The EU Single Market:
Impact on Member States

Frequently asked questions

1. Why did AmCham EU commission this research?

As representatives of American companies invested in and committed to Europe, AmCham EU member companies experience first-hand the advantages of operating in such a large unified market. As an organisation we felt instinctively that the Single Market brings tremendous benefits to citizens and businesses in Europe and we wanted to try to quantify that benefit, especially now at a time when the Single Market is under pressure as never before. Recent events and broader trends such as the rise of populism, the re-introduction of internal border controls, Brexit and the spread of anti-EU sentiment have put the integrity of the Single Market into question.

We firmly believe it is crucial to stand up for the achievements of the Single Market and to prevent its unravelling. Fragmentation would be detrimental to Europe's competitiveness, its influence in a globalised economy and, ultimately, the wellbeing of its citizens.

We hope this study can contribute to an informed conversation on the benefits of European integration across the EU.

2. What are the main findings from the study?

- The Single Market generates important gains for citizens and businesses in the EU. Each year, the EU's GDP is 1.7% higher as a result of integration, which amounts to €250 billion per year.
- Member States' economies have steadily become more integrated and intertwined over the last 25 years, generating important gains for EU citizens.
- However, the development of the Single Market has largely stalled since the 2008/09 financial and economic crisis, mainly because intra-EU trade has stagnated.
- Levels of integration vary greatly across the Member States and across the four freedoms (free movement of goods, services, people and capital).
- Further integration (breaking down remaining barriers, correctly implementing EU legislation and bringing Member States' economies closer) would bring additional gains to households and businesses in each Member State. By focusing on barriers to cross-border services and carrying reforms in the Member States, 1.3 million additional jobs could be created every year.
- The best opportunities for further integration lie in the area of services.

3. What is Single Market integration?

Single Market integration reflects the extent to which goods and services are traded among Member States, citizens can move between Member States and capital can flow from one Member State to another. Integration also relates to Member States' implementation of EU legislation and how their economic performance and policies are converging.

In the study, Member States' degree of Single Market integration is measured by a summary indicator that combines data on:

- Trade in goods and services, mobility of people and movement of capital (i.e. the four freedoms);
- Their performance in implementing EU legislation;
- The convergence of their economies (i.e. whether their economic performance and policies are more or less similar).

With economies transforming as a result of innovation and technological change, the Single Market is evolving and integration remains a work in progress. This is why the summary indicator on which the analysis relies has no upper limit. Member States can always integrate further.

4. The study provides a ranking of Member States by degree of Single Market integration. Which parameters drive the ranking and what does it imply for Member States' economies?

The ranking relies on an index of 17 different indicators. This index aggregates information on trade in goods and services, mobility of people, movement of capital, implementation of EU legislation and economic convergence.

A Member State's ranking can vary from one indicator to another. In order to get a full picture of a country's relationship to the Single Market, it is important to look at the different components of the index. These are presented in the Member State overviews (pp. 65-121). For instance, Luxembourg ranks second in terms of overall integration because of its large financial sector. However, it ranks below the EU average in terms of intra-EU trade in goods.

This study focuses on the Single Market, but it is important to keep in mind that other factors drive national economies – such as foreign trade and investment. Therefore, the Member State overviews and the overall ranking only present one dimension of the countries' economies. For instance, the UK's lower overall integration index is not only connected to the Single Market, but also reflects its openness to the rest of the world. This results in the UK's intra-EU trade in goods being lower than the EU average.

Regardless of the varying degrees of integration, the study demonstrates that all Member States benefit from the Single Market. One outlier is Greece, as the integration of the Greek economy into the Single Market has fallen in recent years to below the level of the early 1990s. There are other mechanisms through which Greece benefits from EU membership such as structural funds, the budgetary assistance provided in recent years to the Greek government, etc.

5. What is the overall impact of the Single Market?

Since 1990, businesses and citizens have benefited greatly from the Single Market. By comparing the EU economy in 2015 to a hypothetical situation with no Single Market, the study finds that:

- EU GDP was boosted by 1.7%;
- EU GDP per capita has risen by almost €1,050;
- Consumption per household has increased by almost €600;
- 3.6 million additional jobs were created.

These gains are recurring each year and growing over time.

Country-by-country figures are presented in the Member State overviews (pp. 65-121).

The impact of the Single Market goes beyond the figures presented in the study. It has fundamentally changed the way citizens move and work, and businesses operate in the EU. Therefore, the report also presents five concrete examples and points to the differences between the pre-Single Market era and today (see 'Stories of Single Market integration' (pp. 123-133)):

- An employee moving from one Member State to another;
- A small company looking to hire;
- A package shipped across Europe;
- A manufacturer producing home appliances;
- An innovative drug developed in a European R&D centre.

6. The study shows that the EU's growth domestic product (GDP) is 1.7% higher in 2015 than it would have been without Single Market integration. These gains recur every year and grow over time. What does this number represent?

A 1.7% increase in GDP is a significant number:

- It amounts to €250 billion per year;
- It represents close to the total expenditure on Research & Development across all Member States in one year[1];
- Similarly, this increase could help fund a third of all education expenditures across the EU[2].

7. What is the impact of further integration? Is the scenario used realistic?

The study looks at different scenarios to measure the impact of further integration on Member States' economies. The most ambitious scenario assumes:

- An overall increase of 50% in intra-EU trade in services;
- All Member States reach the best performing EU countries (for the economic indicators used in the study and relating to the four freedoms, the implementation of EU legislation and the convergence of national economies).

This scenario is still relatively conservative. Intra-EU trade in services represents less than a third of the value of intra-EU trade in goods. Therefore, a 50% increase in intra-EU trade in services would mean bringing its level to about 9% of EU GDP.

Following this scenario, further gains would amount to about one third of the benefits achieved so far:

- EU GDP could be boosted by 0.6%;
- EU GDP per capita could be permanently raised by €370;
- Household consumption in the EU could rise by up to €208 per year;
- EU-wide employment could grow by up to 1.3 million jobs.

These gains recur each year and grow over time. They also come in addition to the benefits already achieved.

8. What was the impact of the 2008/09 economic and financial crisis on Single Market integration?

With the economic and financial crisis the pace of integration has slowed in recent years. The impact of the Single Market remains positive in almost all EU Member States.

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[1] Total expenditure on R&D in 2005 was 1.74% and 2.03% in 2015. Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/R_%26_D_expenditure

[2] Education expenditure amounted to 5.3% of EU GDP in 2011. Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/Educational_expenditure_statistics

9. What are the key policy recommendations?

The authors of the study formulate the three following recommendations:

- Safeguard the Single Market, protect its achievements and avoid fragmentation;
- Implement ongoing Single Market initiatives;
- Achieve a fully functioning Single Market in services.

10. Are the study findings in line with results from earlier research?

The results are similar to the findings from previous studies, although slightly on the conservative side. For instance, previous research found comparable levels of GDP increase as a result of the Single Market. Please refer to Annex 2 (pp. 57-58) for a short summary of the academic literature on the impact of Single Market integration.

11. Where can I find additional information about the methodology used in the study?

Please consult the companion technical report at www.amchameu.eu/SingleMarket.

American Chamber of Commerce to the EU (AmCham EU)
Avenue des Arts/Kunstlaan 53, 1000 Brussels, Belgium
www.amchameu.eu info@amchameu.eu @AmChamEU
+32 (0)2 513 68 92 f: +32 (0)2 513 79 28