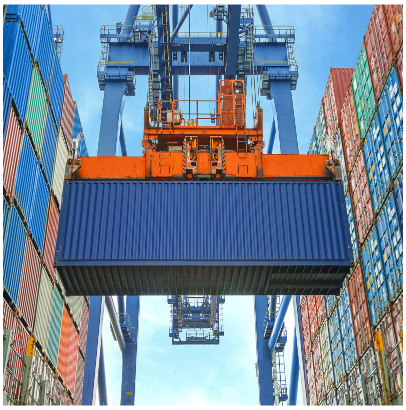

The cost to business of Europe’s internal “tariffs”

Description

Maria Demertzis*

For all the talk about the harm of global tariffs and trade wars, the EU could give business a significant boost––while increasing its own revenues from trade––by concentrating on removing internal barriers to trade between countries in its own Single Market.

As we enter 2025, tariffs, trade wars and global fragmentation are the biggest worries for European executives. That is the outcome of a recent survey by The Conference Board, in which 77.4% of European CEOs from four big economies––Germany, France, Italy and the UK––report that they plan to change their supply chains over the next three to five years. Another survey of European economists recently found that 69% believe a trade conflict triggered by tariffs is the biggest threat to the region.

There’s no doubt that the threat of tariffs is a major concern, with trade accounting for about 50% of the EU’s GDP. Maintaining a well-functioning multilateral system, and having smooth, open, and tariff-free trade have always defined the EU’s policies.

But for all the concern about products being subjected to tariffs, this should not distract from the improvements that can still be achieved within the Single Market. Addressing these would provide a major boost to business competitiveness.

The Single Market––the EU’s attempt to remove the economic relevance of borders––is neither complete nor friction-free. But the extent to which the Single Market remains incomplete––and the enormous economic benefits that remain to be unlocked if fully completed––is striking.

A recent international study suggests that internal barriers to trade in manufacturing inside the EU are equivalent to a 45% tariff, while in the US the equivalent is three times lower. In services, where little progress has been made to create a single market, barriers to trade generate costs that are equivalent to a 110% tariff.

The example of banking services is telling. After the global financial crisis, the EU adopted a common rule book, and created a common supervisor for all European banks. But little progress has been made since: a banking union exists in name only, with minimal cross-border banking.

The growing focus on economic security suggests that diversification of trading partners will be necessary for the EU, along with a greater emphasis on domestic production and consumption. This inward shift calls for more effective utilization of the single market, with deeper integration in production and trade among member states. However, biases among countries and other barriers to trade continue to hinder the full realization of potential economies of scale, particularly in critical areas such as innovation and finance, including high-risk finance.

All this has a measurable impact on competitiveness. With the lack of scale, gains in productivity are meagre, potential GDP growth lags behind––and so does welfare. If those barriers to trade in manufacturing were reduced to US levels, the IMF study estimates that labor productivity would increase by 7% in seven years.

The threat of trade wars and tariffs is real and concerning. But removing internal trade barriers will deliver big gains to the economy at large and should be first on the list of economic priorities for 2025.

–

* *Maria Demertzis leads the Economy, Strategy and Finance Center Europe for The Conference Board.*