitations of what we can claim based on the currently available evidence: this contribution is not suited to evaluating the outcomes of these policies in terms of upgrading the economies and the leading sectors of the V4 exactly due to their experimental nature and early stage in their life cycle. Instead, our goal was to make sense of the reception of new EU-level policies by the V4 and explore their interactions with domestic policy priorities.

With these limitations in mind, our findings confirm the general outlines of experimentalist governance (Zeitlin and Rangoni, 2025): decentralisation followed by experimentation, feedback and revision leading to stronger supranational co-ordination. Compared to other papers in this symposium, however, they indicate that this two-level experimentation need not always take the shape of peripheries stretching the boundaries of the permissible. In some cases, EU-level policy experimentation may be seen as potentially threatening or not attractive enough, and we see examples of smaller member states,

including V4, mobilising to push the policy back in line with the old liberal equilibrium. Even when both levels see advantages in policy adjustment – for example, demanding greater value-sharing from foreign investors – the constraints of internal competition make the V4 reluctant to embrace new tools, especially if they come at the price of even greater supranational oversight. Accumulation of such resistances, also from other regions and actors, may explain the ultimately modest changes in EU industrial policy, despite the ambitious rhetoric. Arguably, a more fundamental shift would require relying less on partial softening and experimentation, and more on explicit co-ordination that takes into account distributive consequences of a supranational industrial policy.

### Data Availability Statement

All data used in this research are publicly available.

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