EconPol Update

The Single Market Strategy:
Europe's Best Bet in an Unstable World
Brussels Economic Monitor 2/2025

Focus: The Single Market Strategy

Press conference: Stéphane Séjourné, Executive Vice-President.

As proposed by Enrico Letta's Report and at the request of the European Council, the European Commission has put forward a "Strategy for a Single, Simple and Seamless Market". The Strategy focuses on **strengthening and modernizing the Single Market** through **six key areas**.

First, it aims to reduce barriers by targeting the most harmful obstacles, referred to as the **"Terrible Ten"**, that currently hinder trade and investment across the EU. Addressing these top-priority issues should help unlock the full potential of the market. Second, the strategy seeks to **boost services** by adopting a sector-specific approach, mainly focusing on services crucial to the **green and digital transitions**, as these sectors offer high economic value.

Third, there is a **strong emphasis on small and medium-sized enterprises** (SMEs), which are disproportionately affected by regulatory fragmentation. The strategy proposes actions to help SMEs benefit more fully from the Single Market. Fourth, the Strategy promotes faster and more digital operations, highlighting the need for smart implementation and enforcement of policies. Digitalisation should be used to **simplify administration and enhance cooperation between EU institutions** and Member States, while ensuring rules are applied consistently.

Fifth, the Strategy addresses the complex and overlapping EU rules that lead to high compliance costs and administrative burdens. Further **simplification omnibus proposals** are planned, including a digital omnibus and an environmental omnibus. In parallel, a new omnibus package will **extend SME exemptions to small midcaps** for certain legal acts, shift the Single Market from a document-based to data-based model, and introduce emergency mechanisms for swift market access for essential products. Finally, the Strategy calls for greater national and political ownership. Member States are urged to **dismantle domestic regulatory and administrative barriers**, ensure new national measures comply with EU law, and maintain transparency with stakeholders.

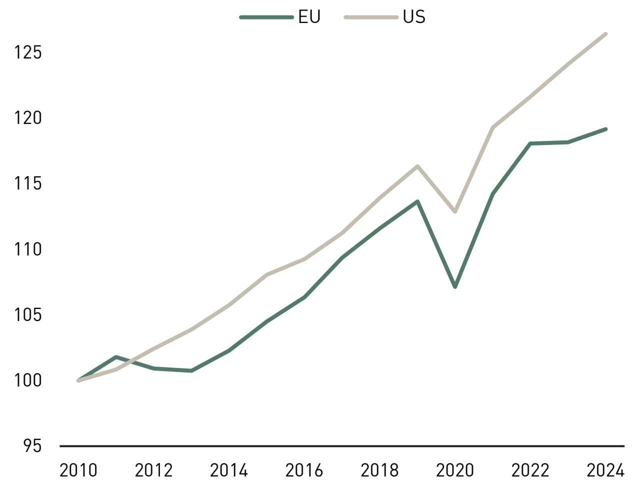
The Strategy contains a series of **specific legislative and non-legislative initiatives** to be presented during this mandate. One of the most discussed proposals is the establishment of a **"28th regime"**, a voluntary company law to simplify and digitalise EU-wide business operations (Q1 2026). A **Single Market Barriers Prevention Act** should help lower unnecessary hurdles (Q3 2027) while a **Construction Services Act** (Q4 2026), a **Digital Networks Act** (Q4 2025) and an **EU Delivery Act** (Q4 2026) are aimed to improve cross-border market access, electronic communications and postal services. In addition to that, existing provisions in the fields of **public procurement, standardisation,** and **product regulation** will be streamlined to further **reduce fragmentation** (2026). Furthermore, the Commission wants to facilitate the **cross-border mobility of workers** via a public interface for the **declaration of postings**, an improved **social security coordination**, and the deployment of a **European Social Security Pass**. A **reinforced SME Envoy Network** is aimed to improve internal law-making procedures.

According to the Commission, a strong, prosperous and simple Single Market is the key to **protect citizens and companies from unfair global competition** and to **enhance Europe's internal value chains**. This also includes a **deeper integration of candidate countries** as well as **national policies aligned with common objectives and rules on the EU level**. The overall goal is to have a **modernised and digitalised European Market framework** in place by 2030.

Indicators to watch

GDP per capita growth in the EU vs. the US

Index: 2010=100, PPP, in 1000 international USD (2021)



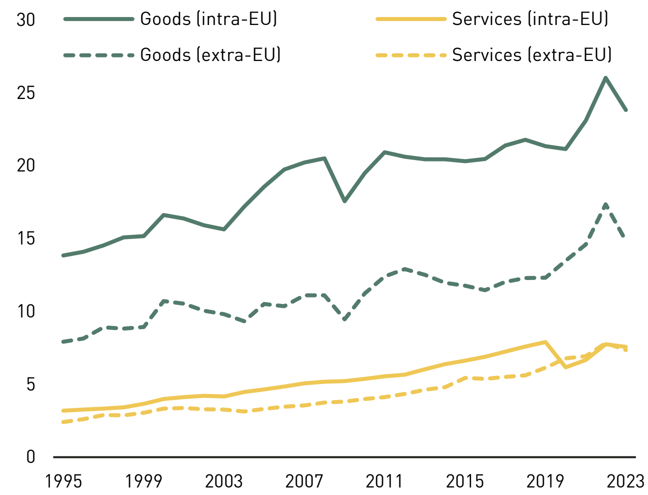
Source: IMF World Economic Outlook, April 2025.

Widening growth gap: Europe continues to lag the US

Although the EU remains the world's second largest economy with a GDP of around 19 trillion USD, it has fallen significantly behind the US in terms of growth. This underperformance has been present ever since the euro-crisis brought the recovery from the global financial crisis to a sudden halt and it has been exacerbated further by the twin shocks of the pandemic and the war in Ukraine. As Mario Draghi noted in a recent speech, this can be attributed partly to a prolonged period of restrictive fiscal policy, that, together with stagnating single market integration, caused the EU to rely too heavily on external demand as a source of growth. While this strategy was successful in many cases, it has become a structural weakness, that is especially concerning at a time of resurgent protectionism, given that both the US and China are becoming less open to EU imports.

Trade flows within the EU and with the rest of the world

In % of GDP



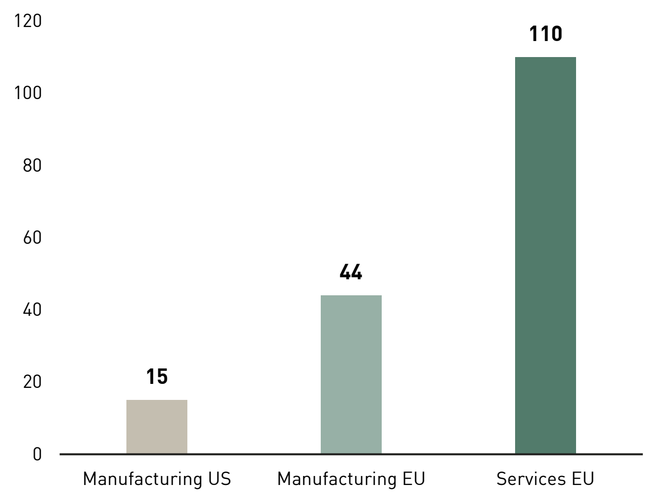
Source: European Commission.

Single-Market momentum has faded over time

Despite remaining market barriers, the story of the European Single Market is one of success. During most of its existence, integration for goods has increased steadily, with trade between Member States growing faster than trade with extra-EU partners on average. However, enforcement of single market rules has become weaker in recent years, with infringement cases dropping by 75 % after 2011. Meanwhile, progress on the capital markets union has been mostly absent. Together, this slowed productivity growth as well as the flow of savings into domestic investment. As a result, Intra-EU trade in goods has ceased to grow faster than world trade in goods. This contrasts with earlier periods, such as after the 2004 enlargement, when the EU experienced rapid growth in its manufacturing capacity in Central and Eastern Europe, which boosted trade within the internal market.

Trade frictions in the EU single market

In %, trade costs in terms of tariff-equivalents (2020)

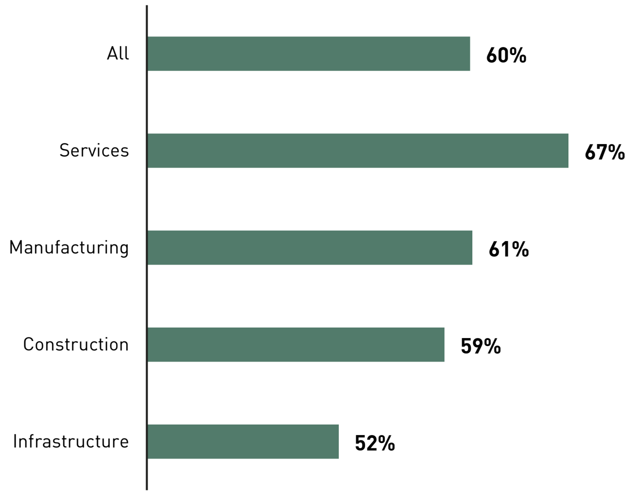


Source: IMF.

Internal barriers impose crippling trade costs on services

Unlike for trade in goods, EU countries do not engage in more intensive service trade with each other than with the rest of the world. Which is largely due to remaining internal market barriers. Since most of the business done by EU companies takes place within the single market, internal barriers tend to inflict more damage than external ones. The IMF recently highlighted these hidden costs, caused by overlapping taxes, cumbersome regulations, restrictive licensing requirements and more. They estimate that these barriers amount to an average tariff equivalent of 44 % on goods and 110 % on services. Reducing these non-tariff costs promises to boost growth significantly. The German Ifo Institute has estimated that a 10 % reduction in non-tariff barriers could increase EU gross value added by 0.5 % (EUR 77 bn), while a 25 % reduction could increase it by as much as 2.3 % (EUR 355 bn).

Share of firms that are faced with differing regulatory requirements for their main product or service
In %



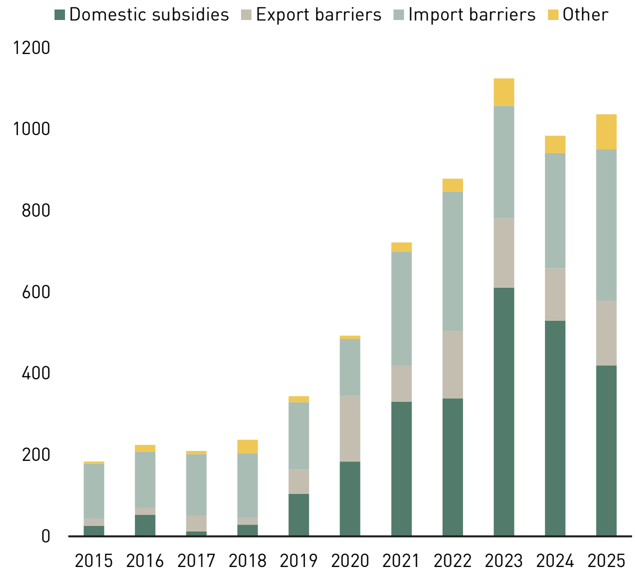
Source: EIBIS 2024/25.

Regulatory patchwork burdens intra-EU exporters

The latest EIB Investment Survey provides further evidence that, more than 30 years after its introduction, the EU's internal market remains incomplete. 60 % of exporting firms report that their flagship product or service must comply with different regulatory requirements when crossing an internal border. The burden is heaviest in the services sector, where two-thirds (67 %) of firms need to adapt to new rules when exporting to other member states. Among services sectors, the OECD estimates that air transport, legal activities and accounting services are facing the harshest trade restrictions. Manufacturers are not far behind at 61 %, followed by construction companies (59 %). Furthermore, this regulatory burden is not evenly distributed across member states, with those that joined more recently facing higher regulatory fragmentation.

Number of discriminatory trade interventions

Per implementation year and intervention type



Has become Sources: GTA Database, reporting-lag adjusted with cut-off date 29.04.2025.

External conditions for European trade are worsening

Following the 2008 sovereign debt crisis, the EU relied on external demand as its main driver of growth, resulting in a sharp decline in the share of GDP accounted for by domestic demand. However, this strategy has become less sustainable in recent years, as evidenced by the growing number of harmful trade measures being introduced worldwide. The most common of these are import barriers (including tariffs) and domestic subsidies, the latter of which often discriminate against foreign competitors. Consequently, export-oriented companies must prepare for an increasingly protectionist global trade landscape. The problem is: Without stable demand conditions, companies will hesitate to commit to investments, research and development expenditure, export capacity, and other long-term decisions. This means that, if Europe is to grow in a self-determined way, the EU should focus on shaping its immediate home environment — in other words, on finally finishing the job of fully integrating its common market.

TAKE: The EU is caught **between a rock and a hard place**, facing prolonged stagnation and the loss of market access vis-à-vis its two most important trading partners, the **US** and **China**. However, there is a way out: **doubling down on the Single Market** as an **engine of growth**. This requires strict **enforcement** of existing rules and provisions, a push for harmonization, tangible simplification of EU legislation including the reduction of administrative burden, as well as serious efforts to integrate capital markets. By reducing internal barriers, the EU would **unlock the productivity boost** it so urgently needs. This would strengthen the Single Market both as a **buffer** against short-term and structural drops in demand in key export markets and as a **lever** to compete with global economic powers at scale. Europe needs to **fight internal economic fragmentation** and **bolster its own political unity** in a world increasingly dominated by **geo-economic mistrust**, **military threats**, and **social uncertainty**.

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May 22nd, 2025