

# The untapped potential of the Single Market – Free Movement of Goods

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RAND EUROPE



# Approach



# We investigated three research questions



What are the economic benefits of the removal of trade barriers in the internal market?

How are these effects distributed across different EU Member States?

What are the effects of further harmonisation for specific sectors of the European economy?

We estimated the effects at three levels



### **EU-28 and Member State level modelling**

- Apply econometric gravity model of trade to predict the economic benefits for the removal of trade barriers
- Combine IMF trade data, World Bank GDP data and OECD data on national product market regulation

# The gravity model in a nutshell



And if you really like equations...



$$\log \pi_{ij} = \beta_0 + \beta_1 \text{age} + \beta_2 \text{sex} + \beta_3 \log(\text{GDP})_{ij}$$



$$\beta_1 \log(\text{GDP})_{ij} + \beta_2 \text{age} + \beta_3 \text{sex} + \beta_4 \text{interacted}$$



$$\beta_1 \text{combined} + \beta_2 \text{sex} + \beta_3$$



$$a_1 \text{age} + a_2 \text{sex}$$




$$a_1 \text{GDP} + a_2 \text{GDP}$$



$$a_1 \text{GDP} + a_2 \text{GDP}$$

$$R^2 = 0.9$$



# Results

# We investigated three research questions



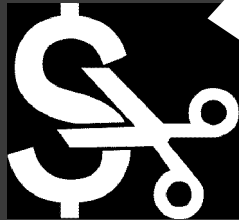
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# Results suggest intra-EU trade rises by €183-€269bn



● € 81-98 bn

REMOVAL OF  
FDI BARRIERS

*90% confidence interval: (€69,930; €112,269)*



● €102- 171

REMOVAL OF  
NON-TARIFF BARRIERS

*90% confidence interval: (€18,022; €321,315)*



0.49-0.59%  
share of  
gdp



0.61-1.03%  
share of gdp

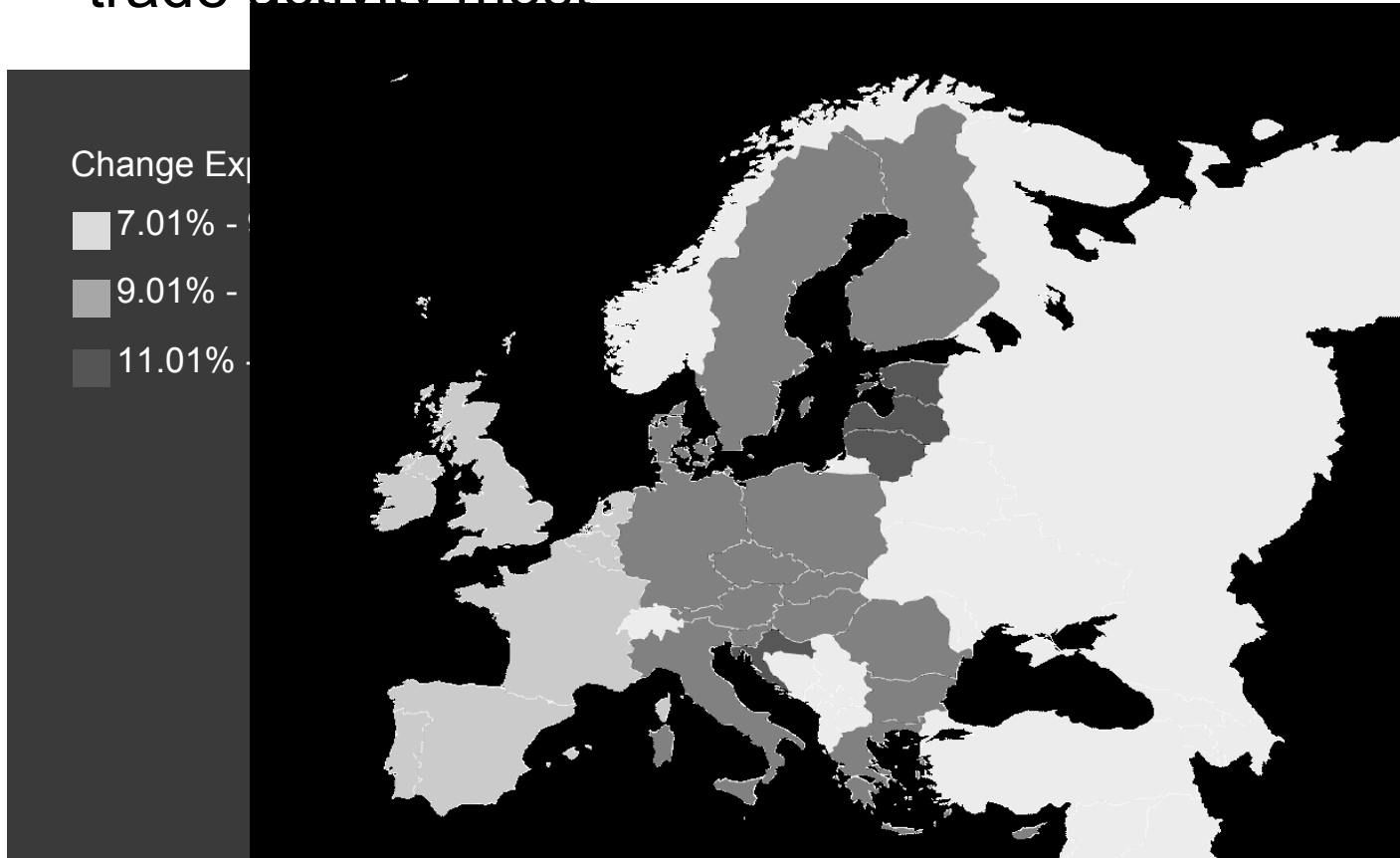
# We investigated three research questions



How are these effects distributed across different EU Member States?

What are the effects of further harmonisation for specific sectors of the European economy?

Results suggest new Member States increase trade activity most





Conclusion

## 20 years later there are still potential gains



There is still considerable potential for further economic integration



We estimate trade creation effect of €183-269bn in the longer term



Only addresses static effects of increased trade