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From: The European Commission
To: The High Level Working Group on Competitiveness and Growth
Subject: Competitiveness check-up - Internal Market Performance: a new look

Delegations will find in Annex a paper on Competitiveness check-up - Internal Market Performance: a new look in view of the High Level Working Group on Competitiveness and Growth meeting on 4 May 2017.

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Competitiveness check-up - Internal Market Performance: a new look

The recent White Paper of options for the future of the Union presented by President Juncker underscores the role of the Single Market as the bedrock of the EU. The 25th anniversary of the Single Market is approaching, providing another opportunity to refocus on the performance of the cornerstone of economic integration in the EU.

Up to a point, the Single Market is a mature economic reality, but it also remains a building site that keeps on evolving, responding and adapting to the new trends and changes in the global economic landscape. Several waves of "Cecchini Reports" have produced estimates of the economic benefits from economic integration in the EU. These studies responded to the expectations generated by the Single Market project in the late 1980s and documented gains in terms of growth and employment. These estimates were based on assumptions corresponding to the initial design of the Single Market and to the composition and characteristics of the economy of the Union and the global economy before the end of the last century.

But the European economy of 2017 is very different from that of the previous millennium. Several enlargements have almost doubled the number of Member States. This applies to the global economic context as well. Technology and the emergence of new global players have modified international trade and economic relations between the EU and other world partners and also within the EU.

The monitoring of the Single Market from the viewpoint of the evolution and transformation of value chains provides new insights on the competitiveness of sectors and Member States in the EU which are more suitable to present economic realities. New methodologies based on firm data can also help us to get a more precise assessment of the performance of the Single Market from an integration and competitiveness perspective.

There are a number of reasons pleading for this.

The emergence of global value chains and the reorganisation of production have changed the geographic distribution of production activities. Reduction in transport costs; innovations in logistics and new production methods have accelerated the process of reorganisation of value chains. Different tasks integrating the main sectoral value chains are performed in different parts of the world. Countries no longer have to have comparative advantages in the production of goods as such. Where they have lost comparative advantages in the production of final goods, they may have retained and developed comparative advantages in tasks or segments of the value chain. This has coincided with the boom of emerging economies that have taken increasingly important parts of global market shares. These developments raise a number of questions on their impact on the Single Market: How has this affected the Single Market? Where are we increasing comparative advantages now?

New and more precise approaches to measure integration and its real impacts call for new indicators and methodologies for the monitoring of the performance of the Single Market. In the traditional assessments of integration, cross-border trade in products, services, capital flows and people were the standard indicators of integration. The geographic reorganisation of production and value chains has made these indicators less reliable. Increasing reorganisation introduces double or multiple counting in the actual volume of value added. Fortunately, new techniques allow for more reliable and suitable measurements of the actual volume of value added in cross-border transactions within and beyond the EU. The precise volumes of FDI measured in the traditional ways (assets and liabilities in balance of payments) flows is also uncertain. Recent evidence recommends alternative approaches to “cleanse” the volumes of FDI to eliminate the impact of the activities of Special Purpose Entities and short-term intra-firm capital flows. What has been the actual evolution of integration if we use these new approaches?

What has been the impact of these changes on the situation of SMEs and services sectors?. Given their economic importance and growth potential, some dimensions of the Single Market are the subject of particular attention for the development and improvement of the performance of the Single Market. For well-known reasons, the services sectors and the situation of the SMEs are perhaps the most relevant of these special areas of attention. How is the situation of these two important areas affected by the changes in global trade conditions?

A final key issue: Integration, competitiveness and structural reforms. The EU has several instruments of microeconomic policy, but the Single Market and the structural reforms recommended to Member states in the context of the European Semester are arguably the main policies having an impact on competitiveness at Member State and EU levels. However, not enough is known about the impact of integration on productivity in services and manufacturing in particular. The elimination of barriers to trade and the mobility of goods and people encourage competition, investment and therefore growth and job creation. But how strong is this impact across sectors? To what extend are barriers and Single Market imperfections hampering productivity? What is the distribution of impacts in regions within countries?

Learning more about the relationships between competitiveness and integration is relevant for our policies. For instance, if the Single Market has contributed to the development of intra-EU value chains across services and manufacturing sectors, excessive regulatory burdens in a particular services sector in country ‘A’ would affect productivity and competitiveness, not just in that country, but also in other sectors and Member States using those services. In other words, there would be important spill-overs to take into consideration.

New data and techniques allow us to carry out new and more accurate monitoring of the performance of the Single Market.

Questions:

1. *How can a better understanding of these issues contribute to improve Single Market policies?*
 2. *Do Member States consider that the High Level Working Group on Competitiveness and Growth should look into these matters in the future?*
 3. *How do Member States perceive progress on Single Market policies including in the digital area? Is Europe ambitious enough? Are there areas where further efforts are needed?*
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