

Debora Revoltella, Román Arjona, Laurent Maurin and Frank Vandermeeren*

Deepening the Single Market and Expanding Trade Agreements to Foster Business Opportunities

In an increasingly fragmented global economic environment, Europe faces the dual challenge of sustaining competitiveness while strengthening economic resilience. Accelerating the EU's Single Market integration and fostering new trade partnerships will jointly unleash untapped potential in terms of scale, expand business opportunities and drive investment in Europe. These two components are central pillars of the European growth model, as they shape firms' incentives to invest, market access and capacity to scale.

The European Single Market is a core asset of the European Union. By progressively removing barriers to the free movement of goods, services, capital and people, it has expanded effective market size, ensured adequate competitive pressures and created incentives for firms to invest. These mechanisms have historically supported productivity growth by enabling specialisation, economies of scale and higher returns to innovation. A number of recent studies support this, including IMF (Cerdeiro et al., 2026), ECB (Bernasconi et al., 2026) and Fontagné and Yotov (2025).

Evidence from European Investment Bank (EIB) analytical work highlights the macroeconomic importance of Single Market integration as a driver of EU investment (EIB, 2026). Figure 1 compares observed EU investment dynamics with a counterfactual scenario in which Single Market inte-

gration is absent. It shows a persistent upward shift in the investment trajectory associated with Single Market integration. The gap between the integrated and non-integrated scenarios reflects higher expected returns and lower risk when firms can operate at continental scale. As shown in Figure 1, the EU Single Market has a clear track record: it boosted investment opportunities, underpinning 25% of the new investment recorded since the 1980s in the EU.

Consistent with this evidence, lower-bound estimates indicate that EU GDP is at least 3% higher today than it would have been without the Single Market (Durá & Pasimeni, 2025). EU countries could double these benefits if the full potential of the Single Market were realised (Fontagné & Yotov, 2024). This is particularly true for services, which represent a critical component of Europe's economy and are essential across all sectors.

Despite these achievements, the Single Market remains incomplete. Persistent fragmentation, particularly in services and capital markets, continues to constrain firm growth and limits the emergence of pan-European business models (EIB, 2025a). Little progress has been made over recent years to ease regulatory compliance for EU businesses when it comes to establishing and operating across the EU (European Commission, 2026). At the firm level, survey evidence indicates that 62% of EU exporters still face regulatory and administrative barriers when operating across borders, with these frictions particularly acute for innovative and fast-growing firms (EIB, 2025b). Removing such fragmentation and the associated uncertainty will have a strong impact on firms' investment ratios, particularly for intangible investment, which is critical for innovation and growth (see Figure 2).

Firms operating in larger and more integrated markets are more likely to access equity finance and to invest more heavily in innovation (Buti et al., 2025). This finding

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Open Access funding provided by ZBW – Leibniz Information Centre for Economics.

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Debora Revoltella, European Investment Bank, Luxembourg, Luxembourg.

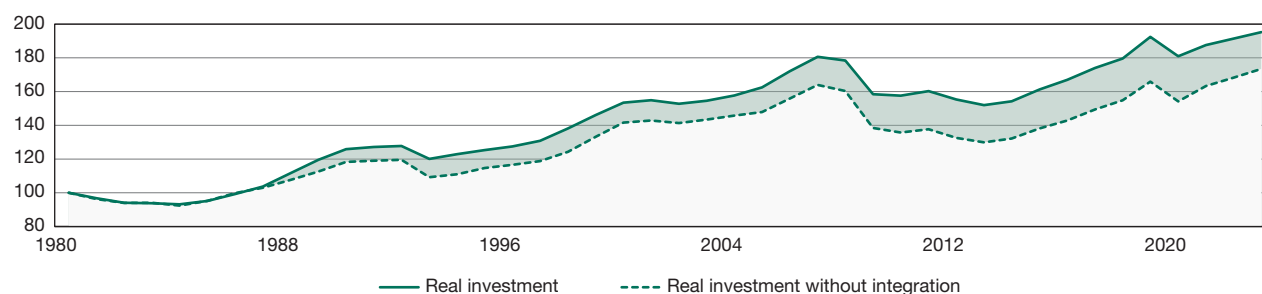
Román Arjona, European Commission, Brussels, Belgium.

Laurent Maurin, European Investment Bank, Luxembourg, Luxembourg.

Frank Vandermeeren, European Commission, Brussels, Belgium.

Figure 1
Real private investment with and without Single Market integration

Index, 1980=100



Note: The figure shows real investment in the EU in two scenarios: one that includes the effect of EU Single Market integration, estimated through a gravity model, and one that excludes it.

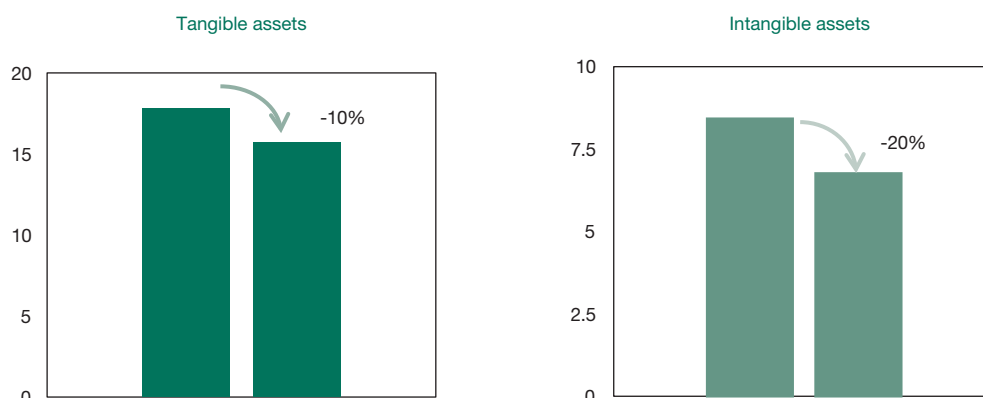
Source: EIB staff estimations; see EIB (2026).

links Single Market deepening to the broader agenda of financial integration and the Savings and Investment Union. The latter is critical to channelling EU savings into productive use. Removing barriers in this area will generate cross-border efficiencies and contribute to channelling the substantial savings of EU households (€1.4 trillion annually compared to €800 billion in the US) into

productive investments, narrowing the current gap with the US on that front. Financial depth and real-economy integration reinforce each other: without sufficient market scale, even well-developed financial markets cannot fully mobilise private investment. Conversely, deeper integration increases the demand for risk capital by expanding growth opportunities.

Figure 2
Change in investment relative to total fixed assets when firms perceive uncertainty as a major barrier to investment

Percentage points

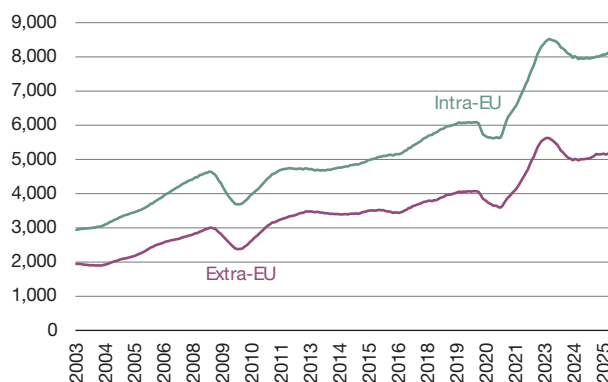


Notes: The figure shows the investment intensity of firms and the effect of uncertainty. Uncertainty reduces firms' investment in both tangible and intangible assets, with a stronger effect for intangible assets. The estimates are based on a regression of investment intensity on uncertainty, controlling for (lagged) investment intensity, a cyclical component, a structural financial component and firms' future demand expectations.

Source: EIB staff calculations based on EIBIS.

Figure 3
Intra-EU and extra-EU trade, January 2003 – September 2025

Billion euros, 12-month moving average



Note: Intra-EU trade is the sum of export and import flows of goods between all 27 EU countries. Extra-EU trade is the sum of trade flow of goods between the 27 EU countries and the rest of the world.

Source: EIB (2025c); EIB staff calculations based on Eurostat.

Intra-EU trade, resilience and adjustment to supply shocks

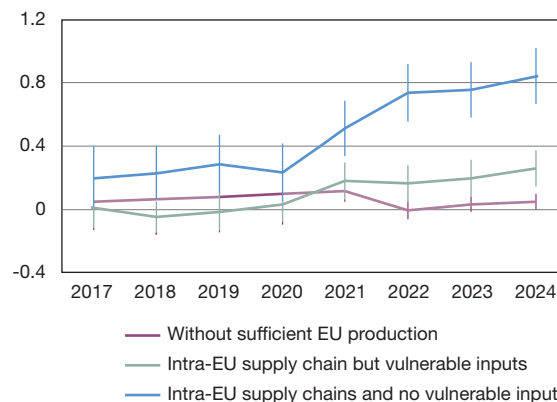
Beyond its impact on investment, the Single Market plays a central role in shaping Europe's trade patterns and its resilience to external shocks. Over the past decade, global trade has been repeatedly disrupted, by the pandemic, geopolitical tensions and supply chain bottlenecks. These shocks have exposed vulnerabilities in global value chains and heightened concerns about strategic dependencies, leading to tectonic shifts in global value chains (Arjona et al., 2025). Against this backdrop, intra-EU trade has emerged as a key stabilising mechanism.

Trade within the EU is systematically more resilient than extra-EU trade during periods of global stress and uncertainty. Figure 3 compares the evolution of intra-EU and extra-EU trade over the past two decades. Intra-EU trade declined less sharply and recovered faster than extra-EU trade amid recent global shocks. This underscores the stabilising role of the Single Market, which cushioned the impact of those shocks on European firms and consumers (EIB, 2025c). This relative resilience reflects the institutional foundations of the Single Market, including the absence of tariffs, relatively harmonised rules, and dense cross-border production and supply chain networks.

Figure 4 displays results from import equations that control for several factors, such as demand and price. It

Figure 4
Differences in the evolution of imports (intra-EU vs extra-EU) by dependency type

Estimated coefficient, percentage points



Note: The figure shows the shift from extra-EU to intra-EU trade as a reaction to shocks. Estimated coefficients and 90% confidence intervals are represented as vertical bars.

Source: EIB (2026); EIB staff calculations based on PRODCOM and COMEXT data.

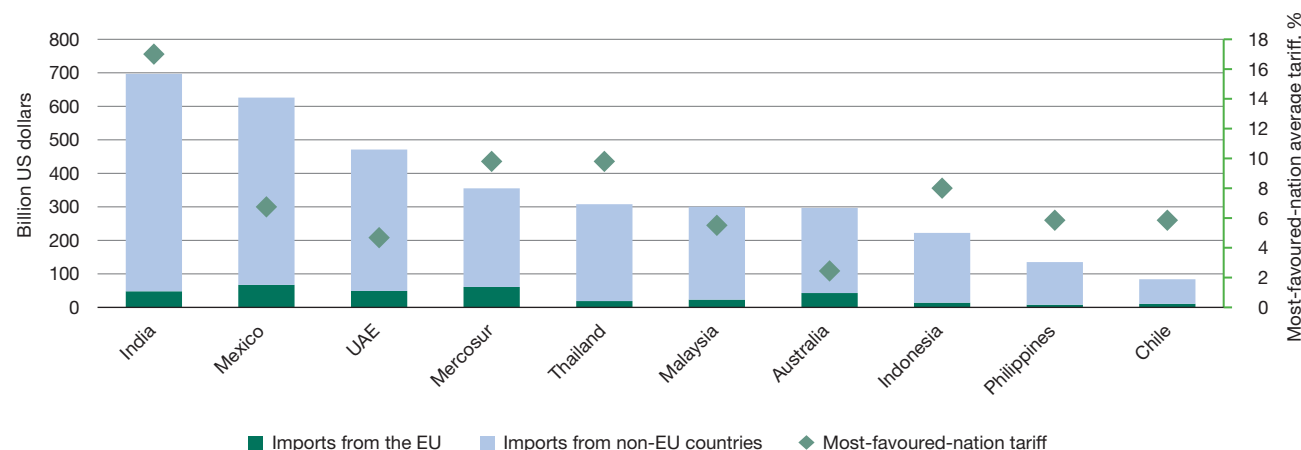
shows that when supply shocks materialise, firms substitute extra-EU imports with intra-EU sourcing, provided that a minimum level of internal production capacity exists. Products embedded in sizeable integrated EU supply chains exhibit the strongest shifts towards intra-EU trade, highlighting the importance of maintaining internal productive capabilities. Instead, in the absence of sizeable intra-EU supply chains, the Single Market cannot provide an alternative, and intra-EU imports cannot compensate for losses of extra-EU imports.

This evidence has important implications for the debate on economic security and resilience. Rather than advocating for a retreat from global trade, it suggests that a strong Single Market with some domestic capacities in strategic products and technologies complements trade openness by providing a clear buffer against external volatility. A well-functioning Single Market enables firms to reconfigure supply chains within Europe when global conditions deteriorate. Simulations show that the economic gains from deeper internal integration can compensate for the possible costs that scenarios of supply chain disruptions and decoupling with specific third countries would entail (Fontagné & Yotov, 2024).

Single Market integration enhances the EU's capability to absorb asymmetric shocks and supports diversification within value chains and the rapid adjustment of sourcing strategies (EIB, 2026). Firms that are innovative, digital and well integrated within the Single Market are better

Figure 5

Imports and most-favoured-nation tariffs of selected EU trading partners



Note: Agreements under negotiation.

Source: EIB (2026); EIB staff calculations based on COMTRADE and WTO data.

equipped to respond to disruptions, reinforcing both resilience and competitiveness (Arjona & Revoltella, 2024).

From a policy perspective, measures aimed at strengthening resilience should therefore also prioritise the removal of internal barriers alongside measures facilitating domestic capacity building and targeted diversification of external sourcing.

Expanding trade agreements and Europe's global leverage

While internal integration is indispensable, Europe's business opportunities also depend on the EU's engagement with the global economy. Expanding and modernising trade agreements extends the benefits of scale beyond the Single Market and reinforces Europe's position as a global trading power. Internal and external integration are closely intertwined: a deeper Single Market enhances Europe's credibility and bargaining power in trade negotiations, while external agreements amplify the returns to internal integration by opening new markets.

Trade agreements reduce barriers, improve regulatory cooperation and provide more predictable market access for European firms. Analysis also suggests that concluding ongoing agreements could raise EU exports and support investment, particularly in sectors where scale, standards and regulatory alignment are critical (European Commission, 2026). These gains are magnified when firms can leverage the Single Market as a production base from which to serve global markets.

EIB (2025c) analysis links trade agreements to investment incentives through several channels. Larger and more predictable export markets raise expected returns on capacity-expanding and innovation-related investments, while participation in global value chains facilitates technology diffusion and learning. Trade agreements can also reinforce regulatory convergence, indirectly reducing internal fragmentation and further enlarging business opportunities. Research on European competitiveness stresses that the gains from external openness depend critically on the depth of internal integration. Weak Single Market integration and shallow capital markets limit the capacity of European firms to translate trade opportunities into sustained productivity growth (Revoltella et al., 2025).

Efficiency and scale of the EU market are critical assets both domestically and globally. Globally, Europe continues to be seen as a stable and trusted partner, actively forging new cooperation agreements, such as the Mercosur and India deals. The EU–Mercosur agreement was signed in early 2026; others are well advanced (such as those with Chile and Mexico), in some cases pending ratification, and in others still under negotiation. Figure 5 shows the potential of increasing exports to these countries along the non-preferential tariff.

EIB (2026) estimates show that free trade agreements, which cover some 12.5% of the EU's exports to the rest of the world, have the potential to increase exports to the countries involved by 20.6% and to raise total EU exports by 2.6%. Additionally, some of these agreements may

have important geopolitical implications, reinforcing the EU's role as a credible political and economic actor in a fragmented global environment.

Conclusions

Deepening the Single Market and expanding trade agreements should be understood as two pillars of a single strategy to foster business dynamism in Europe. Single Market integration provides the necessary scale, drives investment incentives and creates resilience, while increased access to external markets extends these benefits globally. Together, they underpin a European growth model that is both competitive and robust in an increasingly uncertain world.

In the context of today's ongoing supply chain reconfiguration, the interaction between internal integration and deeper, more diversified access to external markets becomes particularly salient. A strong Single Market supports diversification and resilience, allowing firms to engage with global partners while managing risk. Enlarging trade agreements therefore complements, rather than substitutes for, deepening internal integration.

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