SINGLE MARKET AND TRADE POLICY: THE TWO MAIN ASSETS OF THE EU AND THE PRICE THAT THE UNITED KINGDOM SHOULD PAY FOR GIVING THEM UP

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Our internal market is Europe’s best asset in times of increasing globalisation
It is anachronistic that the 21st century Europeans and Americans still impose duties on each other’s products
Jean-Claude Juncker 2014

ABSTRACT
The European Single market and the trade policy represent the two main assets of the EU integration process. They are strictly interlinked. We cannot have one of them without the other. More generally without them the EU would not exist. The euro has a meaning and a function because of these two assets. Single market and trade policy are two powerful engines for growth. During the crisis, they have mitigated the effects of the recession. Now that growth (although moderate) is back, they can play a decisive role for job creation and higher levels of employment. The United Kingdom will have to pay a high price for leaving these two assets.

Keywords: Market, trade, integration, EU

TEK PAZAR VE TİCARET POLİTİKASI: AB’NİN İKİ TEMEL ÖGESİ VE BİRLEŞİK KRALLIĞIN BUNLARDAN VAZGEÇMEK KARŞILIĞINDA ÖDEYECEĞİ BEDEL

ÖZ

Anahtar Kelimeler: Pazar, ticaret, entegrasyon, AB
Europe has been severely hit by the Great Recession. Growth is sluggish and unemployment widespread. Restoring growth and improve employment is the priority of the European Commission headed by Jean-Claude Juncker. Pundits, commentators, scholars, and in primis politicians do not hesitate to indicate “austerity” as the prime responsible of the lack of growth. Some of these, the so called hard Eurosceptic, blame the euro too as a further ingredient of the economic stagnation of the EU and, more specifically, of the Euro area. Consequently, expansive fiscal policies are invoked, along with the dismantling of the monetary union.

The combination of expansive fiscal policies and re-establishment of national monetary sovereignty should produce the effect of propelling growth and job creation. A quite improbable theory!

The Single European Market (SEM) and EU’s Common Trade Policy represent the best asset of the EU. Without these two core elements, the EU simply could not exist. As we read in the Commission’s president priorities:

Our internal market is Europe’s best asset in times of increasing globalisation. I therefore want the next Commission to build on the strength of our single market and to fully exploit its potential in all its dimensions. We need to complete the internal market in products and services.

Completing the SEM implies offering more integration-induced opportunities to EU and foreign investors within the territory of the 27 Member States (Brexit is already a reality) or, better, within the European economic area.

Trade Policy, with its open stance (except for agriculture) is EU’s second engine for growth. Despite the crisis, the SEM remained open. Protectionist tendencies were rejected. Moreover, new free trade agreements have been implemented, while others are under negotiation. The ones already implemented, as the Custom Union with Turkey, have progressed although imperfections of the CU mechanism could generate undesired negative effects for the latter. The solution, however, is to perfect the Customs Union and possibly transform into a European economic area, waiting to have Turkey

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1 Austerity should not be confused with the sound management of public finances. The first is a sharp reduction of public deficit and public debt, because of lavish fiscal policies. The second is a responsible policy aiming to maintain the budget balance close to equilibrium and public debt at a sustainable level.
within the single market, not moving back to a free trade area, as some commentators are arguing.

As Juncker stated:

Under my presidency, the Commission will negotiate a reasonable and balanced trade agreement with the United States of America […] It is anachronistic that, in the 21st century, Europeans and Americans still impose customs duties on each other’s products.

It is surely anachronistic, however trade negotiations on the Transatlantic Trade and Investment Partnership (TTIP) have been suspended, due to the negative stance of some EU governments. Europe has thus downscaled the potentialities of commercial policy as an engine for growth.

The theory of real economic integration, de-fragmentation of markets and creation of pro-competitive effects within an integrated economic area, has been widely proven. Empirical analysis has shown how much the SEM has fostered competition. Various “Single Market Reviews” and other documents published by the European Commission have reached the conclusion that SEM is a powerful instrument to promote economic integration and to increase competition within the EU and that it has been the source of large macro-economic benefits. However, these gains could have been substantially larger if the removal of most of the remaining cross-border barriers would have been achieved.

Supply side structural reforms for growth and employment.

In recent years, policy makers and economists have long discussed, talking about Europe, on austerity versus flexibility in the management of public finances in relation to growth and employment. The EU has been criticized for having looked only to austerity and not to growth. The debate is well-known. From the discussion were blatantly excluded (we should credit the Eurosceptic former United Kingdom premier David Cameron for being the only one to stress their importance) the single market, as well as trade policy, mentioned only sporadically by the European leaders of the “Continent”. As we have already mentioned the TTIP negotiations with the United States have been suspended.

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2 See: https://ec.europa.eu/growth/single-market_en
Forgetting these two assets is serious, because it means to forget the two most powerful growth engines of the EU. It means also to forget the structural reforms that the EU can do. Most of them costless.

A “forgetfulness” in which there is a lot of ideology, furthermore a very shortsighted selfishness on the part of the policy makers. For a government, it is much easier to summon the merits of a public investment program or income support and so on in terms of State interventionism, than those arising from an agenda implemented at European level for measures in favor of the single market or trade agreements. Their effects cannot be linked to economic policies as easily and directly as public interventions. Then the fact that the first does not work, or have only scant relief effects, it is quite secondary.

So, what is liberal is always poorly palatable for the politician. Because its emphasis is not on the State or on the governing class, but on the individual and his freedom of action. The politician does not see any reward when his action is the product of liberal measures.

Liberalism, as we know, does not have a mystical, while there is a vast one in speaking out against the market, its alleged distortions, failures and incapacity of self-regulation. Speaking out against the “Europe of merchants” and “Europe of banks” it makes much more cash (in terms of votes) than it happens in speaking in favor of economic freedom.

Without claiming to build a mystique to the market and trade, the deepening of the single market and of trade policy represent structural reforms equipped with powerful engines for the development of incomes and employment. Their implementation requires only the political will of the EU partners, without requiring any treaty reform. Neither the pooling of more doses of national sovereignties is requested.

In a global market economy, as this is the reality we face today, growth and employment are a function of business competitiveness, which is in turn dependent on the efficiency of the markets. Market efficiency, in turn, is a function of well-conceived economic policies aiming at promoting growth.

It is time to see which policies the EU will be able to implement and perform in a more efficient way than its Member States. It is the so-called principle of subsidiarity, according to which:
Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level. (TEU, art. 5).

The theory of fiscal federalism gives two clear indications in this respect: the single market and trade policy. The first and the second are the mandatory tasks of Einaudi’s project for a European Federation. In the TFEU custom union and common trade policies are part of the Union’s exclusive competencies (art.3), while the single market is a shared competence (art. 4).

The Single European Market

Between 1996 and 2012, several assessments of the performance of the single market have been carried out by the Commission and by scholars. As the Single Market Review of 1996, a series of studies promoted by the Commission, have indicated that the expected results of the Cecchini Report had been achieved: a) the single market competition had led to reductions in prices and costs and the consequent expansion of production; b) the single market had experienced trade creation effects, but not those of trade diversion; c) price reductions had been manifested in high-tech sectors, but also in more traditional sectors such as the food and electrical machinery; d) finally a greater price convergence had taken place.

The following is a summary of the economic evaluation of the single European Market.

As we read in the 2007 Single Market Review:

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4 Single market is a shared competence because EU’s Directives have to be adopted by Member States through their own internal legislatives procedures.
5 http://aei.pitt.edu/3813/1/3813.pdf
The Internal Market is a powerful instrument to promote economic integration and to increase competition within the EU and that it has been the source of large macro-economic benefits. However, these gains could have been substantially larger if the removal of most of the remaining cross-border barriers was achieved. Overall the paper concludes that the Internal Market is a powerful instrument to promote economic integration and to increase competition within the EU and that it has been the source of large macro-economic benefits. However, these gains could have been substantially larger if the removal of most of the remaining cross-border barriers was achieved. In particular, the initial expectations that the Internal Market would serve as a catalyst for creating a more dynamic, innovative and competitive economy at the world level have not been met. Various reasons for this are identified, namely: the slow and sometimes incomplete implementation of directives, the inadequacy of some instruments, the persistence of barriers to cross-border trade and investment particularly in services and the slow development of an Internal Market for knowledge. Building on the evidence and analysis provided, the paper concludes with eight suggestions to guide the design of policymaking for the Internal Market in the 21st century.

It is time to see what, in the years ahead, the EU should do to improve efficiency, i.e. its ability to induce European and foreign investment.

In Commission’s Single Market Act II we find:

A lot has been achieved: from 1992 to 2008 the Single Market has generated an extra 2.77 million jobs in the EU and an additional 2.13% in GDP. For European consumers the Single Market means more choice at lower prices - a 70% reduction in mobile phone costs is but one example. For citizens, the Single Market has given them the capacity to travel freely, to settle and work where they wish. For young people it has opened up the opportunity to study abroad – more than 2.5 million students have seized this opportunity in the last 25 years. For the 23 million companies in the EU the Single Market has opened access to 500 million consumers. The message is clear, the evidence is there: a strong, deep and integrated Single Market
creates growth, generates jobs and offers opportunities for European citizens which were not there 20 years ago.

The single market is, therefore, the great asset created by the European integration, its most beautiful product. Without the single market, the single currency, as well as the Schengen system, would not make sense, even a programme like Erasmus would not work. In short, the EU would not be conceivable without the single market.

Its value is given by the intra-EU flow of goods and services, plus the flow of investments between Member States. In essence, the total value of trade and intra-EU investment. Graphic 1 shows these values. In 2007, the last year for the crisis, the size of the single market touched 4,123 billion, thus amounting to the sum of the GDP of Germany and Italy, equal to 32% of EU GDP. The value of the single market has reached in 2014 (the last year for which all data are available) the level of 4,200 billion euro This value corresponds to the sum of the GDPs of Germany, Spain, Estonia, Latvia, Lithuania and Malta of the same year, equal to 32% of EU GDP.

**Graphic 1: Single European Market (in million euros)**

Source: Eurostat
It is worthwhile to notice two more things.

First the value of the single market has already overpassed the pre-crisis level. Second this result is due to the dynamic of services and goods, while intra-EU direct investments are still lagging behind. These trends reconfirm the central role of the single market as a factor of growth, especially as far as services are concerned.

The centrality of the single market is reaffirmed in the conclusions of the European Council of 26-27 June 2014, first among five priorities:

Therefore, the priorities we set for the Union for the next five years are to:

- fully exploit the potential of the single market in all its dimensions: by completing the internal market in products and services; by completing the digital single market by 2015;
- promote a climate of entrepreneurship and job creation […];
- invest and prepare our economies for the future: by addressing overdue investment needs in transport, energy and telecom infrastructure as well as in energy efficiency, innovation and research, skills, education and innovation; […];
- reinforce the global attractiveness of the Union as a place of production and investment […] and complete negotiations on international trade agreements, in a spirit of mutual and reciprocal benefit and transparency, including TTIP, by 2015;
- make the Economic and Monetary Union a more solid and resilient factor of stability and growth […]

In these documents the single market has the place it deserves. However, in the priorities put on a display by politicians this happens a lot less. As already pointed out the expression single market is almost entirely absent in the political language of many European leaders. Their greater benchmark remains public spending, public investment and especially the anti-rigor. Flexibility in public accounts is invoked as the tool holding the greater impact to make the recession dried up.

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The road map to fully exploit the potential for growth is clearly identified in the, above mentioned Single Market Act II, identifying four pillars around which to develop a set of key actions:

The four drivers for new growth put forward in this Communication are:

1. Developing fully integrated networks in the Single Market;
2. Fostering mobility of citizens and businesses across borders;
3. Supporting the digital economy across Europe;
4. Strengthening social entrepreneurship, cohesion and consumer confidence

It is important highlighting the liberal character of the Single Market Act II, namely the conformity of its actions with the principles of a free market economy.

1. Network industries introduce competition in traditionally protected sectors where enterprises are considered as national champions (champions in losing money in a liberal perspective). Network industries provide services that citizens use every day from transport to energy. The single market in transport and energy offers consumers a real choice, while operators are free to propose their services “anywhere, anytime and in every customer, egalitarian basis”. Since its inception, the single market has triggered significant advancements in network industries such as transport and energy. However much still needs to be done, particularly in transports by rail and sea; in electricity and gas. Consumers and businesses still pay too many extras-prices derived from fragmented and inefficient markets. Still too many “rent-seekers” (privileged State, or State protected, operators) operating in these areas, penalizing the consumers purchasing capacity and business competitiveness. The actions identified by the Commission to introduce or expand the competition are:

- Open domestic rail passenger services to operators from another Member State to improve the quality and cost efficiency of rail passenger services;
- Establish a true Single Market for maritime transport;

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9 European Commission (2012) p. 5
10 The quoted expressions in this paragraph refer to the Single Market Act II.
• Accelerate the implementation of the Single European Sky;

• Improve the implementation and enforcement of the third energy package and make cross-border markets that benefit consumers a reality;

2. The mobility of people and businesses is another key element of the single market:

The Commission will continue to work towards its vision of a Single Market where citizens, workers and businesses are free to move cross-border whenever and wherever they want to and without unjustified restrictions imposed by divergent national rules and regulations. Mobility is a precondition for the Single Market to deliver on its potential, be it social, cultural, political or economic.

Here we provide some examples. The “business environment” is essential for the development of entrepreneurship. The carrot of profits and the stick of bankruptcy are indispensable ingredients of the market. The honest entrepreneur who had the courage to attempt an innovation, but it has failed; he must be able to have more possibilities. Unfortunately, in too many Member States the legislation is less tolerant face to the entrepreneur who has failed.

Europe needs modern insolvency laws that help basically sound companies to survive, encourage entrepreneurs to take reasonable risks and permit creditors to lend on more favorable terms. A modern insolvency law allows entrepreneurs to get a second chance and ensures speedy procedures of high quality in the interest of both debtors and creditors.

The “business environment” can be improved through common procedures and rules in terms of taxation. As the Commission proposes, is not the harmonisation of rates, but the procedures and the rules for payment of VAT. Even today, the fact that each Member State applies different regulations implies extra costs for businesses, an unnecessary administrative burden that reduces competitiveness.

3. The internet economy is increasingly crucial for economic development. Internet, to provide an example, can increase by 10% the productivity of small and medium enterprises. Europe is seriously lagging behind its competitors in the exploitation of the potential of the internet. Mc. Kinsey has elaborated an indicator to evaluate the capability of a single country in
four fundamental aspects of the Internet: human capital, financial capital, and infrastructure and business environment. In these the European delay is revealed. The United States are at an altitude of 76, followed by Sweden at 67, but then the picture gets worse: United Kingdom 54, France and Germany 51, and Italy 31. A delay that the implementation of the actions foreseen by the Commission aims to fill. These include the improvement of payment and delivery services and better access to high-speed broadband:

A 10% increase in broadband penetration can result in a 1-1.5% increase in GDP annually and 1.5% labour productivity gains [...]. Yet despite progress made, the EU is still suffering from underinvestment in the deployment of high-speed broadband networks across the Single Market.

4. The social market economy is a liberal concept. TEU (article 3) stipulates that the EU shall endeavor to establish “a highly competitive social market economy”. In the Single Market Act II, the call to the social market economy is in consonance with the need of “market surveillance”, which is required in a single market where goods circulate freely between Member States. Market surveillance does not mean intervention in the market. Rather it evokes the Einaudian concept of a Member State which lays down certain rules and then watches (the plume of the “carabinieri” hats hovering in the market, in the famous example) on their application.

Market surveillance should enable unsafe or otherwise harmful products to be identified and kept or taken off the market and dishonest and criminal operators to be punished. It should also act as a powerful deterrent.

**The Common Trade Policy**

The Common commercial policy is the second major asset of the EU: free trade means economic development; it has never been true like it is today. The general objective of EU trade policy is to improve the terms of trade for European companies. Certainly, in terms of foreign trade, the EU continues to be affected by the original sin of the CAP. In agriculture protectionism still prevails.

Graphic 2 shows the values of the external dimension of the EU and of its components: exports and imports of goods and services and foreign investment inflows and outflows.
The performance of the total curve and that of individual series reveals two realities. The first, a structural feature, is the huge external dimension of the EU: above 5000 billion. In terms of GDP it is roughly the sum of Germany and France in 2013. The second and most important indication is that the pre-crisis levels are not only recovered, but exceeded.

In years of the Great Recession the EU economic open trade stance, a combination of a multilateral, bilateral and unilateral dimensions, has represented a security net. In years when domestic demand is particularly weak, foreign trade has become the main source of growth.

“The contribution of external demand to economic growth is bound to increase in future, as 90% of global economic growth in the next 10-15 years is expected to be generated outside Europe, a third of it in China alone. To be sustainable, economic recovery will need to be consolidated through stronger links with the new centers of global growth”.

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The quoted expressions in this paragraph refer to this document.
The EU is a major exporter and importer in the world. It is also the largest foreign investor and the largest recipient of foreign investment from the rest of the world.

It is the typological variety of existing trade agreements and negotiations, where we find a mixture of innovation and innovation in tradition, that it is worthwhile highlighting.

First. Innovative is the concept of the European economic area. Today’s most significant example of application of the EEA concept is Norway, Switzerland and Iceland. However, EEA could turn out to be an interesting evolution possibility for the current relations between EU and Turkey, a country with which a Customs Union Treaty is enforced. European economic area could be a viable instrument with other countries, too. EEA is an instrument offering to a country the possibility of full market integration without all the other and tough requirements and obligations of the membership. This is the advantage. The cost is that the partner country has not a say in the decisions taken by the Council of the EU on single market. Has just to accept them. We will come back to this point in the next section while discussing Brexit.

Innovative in tradition are the so called “Deep and comprehensive free trade agreements”, far beyond the traditional concept of free trade area. DCFTAs go beyond business, to enter the political sphere, as well as culture and cooperation. The one with Ukraine of 2014 is the last example. An innovation that does not find other examples in the world, being peculiar such a deep and wide process of integration as the EU is. A process with an inbuilt capability to look beyond national interests. This point deserves a few more comments.

The single market and the common commercial policy are two sides of the same coin. They could not exist separately. The one implies the other. Common commercial policy exists because of the existence of the single market. The two are mighty growth engines that must work in harmony. Furthermore, face to a crisis they can help each other.

The progressive creation of the internal market and its subsequent enlargement to twenty-eight countries, has allowed companies to develop a European chain of value. In manufacturing the final product contains more and more intermediate inputs which are the result of imports from other
Member States, as well as from the rest of the world. Out of doubt the single market has facilitated the formation of this European chain of value. Exports of a given Member State contain value created in other Member States,

A German export very often incorporates value created in the Czech Republic, Belgium or Poland. The distribution of jobs created by exports reflects this. For every two jobs created in a Member State where exports are counted, one job is created elsewhere in the EU\(^\text{12}\).

Being this the context what guidelines in the short-medium and long term should follow the EU’s trade policy? In general terms, continue the liberal orientation of its three dimensions. But especially in the bilateral one. Trade liberalization is a powerful structural reform. This is because they create stronger ties between Member States making their growth more sustainable, more competitive their economy and improving the quality of their domestic and exportable supply. Trade liberalization is a powerful vehicle for the diffusion of innovations, as it helps a country to find the most convenient productive specialization, thus enhancing its productivity.

The *in fieri* agreement with the United States could lead to economic gain for the EU of 120 billion annually once it is fully operational (2027), while the one with Japan would trigger an increase of 0.34% of European GDP. As well as to advance trade negotiations with other 16 partners, including Canada, Singapore, China (agreement on investment), Malaysia, Thailand, Viet Nam and Mercosur.

**Brexit, SEM and Trade Policy.**

The debate and the concerns about Brexit focuses around two main issues: single market and trade policy. Graphic 3 allows us to perceive the relative position of UK as far as extra EU-28 exports. The mirror image of this figure is the relative position of UK within the single market.

\(^{12}\) Vide supra.
UK exports are more concentrated on the rest of the World than on the single market. Furthermore, on an ascending trend. This is a general trend in the EU, which is shared by its biggest economies, but it is clearly more accentuated for the British economy.

The shifting from the single market towards the external markets is linked to two factors. The first is the “preference for bilateralism” which has more and more characterized the EU trade policy since the beginning of the new Century; the second is the higher rate of growth of emerging markets economies like China or India.

As a consequence of Brexit UK will have to renegotiate all bilateral trade agreements of which is presently part as EU a Member State. This will be true for both implemented agreements and under negotiation agreements. It is sufficient to have a look at the list of EU agreements to understand the magnitude of this task. Here below we provide a few examples\textsuperscript{13}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig1.png}
\caption{Extra EU-28 Exports of goods as percentage of total exports}
\end{figure}

\textsuperscript{13} The whole list of the EU bilateral agreement is available at: http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf
• **Europe.** A Custom Union Treaty is enforced with Turkey since 1995. Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) have been concluded with Ukraine (2012), Georgia (2014) and Moldova (2014).

• **North America.** The Comprehensive Economic and Trade Agreement (CETA) with Canada has been signed on 30 October 2016. The Negotiating directives were obtained in April 2009.

• Negotiations are under way with the United States since 2013, while with Mexico a Global Agreement is operating since 1997.

• **South America.** The EU-Colombia/Peru FTA is applied since August 2013. Negotiations with Ecuador were competed in July 2014 and with Mercosur officially re-launched in May 2010. An Association Agreement is operating with Chile since 2005.

• **East-Asia.** Negotiations with Singapore and Malaysia were launched in 2010, with Vietnam in June 2012 and with Thailand in March 2013. Negotiations for an FTA with the Philippines were launched in December 2015. The corresponding negotiation directives were obtained in 2007.

• Trade negotiations with Japan started in November 2012.

• Negotiations with India for an ambitious and broad-based FTA were launched in June 2007. With South Korea is operation a FTA since 2011. Negotiations of a EU-China investment agreement were launched in November 2013.

• **Africa.** The EU has established a network of Association Agreements which include reciprocal FTAs, with eight countries of the region (all except Libya and Syria). With South Africa trade liberalization has been completed in 2012. In October 2016 five southern African countries: Botswana, Lesotho, Namibia, South Africa and Swaziland, started a new chapter in their bilateral relations with the EU with the entry into effect of their Economic Partnership Agreement (EPA).

The charter at page…provides a general view of the state of EU trade agreements.
In the optic of Brexit and of the consequent need for UK to negotiate new trade agreements it is worthwhile to underline two issues.

First, the length of this process. Years of negotiation, roughly from five to ten, are generally needed to find an agreement for a FTA. There is no reason to think that this period could be shorter for the UK in respect to the experience of the EU. Although it will be shorter the time span between the signature of the agreement and its entry into force, as it is particularly long for the EU due to the fact that international agreements have to go through the ratification of Member States Parliaments. In any case this time, however long or short it will be, will be a cost to the UK, in terms of GDP.

Second, the terms of the agreements. In this respect the crucial question is: “Will the UK have enough strength to obtain the same conditions that the EU has been able to negotiate?” It is an open question that we leave to the reader. We just notice that the EU is the biggest trading block and that will continue to be even after Brexit. The differential, as far as conditions of the agreements are concerned, in respect to the ones negotiated by the EU will represent the cost that UK will have to bear. This second cost, unlike the first which is a temporary one, is a long term one, representing thus a permanent loss to the UK.

We can however think to a third cost, not specifically affecting EU or UK, but addressing the effectiveness of bilateralism, consequently hampering the efficiency of the global economy. Presently (2017) the UK external economic dimension is the second largest in the EU. Its share in the sum of EU export and imports of goods and services is around 13%. It will be a (new) big player in the international economic arena. The presence of such a big player will further complicate the “spaghetti bowl” of regional trade agreements. As a consequence discriminations within world trade will rise; global growth could thus be negatively affected.

UK is the biggest recipient, within the EU, in terms of FDIs inflows and stock, with amounts respectively just below 50 billion euro (10% of total EU inflows) and 1.500 billion euro (19% of total EU stock) in 2014. About 50% of the stock of FDIs in the UK comes from the EU, and one third of all acquisitions of UK companies by overseas buyers between 2010 and 2016, have involved EU purchasers. This attractiveness will be eroded by Brexit, a least for that share, absolutely majoritarian, of FDIs inflows and stock linked to the SEM. The UK financial sector is doomed to suffer major harms, as it will lose
the passporting rights. Actually, under EU passporting rules, a firm located in the SEM has a right to set up branches or conduct cross-border business across the EU without the need for additional local authorization. UK-based firms are the most active in using them, accounting for about 75% of passporting activities in the EU. Brexit could cause the loss of passporting rights, determining significant disturbance to UK-based firms and to their customers.

The centrality of SEM in the whole process of European integration is highlighted by the fact that UK premier Theresa Mayer, just after taking office on July 2016, has expressed the wish to remain in the SEM, as far as goods services and capitals is concerned, but keeping the right to control the free movement of labor and people. The answer from the EU leaders was that the SEM is a whole, cherry picking is not conceivable. In other words, you cannot have the benefits and spare the costs. In an integrated entity all players have to share equal rights and obligations. No discrimination power can be accorded to anyone of its members. UK will have thus to accept a different and less favorable type of trade agreement. However another and not less important point has to be raised: namely the pound and its relations to the euro. UK has enjoyed the privilege of opting out, which is part of the Maastricht Treaty, setting up the European Monetary Union. Not adopting the euro UK has kept the right of using the instrument of the devaluation in order to increase the competitiveness of its products in the SEM. In this respect, since the implementation of the euro, UK has played the role of free rider in the SEM, not paying the cost of non-opportunity to devaluate its own currency, which is paid by the members of the euro area. UK is the second economy of the EU. Its public finance are in no worse conditions than some members of the euro zone, while until 2007-08 both public deficit and debt have fully respected the Maastricht criteria. UK has all, as far as the economic system is concerned, to join the euro. The opting out was the cost that the EU had to pay to get the green light on the Monetary Union. This exorbitant privilege has distorted the level playing field of the SEM, providing the UK governance with an instrument, the modification of the exchange rate, no more existing in the euro area. An undeserved advantage, an unjustified gift that UK has not even been able to appreciate. It is worthwhile to notice that between November 2015 and October 2016 the pound has lost the 25% of its value face to the euro. Such a huge devaluation has provided the UK firms with and artificial competitiveness gain that altered the functioning of the single market. One may object that, besides
UK, other Member States have retained the possibility to devaluate their currency in the SEM. There is however a problem of relative dimension of these economies. As already noted UK is the second largest economy in the EU, its GDP accounts for 18% of EU-28 GDP and 6% of intra EU-28 exports (2015), while the biggest of the non-euro economies, Denmark, is only marginally across 3% as far as GDP is concerned and 1.7% for intra EU-28 exports. If the SEM can tolerate the variation of the exchange rates of small economies, this cannot be the case of economies as big as UK.

A final crucial question: with what will the SEM be replaced?

A good solution would be to act as if nothing had happened, restoring the situation prior to 1973, the United Kingdom to the then EEC accession date. In practice: the return to the EFTA. In 1960, just to counterbalance the promising Common European Market, the British promoted a free trade agreement with the Scandinavian countries, Austria, Switzerland and Portugal. They were the first to leave, followed by others who joined the EU with the 1995 enlargement. Now (2017) EFTA Member States are: Iceland, Norway, Switzerland and Liechtenstein. EFTA has a great appeal for the British as does not call for any form of pooling of sovereignty. Each Member State shall retain the right to conclude bilateral agreements with third countries, including the EU. Norway, for example, is part of the European Economic Area, which corresponds to single market membership, although without voting right. The EFTA option is not only good but also relatively simple. With the EU the United Kingdom would negotiate its exit. While is with EFTA that the new conditions will have to be agreed. These would, in fact, those currently in force between EFTA and EU. Only in a subsequent moment and perhaps without significant economic impact, UK could negotiate a special agreement with the EU. Things, however, don’t end here. Second and no less important advantage of UK’s reappearance in EFTA is linked with extra-EU trade. Actually the Association has a wide variety of free trade agreements: Canada, Mexico, Chile, Turkey, and Hong Kong, to name just a few of them. UK could so spare long and exhausting negotiations not conducive to growth.

**Conclusion**

The SEM and Trade policy are the two faces of the same coin, the coin of European economic integration. This coin has been gradually minted since
the very beginning of a story which started in 1958, and is still unfinished. Better, it is a process which is always perfectible. Challenges are continuously emerging, due to technological change and to geopolitical movements (e.g. digital market and energy market). In the past sixty years, we have witnessed, although with different intensities, a positive dynamic creating more and more freedoms inside and outside the continuous enlarging dimensions of the EU. Be people, material or immaterial products or capitals, in other words any type of productive factors, have circulated in an inner and outer space where hurdles have been gradually reduced. This freedom to circulate has allowed the impressive increase in general prosperity we have experienced in the EU in the first fifty years of its existence.

Since 2007-08 things have dramatically changed. Europe is still (2017) in the grip of low growth and too high unemployment, while poverty rates are increasing. Therefore, the wind is no more blowing in favor of freedoms, but in the direction of protectionism, nationalism and absolute sovereignty. A dangerous stream, when we look at History. Present problems cannot be solved going back to fragmented markets and to inward looking commercial and economic policies. Walls against people and products, competitive devaluations and similar measures have as inevitable effect the worsening of international relations, they are the breeding ground of conflicts and wars.

Despite the adverse present tide, political (from federalism to neo-functionalism) and economic (from real to monetary unions) integration theories, both backed by a huge empirical evidence, indicate that a viable alternative to interconnected markets does not exist. The road is always the one traced by the founding fathers of these theories and by the constructors of the European integration. It is thus worthwhile to conclude with the words one of the most influential among these thinkers and politicians: Luigi Einaudi14:

“I will repeat what I wrote thirty years ago, and repeated vainly many times. I hope that it will not be in vain after the terrible experiences we have lived through. The mirage of the absolute state is the enemy of civilisation and prosperity and we must also add now of the very essence of nations. This fatal myth is the true origin of wars. It causes nations to fight to conquer living space, it pronounced the excommunication against immigrants

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from poor countries, it created trade barriers and by impoverishing people, made them think that by returning to the predatory economics of the wild they could conquer wealth and power. In a Europe in which see ever where a return to the obnoxious myths of nationalism, in which suddenly passionate calls to patriotism return, from those who only yesterday believed in internationalism, in this Europe in which there are frightening warlike tendencies, this Europe is crying out for unification. A task, I say not preaching. It is useless to preach peace and understanding when Hannibal is knocking at the gates, when in the souls of too many Europeans nationalism has set a light again. It is not sufficient to preach a United States of Europe and call congresses of politicians. What is important is that the Parliaments of these tiny states which make up a divided Europe, give up part of their sovereignty to a Parliament in which they are represented, a house elected directly by the united people of Europe, without distinction between states, proportionate to the number of inhabitants; to a house of the States, represented according to the number of the individual states. This is the only idea for which it is worth working, the only idea able to save the true independence of the people, which does not mean arms, trade barriers or limits to the railways and other national infrastructure. It is to be found in the schools, the arts, the habits, the cultural institutions, all of which gives life to the spirit and shows how every people can contribute something to the spiritual life of others. However, we will never achieve this conquest of a rich variety of national life freely working within the framework of a unified European existence, unless one of the races of European becomes its banner holder”.

REFERENCES


European Council, “Conclusions”, June 2014