



Single Market fragmentation

Potential gains from
greater integration



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Executive Summary

The EU Single Market has delivered significant economic benefits for Member States and EU citizens over the past 30 years. As shown by both the [Letta](#) and [Draghi](#) reports published earlier this year, completing it remains a work in progress, and further integration could make a critical contribution to the EU's efforts to boost its economic competitiveness and counter the trend of declining growth rates relative to other major economies.

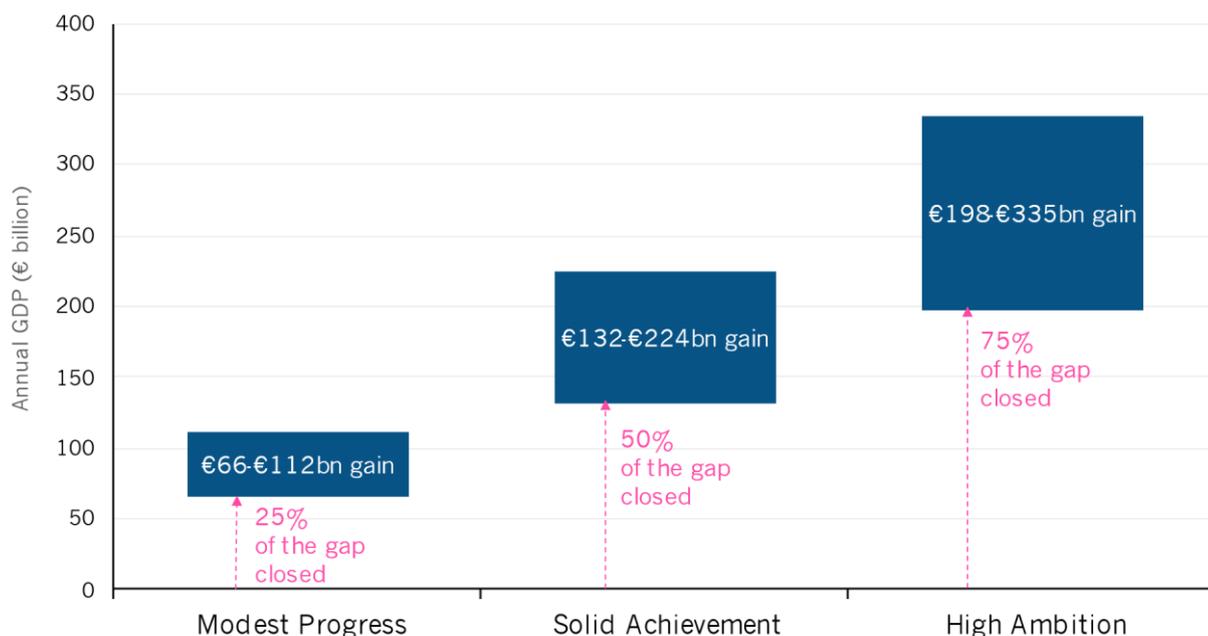
This report sets out to quantify how large this contribution could be. Building on a review of credible studies, our scenario analysis demonstrates that further progress towards completing the Single Market in goods and digital could raise EU-wide GDP by amounts that could be as large as €198 to €335 billion a year in a high ambition scenario (equivalent to 1¼ to 2% of EU GDP in 2024). Indeed, such sums might be seen as conservative, with [a significant new study from the IMF](#) estimating potential gains around three times greater than even the top of this range.

Conversely, other recent studies estimate that increased Single Market fragmentation could lower GDP per person in the EU by ½ to ¾% in the longer term (equivalent to €85 to €127 billion in EU-wide terms). These figures highlight the economic costs of a trend that has been on the rise in recent years, especially in the wake of a relaxation of EU state aid rules to allow Member States to provide more support for crisis-hit and 'strategic' industries.

Moreover, securing gains at the top of the range in this report could generate as much as €136 billion a year of additional tax revenue across the EU – a potentially significant contribution to help close the €800 billion a year investment gap identified in the Draghi report on EU competitiveness.

Overall, these figures strongly support the importance of deeper Single Market integration as a key lever for boosting the EU's economic competitiveness, in line with the recommendations of the Letta and Draghi reports. This should be a central policy priority for the EU's post-2024 mandate.

Potential gains in EU GDP from further Single Market integration (€ billions per year)



Introduction

As the EU institutions begin a new five-year mandate, there has been increasing political recognition of the EU's declining economic competitiveness and of its interplay with continued Single Market fragmentation. The need to address these trends was captured in two landmark reports published this year: the first, from Enrico Letta, described the Single Market as the EU's "most valuable asset"¹; the second, from Mario Draghi, lamented the fact that the EU has "left our Single Market fragmented for decades, which has a cascading effect on our competitiveness".²

If anything, the EU Single Market has become more fragmented in recent years. In the wake of the energy crisis triggered by Russia's invasion of Ukraine, individual Member States intervened to secure energy supplies and support supply chains in domestic markets, enabled through the 'temporary crisis and transition framework' that permitted greater use of national state aid. Competition between Member States in pursuit of foreign investment in 'strategic' industries for the green and digital transition such as semiconductors and batteries has also intensified, with national governments offering to partly cover very high capital expenditure needs while attempting to match the subsidies made available in third countries, not least under the US Inflation Reduction Act. Unsurprisingly, some smaller Member States have expressed concerns about the distortive effects of such trends to the detriment of their economies and to the benefit of larger Member States, which typically have greater resources available to support such investments.

These issues have long been recognised and have led to a number of proposals aimed at pooling strategic industry support at the EU level, while completing the EU Single Market in areas where it remains fragmented. In 2022, Commission President von der Leyen proposed an 'EU Sovereignty Fund', which is now planned to lead to an 'EU Competitiveness Fund' in the context of the EU's post-2027 Multiannual Financial Framework. This, the landmark reports from Enrico Letta and Mario Draghi pointed out that while the EU Single Market has delivered significant economic gains, it remains incomplete, with substantial untapped benefits.

The Letta report in particular outlines ways to strengthen and reinvigorate the Single Market. It emphasises the Single Market's role in fostering economic growth, innovation, and social cohesion, and in increasing resilience in the face of an evolving global landscape characterised by demographic shifts, technological advancements, and geopolitical tensions. Letta's comprehensive recommendations cover research, innovation and education, where he calls for introducing a "fifth freedom"; finance, where he outlines a strategy for establishing a Savings and Investments Union; energy and defence, where he lays out proposals to establish a true common market; and other areas such as health and transportation.

Building on existing evidence, in this report we present scenarios that quantify the potential gains from completing the Single Market for goods and digital. Our scenarios show that closing the current implementation gap could yield annual GDP gains of between €66 billion and €335 billion (0.4 to 2.0% of EU GDP). Besides underlining the economic benefits of reinvigorating Single Market integration, our scenario analysis illustrates the importance of guarding against fragmentation, which would reverse some existing gains rather than 'only' forgoing potential further gains. Getting the balance right between pursuing pro-active industrial policy and economic security measures

¹ Enrico Letta, [Much more than a market](#), April 2024.

² Mario Draghi, [The future of European competitiveness Part A | A competitiveness strategy for Europe](#), September 2024.

while not jeopardising the economic benefits from the Single Market will be critical for EU policymakers to ensure Europe's future prosperity in an uncertain world.

In Letta's words:

“We need evidence-based policies that consider the costs/benefits of action and inaction, our external competitiveness, and other external impacts, and that respond to the concerns of our trading partners and ensure that we remain an attractive destination for investment.”

While in von der Leyen's words:³

“We need a new momentum to complete the Single Market in sectors like services, energy, defence, finance, electronic communications and digital. This will allow our companies – especially our small and medium-sized enterprises – to scale up and make the most of the market.”

The past, present and future value of the Single Market

The Single Market came into effect on 1 January 1993, generating substantial economic gains since then. But it remains a work in progress – around 75% complete according to [a 2021 survey](#) of members of the European Round Table for Industry – with less development in some areas, notably the Digital Single Market. Studies show the prospective future gains that can be realised from further integration – often described as the ‘cost of non-Europe’ – could be significant.

Single Market economic gains achieved so far

The Single Market has delivered significant economic benefits to the EU by removing tariffs and reducing non-trading barriers (NTBs) to trade between Member States. Lowering these barriers has raised productivity and economic efficiency.⁴ Studies show that:

- EU citizens have gained around [€840 per year](#) from the Single Market, with the largest gains arising from the goods sector.⁵
- The Single Market has generated upwards of 2.75 million jobs (a 1.4% increase in EU employment).⁶
- The Single Market has increased trade volumes, with intra-EU trade intensity almost doubling between 1992 and 2012.⁷ Figure 1 shows that intra-EU trade intensity has continued rising

³ Ursula von der Leyen, [Political Guidelines for the next European Commission 2024-2029](#), July 2024.

⁴ This works through many channels. For example, lowering trade barriers expands market access, facilitating specialisation and economies of scale, while larger markets expose firms to greater competition, generating ‘dynamic’ gains by incentivising innovation.

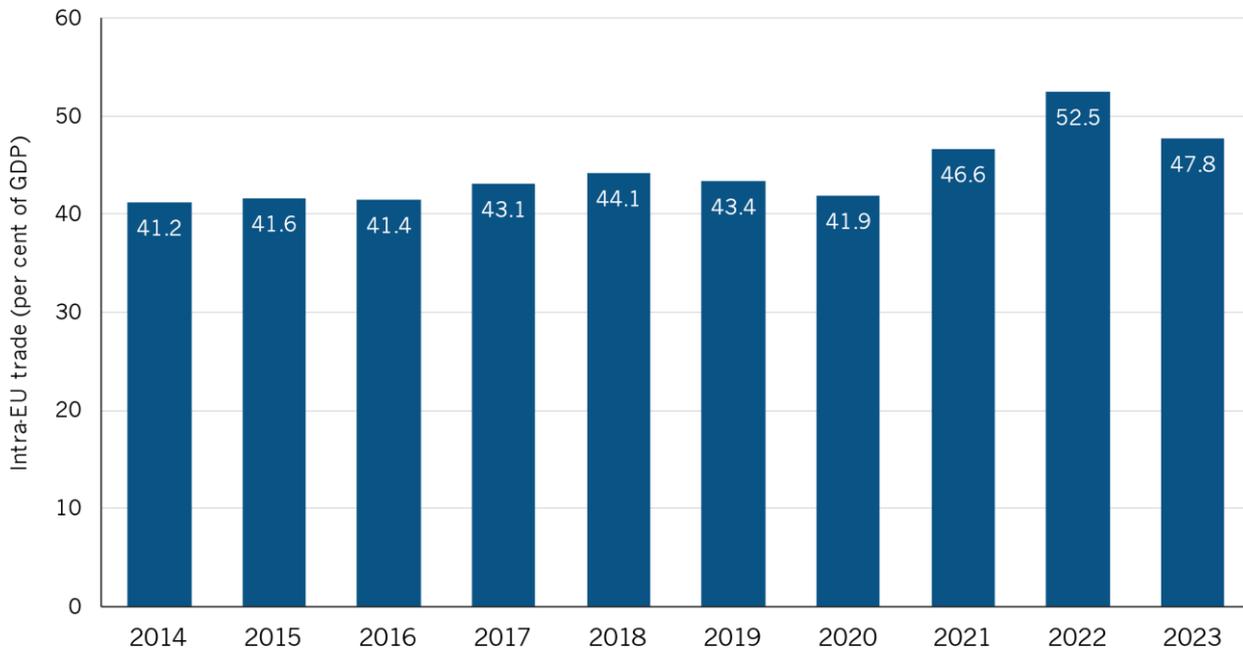
⁵ Bertelsmann Stiftung, [Estimating economic benefits of the Single Market for European countries and regions](#), 2019.

⁶ European Commission (2007), [Steps Towards A Deeper Economic Integration: The Internal Market in the 21st Century](#). This paper focused on the period between 1992 and 2006 and also found that the Single Market increased EU GDP by 2.2% a year on average, representing €233 billion, or around €500 per person.

⁷ Deutsche Bank, [The Single Market 20 years on](#), 2013.

over the past decade (though the recent movements reflect the energy crisis after Russia's invasion of Ukraine, which raised the value of intra-EU trade in energy products relative to GDP).

Figure 1: Intra-EU trade in goods as a share of GDP

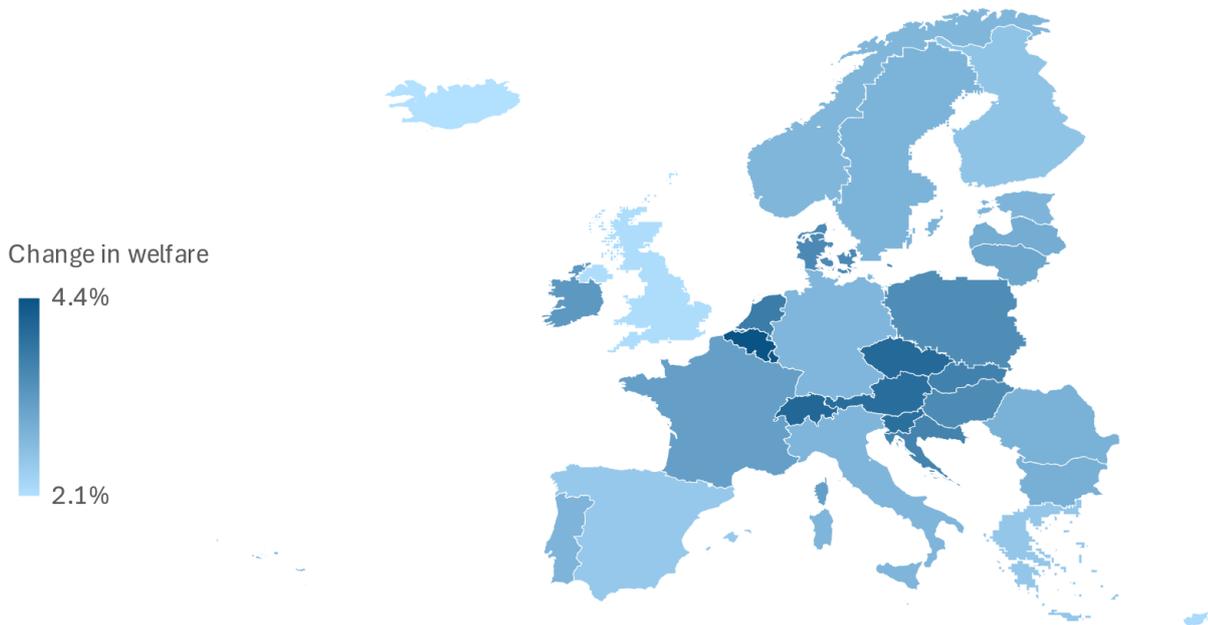


Source: [Eurostat \(ext_lt_intratrd\); \(nama_10_gdp\)](#)

While all countries within the EU have benefited from the Single Market, those gains vary between countries and regions. Figure 2 suggests that those in the geographic core of Europe have generally gained more than those on the periphery, such as Southern and Eastern regions. This partly reflects the continuing importance of geographical distance, but other factors matter too. For example, smaller countries and regions (and by extension newer Member States) stand to gain more from greater market access.⁸ But more economically advanced places tend to be more competitive already, meaning firms in those places tend to cope better with more intense competition.

⁸ European Commission, [The performance of the Single Market for goods after 25 years](#), 2019.

Figure 2: Economic benefits of the Single Market by country and region



Source: [Bertelsmann Stiftung](#) and Flint calculations

Gains from the Digital Single Market

The EU's plans for the Digital Single Market were encapsulated in a strategy set out in 2015, whose aims included improving access to digital goods and services by facilitating cross-border e-commerce. It initially estimated that a fully functional Digital Single Market could contribute [€415 billion](#) a year to the EU economy.⁹

A more recent [2019 study](#) by the European Parliament identified potential annual economic gains of approximately €177 billion (1.2% of 2017 GDP) from full implementation of the 2015 roadmap.

One example of the gains from the Digital Single Market is the estimated [€9.6 billion](#) that consumers saved from lower roaming charges between 2009 and 2013, following the breakdown of barriers in the EU telecoms market and the improved economic efficiency that brought about.

In future, these figures will need to be updated to account for the real-world economic impact of landmark digital regulations adopted in recent years, such as the Digital Services Act, the Digital Markets Act, the AI Act and the Data Act, which are currently in the process of being implemented. What is clear is that the EU is the world's largest importer and exporter of digitally deliverable services,¹⁰ and intra-regional trade also accounts for a higher percentage of trade in digitally deliverable services in Europe than in other regions.¹¹ But despite these achievements, intra-EU

⁹ A [2010 study](#) estimated that Europe could gain close to €500 billion by stimulating the fast development of the Digital Single Market over ten years.

¹⁰ Source: ['Mapping the EU's digital trade', 2023, Jacques Delors Institute.](#)

¹¹ Source: [World Trade Statistical Review 2023, World Trade Organization.](#)

trade in services accounts for only around 50% of total EU trade in services, a much lower proportion than in trade in goods.¹²

Potential gains from further integration

There are significant economic benefits that could be unlocked by removing the remaining Single Market NTBs. These gains could be particularly large for newer Member States, where NTBs are relatively more onerous, and the potential for future growth is therefore greater. The costs of NTBs can also be particularly costly for the EU's 24 million small and medium-sized enterprises (SMEs).

Enrico Letta's report argues that "the dynamism and efficiency of the Single Market are currently being significantly impeded by a complex web of challenges, primarily due to the excessive regulatory burden and bureaucratic red tape", impediments that are often "hitting SMEs the hardest". He also states that "the phenomenon of 'gold plating'... where Member States add additional requirements to EU directives beyond what is stipulated... intensifies the regulatory burden on businesses".

One official study for the European Parliament estimates the gains from removing the remaining barriers to trade within the EU could increase GDP by [€228 to 372 billion](#) a year (1.6 to 2.6% of GDP at the time of the study). An older study from the same source estimated that removing the remaining barriers might boost longer-term intra-EU trade by [€183 to 269 billion](#) a year.

Even larger estimates have been put forward. Drawing on a European Commission staff discussion paper,¹³ the Draghi report argues that "remaining trade frictions in the EU mean that Europe is leaving around 10% of potential GDP on the table". Meanwhile, a significant new study presented in the IMF's latest Regional Economic Outlook for Europe estimates that reducing intra-EU trade barriers to levels consistent with those between US states could boost productivity (and thus, by extension, GDP) by 6.7% (equivalent to more than €1 trillion a year).¹⁴

A 2014 study produced by the European Parliament's Research Service (EPRS) put the potential gains from completing the Digital Single Market at [€36 to 75 billion](#) a year (0.21% to 0.44% of GDP¹⁵) – mainly reflecting gains from cloud computing due to efficiencies and additional investment.¹⁶ For small businesses looking to capitalise on the Digital Single Market by selling online, the costs associated with incomplete integration of cross-border postal and parcel services were estimated at €2.2 to 5.6 billion a year.

This Digital Single Market study is widely cited as a credible estimate of potential benefits, but it is a decade old and, pre-dating much of the emergence of the mobile and online economy, not to mention the current pace of technological developments in AI, these figures are clearly outdated. Policymakers would no doubt benefit from new research and more recent data to quantify what

¹² Source: [Eurostat \(ext_lt_intratrd\) for goods and Eurostat \(bop_its6_tot\) for services](#).

¹³ Jan in 't Veld, [Quantifying the Economic Effects of the Single Market in a Structural Macromodel](#), February 2019.

¹⁴ IMF, [Regional Economic Outlook Notes, Europe, Europe's Declining Productivity Growth: Diagnoses and Remedies](#), November 2024.

¹⁵ 2023 EU GDP based on [Eurostat \(nama_10_gdp_nama_10_pc\)](#).

¹⁶ The estimates in the study are based on combining previous studies focusing on three areas – cloud computing, payments, and postal and parcel services – and applying assumptions to, for example, the size of these markets in turn. These estimates are then used as inputs into a sophisticated model that attempts to simulate European economies.

benefits have been achieved and the scale of future potential benefits from completing the Digital Single Market, while also reflecting the impact of the digital regulations introduced in recent years.

Potential costs from Single Market fragmentation

The [European Centre for International Political Economy \(ECIPE\)](#) has examined the economic costs of Single Market fragmentation stemming from the EU's pursuit of 'strategic autonomy' policies in response to perceived vulnerabilities, including:

- Reshoring supply chains and restricting trade and investment flows.
- Expanding state aid and subsidies to build up 'strategic' industries and companies.
- Imposing new regulatory requirements related to security objectives.

ECIPE estimates that such policies could reduce EU GDP by 0.08 to 0.15% in the short run (due to less efficient resource allocation), but that longer-run costs could be 3 to 5 times greater, lowering GDP per capita by 0.5 to 0.75% (as a result of reduced productivity and innovation).¹⁷ That would be equivalent to €85 to 127 billion in EU-wide GDP terms.

These costs would be likely to fall disproportionately on smaller firms as the compliance costs associated with NTBs weigh relatively more heavily on them.¹⁸ This is backed by the post-Brexit experience of UK SMEs that have [struggled with the regulatory requirements](#) to export to the EU, despite the UK-EU trade agreement being nominally tariff-free. They have [exported less](#) as a result.

ECIPE's conclusions on regulatory barriers accord with concerns raised in the Draghi report. For example, Draghi argues that "regulatory barriers to scaling up are particularly onerous in the tech sector, especially for young companies... For example, the AI Act imposes additional regulatory requirements on general-purpose AI models that exceed a pre-defined threshold of computational power – a threshold which some state-of-the-art models already exceed."

¹⁷ ECIPE's report offers a four-tier taxonomy of EU strategic autonomy policies, discusses the role of "European values" and the "EU first" bias in policymaking, and outlines the potential economic costs of major EU strategic autonomy policies. The paper models the economic impacts of various EU strategic autonomy policies using three main scenarios:

- Low scenario: Assumes a modest increase in subsidies and other supportive measures for EU industries, a moderate rise in regulatory divergence between the EU and trading partners on digital issues, and limited use of tariffs and other trade barriers.
- High scenario: A more aggressive pursuit of strategic autonomy, with a substantial increase in subsidies and preferential procurement for EU firms, the same rise in digital regulatory divergence as the low scenario, and more extensive use of tariffs and trade restrictions against certain partners.
- High scenario with retaliation: Builds on the high scenario but also assumes that key trading partners like the US and China retaliate against the EU measures with their own tariffs on EU exports.

¹⁸ For example, the ECIPE paper considers that the costs of strategic autonomy policies are not evenly distributed across the EU27, with variations due to differences in business composition, production capacities, access to capital, skilled labour, knowledge, and purchasing power among Member States.

Scenario analysis: methodology and results

Looking ahead, both Letta and Draghi emphasise the importance of completing Single Market integration for EU competitiveness and wider economic performance. ECIPE's analysis puts figures on the risks posed by integration going into reverse. But what could realistically be gained from further integration – moving closer to completing the Single Markets in goods and digital?

To illustrate the potential boost for the EU economy of further progress on integration, we present illustrative quantitative scenarios of the impact on EU-wide GDP of closing the integration gaps for both goods and digital to varying extents. Our scenarios are based on stylised fractions of the potential GDP gains from full integration that could be realised. The three scenarios assume that:

- **Modest progress:** a quarter of the implementation gap is closed;
- **Solid achievement:** half of the implementation gap is closed; and
- **High ambition:** three-quarters of the implementation gap is closed.

We have not included a scenario in which Single Market integration is fully completed, reflecting the fact that real-world considerations – such as those that underpin the 'strategic autonomy' agenda – are always likely to mean integration falls short of the theoretical maximum.

The scenarios distinguish between the gains realised from further integration in physical and digital markets, before aggregating them for an overall potential gain (Table 1). Based on the official studies for the European Parliament described above and referenced under Table 1, the theoretical maximum gains from integration across both markets is €264 to €447 billion a year, with around 80% of the potential gain associated with completing the Single Market for goods.¹⁹

For the scenarios we consider, the potential gains in annual GDP across the EU amount to:

- **Modest progress:** between €66 and €112 billion a year (0.4 to 0.7% of EU GDP);
- **Solid achievement:** between €132 and €224 billion a year (0.8 to 1.3% of EU GDP); and
- **High ambition:** between €198 and €335 billion a year (1.2 to 2.0% of EU GDP).²⁰

In Box 1, we discuss how realising these gains in GDP through Single Market integration could make a significant contribution to closing the €750 to €800 billion a year EU investment gap identified in the Draghi report on the future of Europe's competitiveness.²¹

¹⁹ It is plausible that impacts may have non-linear effects depending on the scale of the reduction in possible gains. However, for simplicity and tractability, we have not introduced this into our analysis.

²⁰ This estimate accords with the [2023 study](#) published the European Parliament Research Service, which estimates that the EU economy could achieve at least €2.8 trillion in additional output, cumulatively over 10 years, if Single Market integration was to continue at a consistent pace of change.

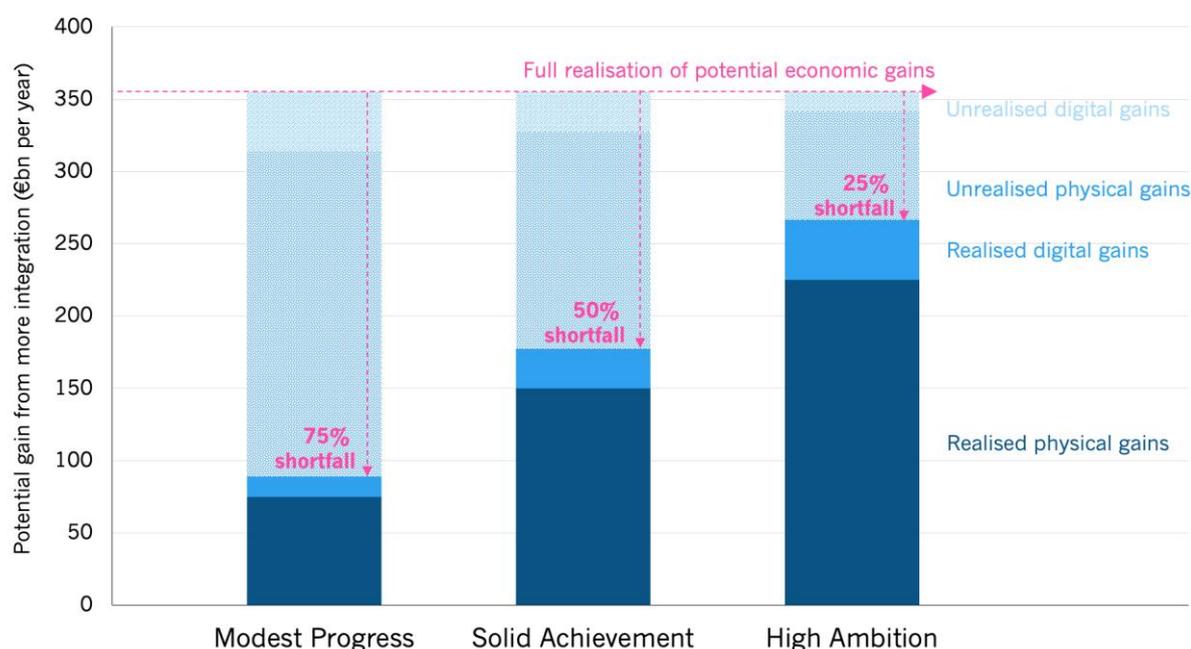
²¹ Mario Draghi, [The future of European competitiveness Part B | In-depth analysis and recommendations](#), September 2024.

Table 1: Potential GDP gains realised from further Single Market integration: three scenarios

Scenario	Share of potential gains realised	GDP from goods (€bn per year)	GDP from digital (€bn per year)	Total impact on EU GDP (€bn per year)
Modest progress	25%	57 to 93	9 to 19	66 to 112
Solid achievement	50%	114 to 186	18 to 38	132 to 224
High ambition	75%	171 to 279	27 to 56	198 to 335

Source: Flint Global scenarios based on: a) [‘Completing the single market for goods’, 2022, European Parliamentary Research Service](#); b) [‘The cost of non-Europe in the Single Market III – Digital Single Market’, 2014, European Parliamentary Research Service](#).

Figure 3 presents mid-point results from the three scenarios, with the shaded areas representing the annual GDP gained from realising a proportion of the full potential gains from further integration of the digital and physical markets respectively.

Figure 3: Midpoint estimates of the annual GDP gains from further Single Market integration

Source: see notes to Table 1

Box 1: How further Single Market integration can help close the EU's investment gap

The September 2024 [Draghi report](#) emphasises the importance of completing and strengthening the Single Market to boost competitiveness and innovation, but also economic resilience. It highlights how Single Market fragmentation, trade barriers, and divergent state-aid practices undermine these goals.

Draghi also highlights a significant investment gap in the EU, estimated at around 4% of GDP or approximately €750 to €800 billion a year, for energy, transport, digital, security, and innovation. He also discusses the causes underlying that gap, which include high regulatory burdens, fragmented financial and insolvency regulations, high energy costs from the lack of a unified approach to energy infrastructure, and competition from the US Inflation Reduction Act, which has drawn investment away from Europe.

Closing this gap will require both private and public resources to be mobilised. Realising the potential gains from Single Market integration is one clear route to generating more resources.

Extending our scenario analysis to include the impact on tax revenues from realising gains in EU GDP, we estimate that securing gains at the top of the range in this report could generate as much as €136 billion a year of additional tax revenue across the EU. If these additional funds were directed to public investment, they could help close as much as one-sixth of the investment gap identified in the Draghi report.

Implications for policymakers

The most important implication of our scenario analysis is to underscore just how much progressing the physical and digital Single Markets could mean for the EU economy. Reinvigorating integration could generate hundreds of billions of euros a year in additional GDP, whereas further fragmentation could cost tens to hundreds of billions of euros a year.

Figures like these lie behind the recommendations of the Letta report on the Single Market – and the importance placed on Single Market integration to underpin EU competitiveness in the Draghi report. Indeed, the EU-wide resources generated from achieving greater integration provide one clear route to beginning to close the €800 billion a year investment gap identified in the Draghi report. This could be particularly important at a time of otherwise slow growth, constrained budgets, and limited political appetite for new EU-level borrowing programmes.

For EU policymakers, this points to the importance of taking steps to further Single Market integration. As the Letta report highlighted, this requires evidence-based policies that ultimately ensure the EU remains an attractive destination for investment.

Advancing Single Market integration and realising economic gains will require both grand initiatives and sustained progress on removing the granular frictions that ordinary businesses face on a daily basis.²² This ranges from the challenges of regulatory fragmentation in telecommunications or

²² As documented, for example, in the European Round Table for Industry's ['Single Market Obstacles Compendium'](#).

undersized markets in defence, to the regulatory burdens from the gold-plating of EU regulations or the fragmented intra-EU cross-border postal market that hampers SMEs selling online.

Set out in the Letta and Draghi reports, the challenge has been [well identified](#) by Commission President von der Leyen, who has put the deepening of the EU Single Market at the very top of her European Prosperity Plan.

As laid out in the [Mission Letter](#) of Executive Vice President Stéphane Séjourné, who is responsible for the Single Market, this should notably include a horizontal Single Market Strategy aimed at promoting the cross-border movement of goods and services, a Single Market Barriers Prevention Act and, importantly, a determined effort to deepen the Single Market and simplify the regulatory environment for SMEs, in particular through a dedicated SME passport.

Access to finance and deepening the Single Market for financial services is also expected to be a key policy priority of the new European Commission, thanks to the establishment of the European Savings and Investments Union.

These announcements show that European policymakers understand the importance and urgency of completing the EU Single Market – as underlined by the Letta and Draghi reports, and confirmed in our scenario analysis. The task now is to make it happen.



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