

The Economics of the Single Market and the Trade Expansion in Neighboring Countries

Contents

What is the Single European Market?

Main requirements to achieve SEM

The Economics of non-Tariff Barriers

The Progress of SEM in the Services Market

Four Broad Aims of SEM

What is the Single European Market?

The SEM is defined in the Single European Act (SEA) (1986), which is defined as:

An area without **internal frontiers** in which the free movement of goods, persons, services and capital is ensured

This means that

borders should **disappear** within the EU, which implies:

goods, services, capital and people should be able to move between countries as they move between regions within a country.

Main requirements to achieve SEM

To make the SEM for the EU like a national market

- ✓ The **removal of** customs “all internal tariffs and quotas”
- ✓ The **removal of** all other measures having equivalent effect of tariffs (non-tariff barriers)
- ✓ The **removal of** customs and passport controls at borders
- ✓ The **elimination of** any national barriers to the sale of other EU countries’ goods and services
- ✓ The **ending of** any national controls on the movement of capital.

Other requirements to achieve ESM

The removal of other three types of barriers:

1

**Physical
Barriers**

2

**Fiscal
Barriers**

3

**Technical
Barriers**

Physical Barriers

They include

- ✓ Checks at borders for the control of the movement of persons for immigration purposes;
- ✓ Customs borders, which were required due to differences in indirect taxes
- ✓ Animal and plant health was protected by inspections at borders;
- ✓ Checks on lorries and drivers were imposed ostensibly for safety reasons and to enforce national restrictions on foreign haulers.

Fiscal barriers

They include

Checks on goods crossing borders because differences in different types of indirect taxes, which include:

- ❖ Sales tax
- ❖ VAT
- ❖ Excise duties on alcohol, tobacco, etc.

These barriers were dealt with by remitting these taxes on exports and imposing them on imports.

Technical barriers

They include

An enormous range of measures that affect trade.
The most pervasive of these are technical **regulations & standards** and **National Procurement**

The existence of such different regulations and standards imposed **additional costs** on EU producers who had to make **alterations** to their products before they could sell them in another member states.

Technical barriers were the main impediment to trade in **goods and services**.

For example

In **financial services**, trade was limited by government regulatory measures, and **capital movements** were controlled by several member states.

- ✓ In **banking sector**, there were particular problems with establishing **capital adequacy**.
- ✓ **Insurance** could not be sold in most member states unless the insurer had a **local permanent establishment**.

Regulations

They are **legal requirements** which products must **satisfy** before they can be sold in a particular country;.

Examples

Health requirements

Safety requirements

Environmental requirements

Standards

They are technical requirements set by private standardization bodies like BSI in the UK.

They are responsible for:

- ✓ Producing standards-related services to businesses
- ✓ Auditing and providing certification to companies worldwide who implement management systems standards.

They are not legally binding in themselves:

Although they are only voluntary, they often assume a quasilegal status because:

- They are used in technical regulations and in calls for tender in contracts.
- They are also important in marketing the product.

National Procurement

Purchases by the government (or public firms) can be directed towards domestic goods, even if they are more expensive than imports.

Governments frequently discriminated against bids from firms in other member states for a variety of reasons:

- ✓ For strategic reasons (e.g. weapons);
- ✓ To support of employment;
- ✓ For the purpose of encouragement of emerging high-tech industries
- ✓ To maintain employment

However, such policies imposed **costs** on both the **public authorities** and **firms**.

- The public authorities: because they ended up paying more than they needed to.
- Firms because the market available for selling their goods was too limited.

One consequence was too many producers, making it difficult to achieve an **optimum scale** in industries such as:

- Defense,
- Electricity generating
- Telecommunications equipment.

The Economics of non-Tariff Barriers

Non-tariff barriers are any non-tariff government policy measure that intentionally or unintentionally alters the **amount** or the **direction** of trade.

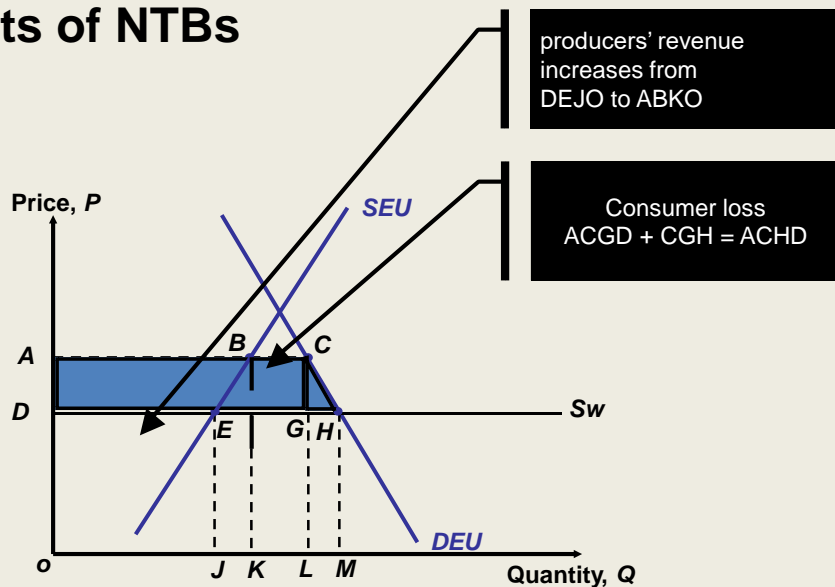
They are artificial not natural conditions: transport costs, language and cultural factors influence trade flows but are not NTBs.

Natural conditions can, however, be exploited as NTBs, e.g. by requiring extensive documentation in the home language.

❑ Whether intentional or unintentional, it could affect negatively the volume of trade.

The effects of NTBs are analogous to those of tariffs

The Effects of NTBs



Slide 8-16

● The Effects of NTBs

✓ The world supply of this product to the EU, SW , is assumed to be infinitely elastic at a price D and this would be the price in the absence of restrictions on trade.

✓ At this price, the EU demand (DEU) would be OM , EU supply (SEU) OJ and imports JM .

✓ If a tariff of AD was levied on imports, the EU price would rise to A ,

✓ EU demand would contract by LM to OL , EU supply would increase by JK to OK and imports would fall to KL .

Slide 8-17

● The Effects of NTBs

Consumption is reduced and consumers are worse off.

The consumers' loss is equal to the area $ACHD$

- made up of the higher price on their current consumption, an amount equal to the area $ACGD$, and the loss of the opportunity to buy LM at the lower price OD the area CHG .

Domestic producers' revenue increases from $DEJO$ to $ABKO$; of this $JEBK$ is the additional cost of production, so producers' surplus increases by $ABED$.

Slide 8-18

● The Effects of NTBs

- NTBs are cost-increasing rather than **revenue generating**.
- NTBs protect the market by imposing additional costs on importers by,
 - ❖ requiring products to be modified to comply with different national regulations;
- This increases costs both directly and indirectly by reducing production runs.

It is difficult to measure NTBs and thus Levels of NTB protection can be very high.

On the contrary, tariffs are relatively transparent: tariff rates are published and are subject to international negotiation.

Slide 8-19

● The Effects of NTBs

The benefits from the elimination of NTBs are likely to be large for **three reasons**:

First, the cost savings are large.

Second, they apply to a larger proportion of output than with tariff reduction.

Third, they may impact more directly on economies of scale because production can be standardized.

Slide 8-20

The Progress of SEM in the Services Market

➤ The Services Market

The EU has sought to open up the services market with two particular measures:

- **A general services directive** (in non-financial services)
- **The Financial Services Action Plan**

Slide 8-21

The barriers to cross-border trade in **non-financial services** remain high.

National regulatory regimes are very different and complex, so one cannot be confident that they **would not** be used to protect domestic companies.

In sectors such as accountancy, retailing, wholesale trade and IT services, **barriers remain high** and the **gains** from their elimination could be significant.

Slide 8-22

The directive proposed various measures to eliminate such barriers:

- ✓ Freedom of establishment (easing of administrative requirements);
- ✓ Freedom of movement:
 - ✓ Country of origin principle as opposed to the country of reception principle
 - ✓ Rights of recipients to use services in other countries

Slide 8-23

The potential benefits obtained from integration of **financial markets** are considerable, due to:

- Improvements in the '**x-efficiency**' of financial intermediaries as competitive pressures oblige them to:
 - ✓ Adopt new technologies
 - ✓ Minimize operating costs
 - ✓ Restructure to more optimal sizes.
- More **innovative provision of financial services** (such as electronic trading), which may lead to increases in **retail demand** for financial services.
- Pooling of liquidity** that deepens the supply of finance.

Slide 8-24

Four Broad Aims of SEM

1- Completing a single wholesale market



2- Developing open and secure markets for retail financial services



3- Ensuring the continued stability of EU financial markets



4- Eliminating tax obstacles to financial market integration.

Slide 8-25

Thank you

Slide 8-26