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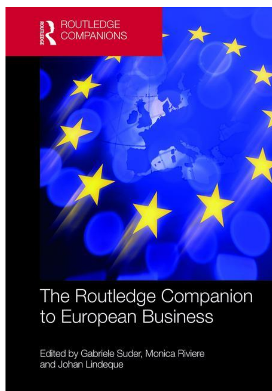

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Single market evolution and its business impact

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12

SINGLE MARKET EVOLUTION AND ITS BUSINESS IMPACT

Maureen Benson-Rea and Anna Gerke

Introduction

This chapter builds on the overview of European business (Chapter 2), and on international business theory as applied to the European region (Chapter 4). Those chapters describe and explain theoretically the unique nature of, and context for, business in Europe. This chapter examines a critical component of integration in the European Union (EU), the Single European Market (SEM), which represents the enactment of the EU's economic goals. We review the processes by which the SEM was established, its objectives and how successful the EU has been in achieving those objectives. It provides an evaluation of the SEM's impact on business and future areas for research on business in Europe. We explore what market integration means for EU business and set the scene for the analysis of European business in the world, and international business strategy.

The EU represents the most advanced form of regional economic integration in the world, with its central focus on an integrated market in the SEM (Suder 2011). The SEM is the policy area within the EU integration process with the largest impact on business, putting in place restructuring and change from the late 1980s onwards. Its impact on the economy has been analysed extensively (see, for example, Mikić 1998), though the effects on individual businesses – which vary depending on firm size, location, industry and industry structure – much less so. Initial enthusiasm amongst scholars led to a wave of publications in the early 1980s, mostly on the evolution and homogenisation of consumers in Europe, with a second wave at the beginning of the twenty-first century examining legislation, standardisation and harmonisation issues in the SEM (Apfelthaler 2015). The impacts of the SEM have traditionally been measured at the aggregate level (Mariniello et al. 2015), by trade and foreign direct investment (FDI) flows, and mergers and acquisitions (M&A) (Alhorr et al. 2012; Couerdacier et al. 2009; Zademach and Rodríguez-Pose, 2009), which we discuss below.

There is no doubt, however, of the size and scale of the European market. The internal effects of the SEM mean that business and consumers trade in a single market of approximately 500 million people, with an economic value (GDP) of €14,600 billion in 2014 (European Commission 2014a). There have also been significant FDI inflows (Couerdacier et al. 2009), but the record and the causal attribution on growth, jobs and lower prices (see Table 12.1), and

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Table 12.1 Summary of economic evaluations of the SEM

Study	*Results*	*Timescale*
Cecchini et al. (1988)	+4.25–6.5% GDP	5–6 years
Baldwin (1989)	+0.3–0.9% long-term GDP growth	Long-term
European Commission (1996)	+1.1–1.5% GDP 900,000 jobs in 1994	Impact to 1994
Minford et al. (2005)	-3% GDP for UK remaining in EU	Forward looking (from baseline status quo)
Ilzkovitz et al. (2007)	+2.2% GDP in 2006	1992–2006
Boltho and Eichengreen (2008)	+2.75 million jobs +5% GDP in 2008	Impact to 2008

Source: Extracted from UK Government (2013, Table 4, p. 72).

whether the full potential of the Single Market has been achieved, are less clear. With a market that generates a quarter of the world's GDP, it is the EU's single biggest economic achievement and any analysis of European business must consider the EU's SEM both as an important driver of Europe-wide strategy and its geo-economic context (Suder 2011).

Analysing the business impact of the SEM is complex (Mariniello et al. 2015; Moschieri and Campa 2014), but particularly for firms, where it is generally done anecdotally or at industry level (Mikić 1998). We begin with a brief overview of the economic integration processes that created the SEM, from its earliest form in the European Economic Community's (EEC) Customs Union through to the EEC Common Market and to the Single Market with Economic and Monetary Union (EMU). The EU currently stops short of full economic (and political) union, although the goal of that ultimate destination recurs on the EU agenda. EU integration has progressed its twin economic and political goals through deepening into more policy areas and widening across more members to the point where the EU is a unique multi-state system. Market integration and deregulation sit alongside the ongoing diversity of Europe, which remains in the structure of its member economies, in domestic regulations, idiosyncratic domestic industry structures and hugely varied levels of competitiveness among EU firms. Country-specific idiosyncrasies of EU markets remain as determinants for many business transactions (Moschieri and Campa 2014).

Whilst there is evidence of EU convergence, much divergence remains – elements of the fundamental values inherent in managing and governing business in Europe may still be guided by local diversity as described in Sapir's (2006) socio-economic models (Nordic, Anglo-Saxon, Continental and Mediterranean). Paas (2003) argues that the rapid and transformative change which the Central and Eastern European countries' (CEEC) businesses went through in preparation for EU entry (2004–07), meant that CEEC businesses were less ready to adopt the prevailing model of socio-economic liberalism and indeed were more neo-liberal and strongly market-oriented. This diversity means that, despite decades of progress, the SEM is not yet complete (UK Government 2013; Mariniello et al. 2015).

The evolution of the SEM

The so-called neo-functionalist compromise establishing the European institutions (1952–57) (Lindberg and Scheingold 1970) was built on an agreement among the EEC founders on the importance of economic determinism, with concessions to federalist political determinism with

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a long-term view of transcending the nation state. This continued from the Treaty of Paris (1952), establishing the European Coal and Steel Community (ECSC), to the EEC Treaty of Rome (1958). The Treaty of Rome established the Common Market, the Common External Tariff (CET) and a range of common policies and institutions, which set the agenda for the development of the European market into the 1980s.

The Single European Market programme, launched in the late 1980s, was a strategy to achieve complete market integration by removing all remaining physical, technical and non-tariff barriers to intra-EEC trade. The concept of the SEM was built on the so-called Four Freedoms: the free movement of people, goods, capital and services within the EU market (Apfelthaler 2015). From its early stages, the EEC implemented many pieces of legislation to liberalise and deregulate intra-EEC trade through a process of harmonisation of standards and legislation (Suder 2011). Harmonisation implied that all member states would move to adopt the same standards. Because the EEC's institutional decision-making maintained a power of veto by individual members (when initiatives threatened their 'vital national interests') much controversial legislation floundered, unadopted for years (Cecchini et al. 1988).

By the 1970s the EEC was adjusting to major change: enlargement to include much poorer states, the oil price shocks and the instability of currencies after the collapse of the Bretton Woods system (McCormick 2007). Added to this, inflation, unemployment and continuing barriers to cross-border trade led US policy-makers and business commentators (under the Reaganite programme of deregulation) to coin the phrase 'eurosclerosis' (McCormick 2007), which referred to the slowing down of the impetus for European integration and economic growth. The UK Prime Minister at the time, Margaret Thatcher, believed in applying at the European level the same deregulation approach she had adopted at home. So, the UK nominee at the European Commission (EC), Lord Cockfield, led a review of the EEC's progress towards a single market, publishing the so-called Cockfield White Paper of 1985. An economist in the EC, Paulo Cecchini, subsequently co-authored a report on 'The Costs of Non-Europe' (1988) (the costs of not having a truly common market). The report estimated the costs of the remaining barriers to intra-EEC trade (physical, technical and non-tariff barriers) at some £140 billion per year, equivalent to around £414 billion in 2017 prices (Morley 2017). According to Cecchini et al. (1988) the 'costs of non-Europe' were between 4.25% and 6.5% of GDP, and included trade barriers, production barriers (a sub-total of 2.2–2.7% of GDP), economies of scale, competitive effects and reductions in market entry (an additional 2.1–3.7% of GDP) (see Table 12.1). The EC's response was the Single Market Programme to enact the 282-plus pieces of EEC legislation that Cockfield stated were required (at the time) to 'complete' the single market by 1993, to relaunch the process of European economic integration and increase the competitiveness of the European economy and its firms.

The SEM programme was enabled by the Single European Act (1987), which streamlined decision-making through more qualified majority voting, increased the powers of the European Parliament through a 'cooperation procedure' and, most importantly for legislation, enabled mutual recognition and approximation of laws and regulations (using more loosely framed 'directives', which gave member states more discretion around enacting EEC laws into national approaches) rather than attempting to impose a single solution in all members states through harmonisation of laws using regulations (which gave the member states no discretion to adapt laws to the specifics of national contexts) (Suder 2011). Further EU treaties, such as those signed at Amsterdam (1997) and Lisbon (2009) emphasised more political, social, institutional and external policies, and international aspects of EU policy and action, including security and justice, immigration and border controls, environment and sustainable development, health protection, public health and consumer protection.

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Table 12.2 Economic benefits of the SEM

SEM dimensions	*Key references*
Increase intra-EEC trade	Johnson and Turner (2016)
Deregulate public purchasing	Mikić (1998)
Save business costs	Suder (2011)
Lower consumer prices	Johnson and Turner (2016)
Attract investment	Hautz et al. (2013)
Encourage EEC-scale firms through concentration	Johnson and Turner (2016)
Accelerated diversification of EEC firms	Hautz et al. (2013)
Promote international specialisation	Mikić (1998)
Improve EEC competitiveness	Suder (2011)
Boost the EEC's international economic profile	McGuire et al. (2012)
Facilitate EMU	Johnson and Turner (2016)
Intra-EU M&A	Couerdacier et al. (2009)
Internationalisation of traditionally state-owned firms	Kolk et al. 2014

The so-called 1992 programme was one of the three pillars of the 1992 Maastricht Treaty to promote a more federalist agenda for Europe, which were: the completion of the SEM, pursuit of Economic and Monetary Union (EMU) and policies to address cooperation in justice and home affairs. Increased funding to address economic and social cohesion were important to allay any social costs of restructuring and industrial change resulting from the SEM. The SEM reinforced the economic argument for common policies to remove obstacles to factor mobility which would further facilitate EMU, building on what was hoped would be progress towards an Optimal Currency Area – ultimately the euro – through the absence of asymmetric shocks and a high degree of labour mobility and wage flexibility. The broad economic benefits of the SEM are summarised in Table 12.2.

The creation of the SEM

The achievement of the SEM was built on the *acquis communautaire*, the body of policy and laws developed since the 1950s, which together created and maintained the Common Market. These are illustrated in Table 12.3.

The expected benefits of the 1992 programme (Cecchini et al. 1988) identified a range of cost savings, both direct effects – such as the eradication of economic borders – and indirect effects – from economic restructuring, increases in trade and competition, and greater economies of scale. In summary (see, for example, Mikić 1998) these were:

- 'Static trade effects': benefits from allowing public authorities to buy from the cheapest sources;
- 'Competition effects': downward pressure on prices as a result of greater competition;
- 'Restructuring effects': through the reorganisation of industrial sectors and individual companies resulting from greater competition.

Other possible benefits envisaged included:

- Benefits to investment, innovation (encouraging rationalisation, e.g. R&D expenditure) and growth;

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Table 12.3 Areas of the *acquis communautaire*

Policy Area
Trade, commercial policy
Competition policy
Industrial policy
Social policy
Environment policy
Agriculture
Special industrial sectors
Structural funds
R&D
Energy
Health
Education and training
Consumer protection

- Savings from the public sector (lower subsidies);
- Capital reallocation through inter-EU M&A.

It was expected that the SEM (Mikić 1998) would contribute to the emergence of virtuous cycles of innovation and competition among firms, which would lead to greater job creation and lower prices for consumers, stimulating consumption and growth. This trend is also evident in the large number of European business research projects on innovation and entrepreneurship (see Chapter 2 by Perenyi in this volume).

Impact of the SEM

The views of economists are mixed (see Table 12.1) but, with the notable exception of Minford et al. (2005), many are positive in their estimations and analyses (albeit with caution about different methodologies and policy motivations).

To analyse the impact of the Single Market on business in terms of what was intended to happen and the actual effect, we draw on the EC's Single Market Scorecard data as well as business reports on investment flows, and M&A data. We aim to assess the achievements of the SEM in terms of its expected benefits, such as those set out in the Cecchini Report (1988). These particularly include industry and market concentration through M&A to achieve economies of scale and rapid market access, and growth through FDI. Mention should also be made of differential rates of transposition and adherence to the Single Market among the member states, which means that benefits may not have been spread evenly across Europe. Mariniello et al. (2015, p. 2) make the point: 'That single market integration generates positive and significant aggregate effects does not imply that its effects are positive and significant for every sector.' While much remains to be done, on trade in services, for example (Coeurdacier et al., 2009), the SEM programme has not been the feared 'Fortress Europe', but rather more a Europe which is 'Open for Business'.

The SEM brought an increase in M&A and joint ventures (seen as 'inevitable' by McCormic, 2007, p. 101), which led to a renewed presence of European firms in the global marketplace. European firms lost national protection under the SEM programme, the euro brought cheaper and more accessible corporate funds, and privatisation and globalisation grew European firms

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(McCormick 2007). McGuire et al. (2012) argue that the EU has become a highly attractive destination for FDI from emerging market multinational enterprises to access strategic assets that may not be available in their home countries. McCormick (2007) points to the rise in European firms in the Fortune 500 between 1969 and 2005. In 1969 US firms made up 238 (nearly 60 per cent) and European firms 108 (27 per cent) of the Fortune 500. In 2005, the composition had changed to 176 (35 per cent) and 158 (32 per cent) respectively. By 1993 the EU-15 had outstripped the USA in total trade in services and in goods exports (McCormick 2007). McCormick (2007, p. 87) goes as far as to say that:

> 'In the space of eight years – from the publication of the 1985 Commission white paper on the single market to the setting of the timetable for the single currency under the terms of Maastricht in 1993 – the European project had been transformed.'

There is no consensus on absolute measures for the effectiveness or impact of the SEM but relative measures are available to assess how it transformed business in Europe. As Mariniello et al. (2015, p. 3) put it, however, 'identifying and quantifying the channels through which market integration is expected to engender growth is methodologically complex'.

Evaluating the SEM

The single market is perceived to have fostered more collaborative, competitive, agile businesses (Gerke and Benson-Rea 2017). It has created new business opportunities for firms of all sizes, from all over the world (Benson-Rea and Mikić 2005). These changes occurred not only via increased market access but through cross-border FDI and commercial integration. Removing cross-border barriers in the single market enabled firms to build economies of scale in Europe-wide production, distribution and brands (Johnson and Turner 2016). It made acquisitions and mergers, and collaboration in joint ventures and strategic alliances suddenly viable and an increase in those internationalisation activities could clearly be observed in the late 1990s and early 2000s (Alhorr et al. 2012; Moschieri and Campa 2014). Firms doing business in the EU market have developed strategies to balance a pan-European approach and single-country localisation. The SEM enables firms to deploy Europe-wide objectives, with market-by-market adaptation and coordination.

Ernst and Young (2015) reports on industry views surveyed in 2010 of Europe's attractiveness as a business location, identifying three key measures for growth: support for small and medium-sized enterprises (SMEs), high-tech industries and innovation. These findings are in line with European business research trends on innovation and entrepreneurship, ethical issues and social responsibility (see Chapter 2 by Perenyi in this volume). Respondents valued the EU's research and innovation capacity, its emphasis on green business, labour force diversity and quality, and its world-class business clusters (Ketels 2015). However, Ernst and Young (2015) reported that 814 global business leaders interviewed in 2010 had found that Europe lacked clarity in direction and the necessary commitment and speed to adapt, necessitating a 'wake-up call'. By the 2015 survey of 808 business leaders from around the globe (Ernst and Young 2015), Europe was finding a path to sustained growth, with investors gaining cautious confidence in Europe once again, although excessive bureaucracy remained an impediment to making the best of Europe's comeback after the recession of the 2000s. The 2015 report (Ernst and Young 2015) also found Europe the most attractive destination in which to establish operations (50 per cent of those surveyed), with 59 per cent of global investors surveyed envisaging an improvement over the next three years (2015–18).

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The SEM benefits for business are often seen as favouring multinationals, which have the resources to address the opportunities and challenges of European and global markets, leaving SMEs – firms employing fewer than 250 employees – vulnerable. Mikić (1998) argues that EU enterprise policy evolved to safeguard and improve the environment for business during the completion of the single internal market and beyond, particularly to enable SMEs to exploit the opportunities created by the SEM. European Union SMEs account for some 60–70 per cent of employment and, although traditionally domestically focused, are increasingly international (Mikić 1998). The approximately 20.8 million SMEs registered in the EU represent 99.8 per cent of all enterprises and produce more than a half of European GDP (European Commission 2014b). Between 2009 and 2011, an estimated 56 per cent of all public procurement contracts above the EU thresholds were awarded to SMEs (or groupings led by an SME), 29 per cent on aggregate value (European Commission 2014b). This percentage is, however, 29 per cent lower than it would have been (58 per cent) if SMEs had won the share of public procurement equal to their share of the total gross value added produced in the business economy (European Commission 2014b, p. 5). SMEs, especially the approximately 17 per cent that are sub-contractors (Suder 2011), do not seem to benefit from the SEM in proportion to their importance in the EU economy.

Business Europe (the Confederation of European Business) brings together 40 central industrial and employers' federations from 34 European countries, representing more than 20 million small, medium and large companies (see www.businesseurope.eu). In its policy overview of the SEM, Business Europe (2010) enumerated the benefits of the SEM by stakeholder group as:

- Consumers: lower prices, higher quality and wider choice;
- Economic well-being: between 1992 and 2006 EU GDP grew by an additional 2.2 per cent and 2.75 million new jobs;
- Citizens: live, work, study, retire anywhere in the EU;
- Companies: market access, increased intra-EU trade, up 30 per cent since 1992, cross-border FDI inflows (EU-15) from 53 per cent in 1995 to 78 per cent in 2005.

In one of the few business-oriented studies of the impact of the SEM, Alhorr et al. (2012) conducted an analysis of data on strategic alliances and joint ventures in 29 European countries (1985–2004) and found that closer economic integration had a positive impact on international strategic alliances within the European region. Alhorr et al. (2012, p. 59) point specifically to the adoption of common market policies, arguing that: 'higher levels of economic integration lead MNEs to expand to countries within the economically integrated region and to achieve growth through strategic alliances with other firms in the region'. However, on the other hand**,** Zademach and Rodríguez-Pose (2009) found that it was 'traditional factors' of access to new and core markets, geographical proximity and internalisation that were the key drivers of cross-border M&A in the EU-25 and the EFTA-4 between 1998 and 2003, and that institutional factors, such as European integration, had less impact. Moschieri and Campa (2014) also find that structural characteristics of the European market such as deal attitude and presence of competitive bids are more important for deal completion in M&A transactions than EU legislation towards market homogenisation. So, evaluations of the SEM vary considerably.

The reality of the SEM

The European Commission's 'Internal Market Scoreboard' was first published in 1997 and is a transparent and detailed contribution to understanding progress and barriers to the ultimate completion of the SEM (European Commission 2016). The Commission places increased

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emphasis on enforcement and monitoring and the Scoreboard provides information on member states' performance in transposing EU legislation into domestic law, how long the process takes and adherence to timely deadlines. The member states must comply, so non-conformity or infringements are also measured. These legislative gaps, which the Commission refers to as 'fragmentation factors', mean that the European market remains fragmented in places and not 'single'. The transposition deficit, the percentage of internal market measures not yet notified to the Commission via national transposition measures, is another Commission measure of member states' performance. Implementation delays in introducing new and extant legislation into domestic law in the member states can be due to administrative laxity, where national bureaucracies are inefficient or overloaded, or to problems with parliamentary schedules. To address problems with delayed implementation or incorrect application of EU laws concerning the SEM, the Commission established a process for infringement proceedings against individual member states. This amounts to 'naming and shaming' in single market governance (European Commission 2016) and the areas of most infringements show the sensitive areas for individual member states. These delays continue to restrict the SEM.

The Single Market Scoreboard works on a traffic light system (red=below average, yellow=average, green=above average) that indicates the extent to which member states comply with the requirement to transpose EU single market legislation and objectives. This evaluation system is applied under different headings: performance, FDI, legislation, etc. (European Commission 2014c; 2016). To qualify as FDI the investment of one EU member resident (investor) in another EU member resident's business needs to be long-term and exceed 10 per cent of ownership or voting power, across four indicators (change in inward or outward FDI flows; change in inward or outward FDI stocks). Recent indicators vary considerably across member states. Some notable results concern Germany, with a relatively high change in outward FDI flows compared with other EU member countries, and the UK, with a relatively high change in inward FDI stocks (European Commission 2016). The latest Scoreboard (2016) reports Estonia and Finland as the best performing countries, but the aggregate member state performance was below average in 31 areas. However, member states have significantly improved their performance compared with the last Scorecard (European Commission 2016). As to whether and how this translates into performance benefits, Cadman and Tetlow (2017) point to evidence that trade in goods was 73 per cent higher within the SEM than if there had been a free trade area, and 60 per cent higher than if only the World Trade Organization rules had been applied.

Conclusions

The completion of the European internal market was and remains an ambitious programme, but is not yet fully achieved (Mariniello et al. 2015). It remains an ongoing programme as evidenced by the Commission's Scoreboard and new initiatives. Implementation of EU legislation remains patchy but the international competitiveness of the EU economy and its firms remains high on the EU agenda. Despite its policy to leave the EU, a recent review by the UK government recognised that the EU Single Market necessitates legislative and regulatory obligations to make it function effectively. Whilst these had grown in recent years, and were impacting SMEs more than larger companies, the review found that the EU had also been increasing its efforts to reverse that process at EU level. The standard of implementation and enforcement varies greatly across the EU (UK Government 2013) and this may form an ongoing barrier for European business to achieve the full practical benefits of the SEM's opportunities. The trend has been towards deeper economic integration over time, for political as much as economic reasons

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(Suder 2011). That integration has brought to the EU, in most observers' opinions, appreciable economic benefits (UK Government 2013). While the SEM process may have spread the Anglo-Saxon approach of neo-liberal policy-making more generally across the EU, it also constrains decision-making at firm, national and EU levels. Some argue that the EU lost its way by enlarging (to include the CEEC countries in 2004–2007) and with the rise of liberal intergovernmentalism (Moravcsik 1993) in which the consensus around rebuilding the European economy and building on its achievement was lost, together with momentum on the SEM.

New areas for the SEM are set out in recent Commission proposals (Johnson and Turner 2016) to prevent unjustified geo-blocking on cross-border parcel delivery services, and to strengthen consumers' rights and guidance in digital commerce (EU Business 2016). Further actions to address remaining barriers to trade within the EU Single Market include trade in services (Business Europe 2010; see also Chapter 25 by Pelle in this volume), financial services, energy and digital business (Coeurdacier et al. 2009). The UK has been pushing strongly for a single capital market, a Capital Markets Union, although TheCityUK, a body representing London financial firms, recognised that this would inevitably require 'strong regulatory coordination at the EU level' (TheCityUK 2014, p. 4). The free movement of goods is still somewhat hindered by national differences in excise duties, taxes and ultimately prices. Taxation remains largely a member state competence, although the harmonisation of indirect taxes across member states could be an essential element for an effective SEM. Unlike most internal market measures, which require qualified majority voting, the harmonisation of taxation is decided by unanimity (UK Government 2013). Other areas for development within the SEM are: the environment, a single market in energy, a single market in transport services and the creation of an integrated transport system. An important new area is a Digital Single Market, a major component of the EC's Digital Agenda. It proposes 'to better exploit the potential of Information and Communication Technologies (ICTs) in order to foster innovation, economic growth and progress' (European Commission 2017). The Digital Single Market Strategy was adopted in 2015 and sets out actions across e-commerce, consumer protection online, copyright, telecommunications, tax, audio-visual media, data protection, cybersecurity and e-government, emphasising access, prosperity and growth (European Commission 2017).

To conclude, SEM benefits have accrued to firms from outside the EU as well as European-domiciled firms. Future developments such as Brexit, further EU enlargement (e.g., Turkey), and the role of Russia, Ukraine, the Neighbourhood policy, and the Middle East, are pressing EU problems which may slow down or even derail the Single Market. Reverberations from Brexit, in which other countries seek to slow down their integration, risk a two-speed Europe. The wider trade issues of the role of international institutions such as the World Trade Organization, trade agreements such as the Transatlantic Trade and Investment Partnership, the role of China and the EU's relationships with these actors and institutions, are important to mention. Current global trends towards economic nationalism, which seek to protect strategic assets from foreign ownership and control as a reaction to Europeanisation/globalisation, may suggest further initiatives to achieve full EU market integration.

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