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MARKET FORCE

Revitalising the Single Market for the next 30 years

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Summary

- According to Veld's 2019 study, European Union (EU) member states' economies would be significantly smaller without the EU Single Market (SM), with decreases ranging between 5.9 per cent and 20.5 per cent in the **non-SM scenario**.
- The SM has contributed to the Central and Eastern European (CEE) countries' **convergence** with the EU average. Between 2004 and 2023, the share of the CEE countries' GDP per capita in the EU27 average increased by between 13 and 41 percentage points (p.p.); their real GDP per capita share in the EU27 average increased by between 9 and 21 p.p.; and their actual individual consumption per capita increased by between 112 per cent and 446 per cent. However, in six CEE states, less than half of the 2004–2023 growth occurred in the 2014–2023 period – implying a convergence slowdown.
- Currently, the CEE states are well **integrated into the SM**. The CEE countries' intra-EU exports represent between 56 per cent and 80 per cent of the respective countries' exports, and the intra-EU imports of CEE countries represent between 59 per cent and 80 per cent of the respective countries' imports.
- The SM also contributes positively to foreign direct investments (**FDI**) in CEE countries. In all the CEE countries, more than 50 per cent of the FDI inflows originates in other EU member states, with target industries ranging from banking and finance to retail and wholesale. The FDI in CEE is not limited to industries that have high-value-added outputs, which sometimes results in a slower transformation to knowledge-based economies.

- SM membership affects **labour movement** significantly. CEE workers move mainly to western bloc countries, seeking higher wages and better living standards. The SM also facilitates cross-border employment, and diasporas contribute to their home countries through remittances.
- **Additional SM advantages** may include low-cost public debt, increased academic and scientific cooperation, and help in balancing populist governments.

Barriers and deficiencies of the SM

- While **restrictiveness in services trade** has increased in both the CEE and the western blocs, it is more pronounced in the CEE region, where it is caused mainly by Hungary and Poland.
- In terms of EU **legislation enforcement**, a mixed image emerges. Around 23 of the 27 member states meet the 1 per cent transposition deficit goal, and only 11 member states meet the 0.5 per cent goal proposed in 2011. However, the number of cases open at year-end has been increasing, leading to the creation of a backlog. Notably, the majority of cases were closed following the issuance of a letter of formal notice to the concerned countries.
- EU **capital markets** lag behind the US: in 2020, the total capitalisation of EU stock exchanges stood at €9,900 billion – four times lesser than that of the US.
- **State aid**, mainly driven by green subsidies, has been on the rise. Between 2005 and 2016, state aid in 'old' EU countries averaged €61 billion annually against €6,4 billion annually in countries, which acceded after 2004.
- Koumenta and Pagliero (2016) found that in the EU:

(i) around 22 per cent of workers are impacted by **occupational regulations**,

(ii) licensing is correlated with increased unemployment,

(iii) liberalisation could boost the number of workers in a given profession by 3 per cent to 9 per cent, and

(iv) licensing distorts the value of education

- The EU's new **platform work legislation** imposes working conditions on platform workers contrary to their preferences (Lithuanian Free Market Institute 2022b), decreases flexibility and efficiency, increases costs, and undermines the algorithmic evaluation system.

- The EU's **permitting regulations** are dispersed throughout various pieces of EU legislation, resulting in a fragmented and duplicative system fraught with a notable degree of inconsistency.
- Around 94 per cent of EU imports and products are subject to **non-tariff measures** (NTMs), notably higher than in the US (77 per cent and 62 per cent, respectively) and Japan (76 per cent and 61 per cent, respectively). The NTMs impact the food, chemicals, plastics, and textiles industries in particular.
- The EU's **environmental, social, and governance (ESG) framework** has a considerable impact on businesses. Following the enforcement of the Corporate Sustainability Reporting Directive (CSRD), on average, the total one-off reporting cost for a company falling within its scope is €287,000, while the total annual reporting cost is €320,000.
- The **Digital Markets Act (DMA)**, which is aimed at fostering fair and competitive digital markets, increases regulatory uncertainty, grants the EU disproportionate powers, misunderstands the concept of competition, and stifles innovation.
- The **Digital Services Act (DSA)**, which is aimed at enhancing online safety and governance, incorporates an out-of-court settlement provision that is strongly disadvantageous to service providers, places substantial transparency requirements on the latter, and risks curtailing freedom of speech.
- The **EU Artificial Intelligence Act**, which aims to ensure safety, transparency, non-discrimination, and environmental sustainability, is marked by legal uncertainty, diverts from the long-heralded risk-based approach, and includes additional obligations that were added in the last stages of the negotiation process.

Policy and strategic recommendations

- **The SM must be an EU priority**. Ambitious goals should be established and advocated for across the EU. Tariff and non-tariff barriers should be dismantled to facilitate trade with non-EU countries and all new proposed legislation should be evaluated for its implications for the SM.
- The EU must be **bolder in legislation enforcement**. The infringement procedure should be used to a greater extent and streamlined by removing the 'reasoned opinion' phase and shortening the period between sending a letter of formal notice to the resolution to a maximum of twelve months. Ongoing projects aimed at addressing non-compliance

should be assessed, and a standardised legal framework for conducting proportionality tests under the Services Directive should be proposed.

- The **occupational regulations, labour market, and services sector should be liberalised**. The least stringent regulations for a particular profession should serve as the EU benchmark. The OECD STRI index should be used to identify such member states. Additionally, the discussion of the country-of-origin principle for the provision of cross-border services should be revisited, and measures supporting labour immigration should be adopted.
- The **regulatory burden should be decreased**. A technology-neutral approach should be adopted and businesses' reporting burden decreased. Greater harmonisation of the EU's permitting system should be fostered in addition to mutual recognition of regulations in designated sectors.
- **In the digital sector, the EU should avoid redundant regulations**. The Digital Markets Act (DMA) should be re-evaluated to decrease regulatory uncertainty, avoid attempting to dictate market structure and competition, and enable innovation. The Digital Services Act (DSA) should be revised to include a uniform code replacing conflicting EU rules and precluding national laws undermining the integrity of the digital services SM.
- The **EU Artificial Intelligence Act** should be revised to avoid decreasing the EU's competitiveness. All previously adopted rules should be regularly reviewed. Regulatory sandboxes should only be seen as the second-best solution for digital innovation.
- **Increasing competitiveness** should be the top priority of member states' policies. National capital markets should be integrated into a truly single market, regulations inhibiting the development of non-bank sources of financing reduced, and capital pension savings systems should be supported. State aid should be limited, and EU green policies should be rationalised.

Chapter 1: 20/30 Twenty years of CEE membership in the 30 years old Single Market

Introduction

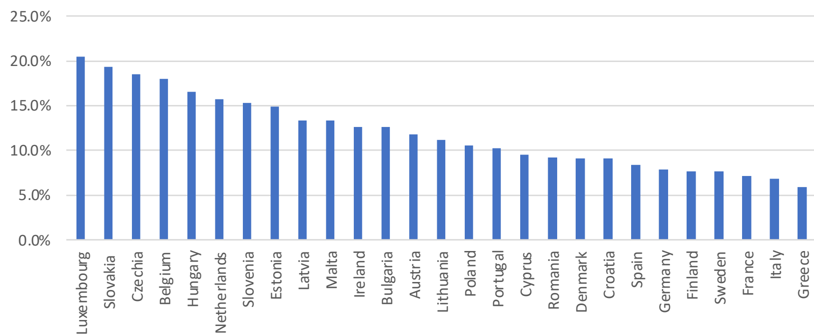
The SM is undoubtedly one of the EU's biggest achievements. As the SM celebrates its thirtieth birthday – and many of the CEE countries celebrate their twentieth accession anniversaries – it is appropriate to examine its hitherto evolution in more detail. The CEE member states[1] deserve special attention for several reasons. Among other things, they represent a sizeable market within the EU, occupy a strategic geographical location, often have a competitive advantage in manufacturing and services, and are an important source of human capital. Therefore, in six sections, the first chapter analyses the role of the SM in the CEE region and vice versa.

European economies without the SM

In his study, Veld simulates 'a counterfactual scenario in which tariffs and non-tariff barriers (NBTs) are reintroduced' (2019: 803), the results of which are summarised in Graph 1.

1 CEE member states are Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Graph 1: The estimated GDP decrease in a scenario with reintroduced tariffs and non-tariff barriers



Source: Veld 2019.

Veld's study demonstrates that the CEE member states' economies would perform considerably worse without an SM. The GDP decrease in CEE countries ranges between 9.1 per cent (Croatia) and 19.3 per cent (Slovakia). Notably, only two countries (Croatia and Romania) would lose less than 10 per cent of their GDP and two out of the three countries that would experience the largest GDP loss in the EU (Slovakia and Czechia) are in the CEE. The SM's importance for the region is thus undeniable.

Convergence

The emergence of the SM, as well as the later accession of some of its members, emphasises the concept of convergence (when less developed economies catch up to more advanced ones in terms of GDP per capita, productivity, technology, living standards, etc.). Theoretically, participating in free trade in a SM should have helped the economic laggards – that is, most of the CEE member states at the time – to catch up with the wealthier member states. But did this happen?

A comparison of EU27 GDP per capita (Eurostat 2024a, 2024b) to the same indicator for the CEE member states suggests that significant convergence has indeed taken place. Except for Slovenia, which stood out significantly – reaching 65 per cent of the EU27's average GDP per capita – among the CEE member states as early as 2004, all other countries performed below 40 per cent of the EU average at that time, with only Czechia reaching 45 per cent. Romania and Bulgaria recorded the lowest

share with 13 per cent each. Twenty years later, most countries had surpassed the 50 per cent mark, except for Romania (45 per cent) and Bulgaria (39 per cent). The entire region, excluding Slovenia once again, made significant progress between 2004 and 2023, with the increase ranging from 15 per cent (Croatia) to 41 per cent (Lithuania).

However, GDP per capita alone does not provide a comprehensive picture. To evaluate an economy's success, we must also consider the changes in price levels over a period of time. Hence, we compared the real GDP per capita (Eurostat 2024c) adjusted to the price levels of 2010 to the real GDP per capita of EU27. In 2004, Slovenia and Czechia were outliers again, reaching 67 per cent and 54 per cent, respectively. However, none of the remaining countries surpassed the 42 per cent mark; Bulgaria only reached 16 per cent.

In 2023, only Romania (35 per cent) and Bulgaria (27 per cent) did not reach at least 50 per cent of the EU27 average. Slovenia (76 per cent) and Czechia (63 per cent) observed the highest shares, with all remaining CEE member states being in the 50 per cent to 57 per cent interval. An interesting picture arises when examining the trends in the convergence. In six of the examined states,[2] less than 50 per cent of the 2004–2023 growth was recorded in the 2014–2023 period, implying a convergence slowdown. In the case of Slovakia, the figure was only 18 per cent. In the remaining five states,[3] 50 per cent to 106 per cent of the total growth achieved in 2004–2023 occurred in 2014–2023. In the case of Croatia, the value surpasses 100 per cent. This can be attributed to an overall decrease in Croatia's real GDP per capita from 42 per cent in 2004 to 41 per cent in 2014, followed by an increase to 51 per cent in 2023.

Lastly, examining the actual individual consumption[4] (AIC) demonstrates the amount of resources available to individuals – an indicator particularly important in economies where GDP is significantly impacted by foreign trade. On average, AIC per capita in the CEE region saw a remarkable increase of 259 per cent over twenty years, surpassing the average EU AIC growth of 68 per cent (Directorate-General for Economic and Financial Affairs 2023). Within the CEE region, between 2004 and 2023, Romania (446 per cent) and Bulgaria (392 per cent) recorded the highest growth (Table 1). On the other end of the spectrum, Slovenia recorded 112 per

2 Czechia, Estonia, Latvia, Lithuania, Poland, and Slovakia.
3 Bulgaria, Croatia, Hungary, Romania, and Slovenia.
4 By household (€ per capita).

cent growth – still significantly higher growth than the EU average. This nominal increase has also been replicated in household consumption in terms of purchasing power parity.

Table 1: Actual individual consumption by households (€ per capita)

	2004	2023	Nominal increase 2004–2023	Relative change
Bulgaria	2,116	10,401	8,286	392%
Czechia	5,631	16,299	10,668	189%
Estonia	4,653	18,134	13,481	290%
Croatia	5,757	13,698	7,942	138%
Latvia	3,718	15,325	11,607	312%
Lithuania	4,026	17,416	13,390	333%
Hungary	5,535	11,982	6,447	116%
Poland	4,000	13,706	9,706	243%
Romania	2,151	11,734	9,583	446%
Slovenia	9,034	19,147	10,112	112%
Slovakia	4,096	15,643	11,547	282%

Source: Directorate-General for Economic and Financial Affairs 2023 and Eurostat 2024b.

In conclusion, the CEE member states have witnessed a significant degree of convergence in the past twenty years, indicating the importance of the SM. Some figures, however, suggest that this trend has been slowing down recently in some parts of the bloc, creating a space – and need – for discussion about how to get these member states back on track.

Trade

According to EU data (n.d.), intra-EU exports represent between 56 per cent (Lithuania) and 80 per cent (Czechia) of the respective countries' exports, with an average of 70 per cent. Lithuania is the only CEE member state where intra-EU exports represent less than 50 per cent. Examining intra-EU imports, only in Slovenia (59 per cent) did they represent less

than 60 per cent of all imports. The share in the remaining countries ranges between 61 per cent (Bulgaria) and 80 per cent (Slovakia), with an average of 71 per cent.

Goods

Examining the trade importance of the SM in CEE member states' trade in goods further highlights the SM's importance. For all of these countries, intra-EU goods exports represent more than 60 per cent of all exports in 2022, with the range being 62 per cent (Lithuania) to 82 per cent (Czechia).[5] Furthermore, among the six EU member states with the highest share of intra-EU exports, five were from the CEE region (Czechia, Slovakia, Hungary, Poland, and Romania).

In 2022, intra-EU imports made up less than 60 per cent of all imports in only two CEE member states (Slovenia with 52 per cent and Bulgaria with 55 per cent) (Eurostat 2024d). In the remaining cases, the share of intra-EU imports ranged between 63 per cent (Lithuania) and 78 per cent (Estonia and Latvia), with the average of the whole cohort being 68 per cent.

Services

Data on trade in services used in this study are provided by the World Trade Organization (2023). Examining exports of the CEE member states, in only one case did intra-EU exports represent less than 60 per cent of all exports (Bulgaria with 53.5 per cent) in 2021. In the remaining countries, the share of intra-EU exports ranged between 61.5 per cent (Czechia) and 75.4 per cent (Slovenia). In the case of imports, the share of intra-EU imports represented less than 60 per cent of all exports in only one country (Croatia with 51.7 per cent). In the remaining cases, the share ranged between 63.5 per cent (Bulgaria) and 79.7 per cent (Slovakia).

These substantial figures demonstrate the importance of the SM to the CEE region and vice versa: though the CEE member states benefit from services provided by other EU countries, the high export rates also demonstrate a considerable demand for services provided by CEE workers across the rest of the EU.

5 'Intra-EU trade in goods - main features', Eurostat Statistics Explained, March 2023 (https://ec.europa.eu/eurostat/statistics-explained/index.php?oldid=452727#Evolution_of_intra-EU_trade_in_goods).

Capital movement (foreign direct investments)

Although the development of foreign direct investment (FDI) has its specificities in each observed country, some similarities can be found among the CEE member states, although there is no complete overlap.

First, the SM accession has mostly contributed positively in terms of FDI when it comes to the CEE countries. Interestingly, while the accession itself contributed to a growth in FDI – presumably due to legislation harmonisation – in several countries, for instance, Czechia and Bulgaria, the growth had already begun before the official accession. This suggests that besides a decreased administrative burden – or implementation of administrative processes businesses were already familiar with – investors value the institutional, legal, and financial stability that is a symptom of a country's participation in the SM.

Second, several of the examined countries underwent a period of significant privatisation and/or reforms, which resulted in increased levels of FDI. Interestingly, the first waves of the latter often occurred in the 1990s, several years before the countries' SM accession. Prime examples of this phenomenon are Slovakia and Czechia in the early 1990s and Bulgaria and Romania in the late 1990s. While this demonstrates that FDI can also be increased by means other than SM accession, the sustained growth after the exhaustion of the reforms' effects suggests that the SM might have played an important role.

Third, a common thread across all the CEE countries is that the majority (more than 50 per cent) of FDI inflows originate in other EU member states. In Bulgaria, for instance, nearly 75 per cent of all foreign capital came from other EU member states (Eurostat 2024e). In Poland, the value of FDI at the end of 2022 was more than €251 billion, consisting of investments primarily from EU countries (€217.5 billion) and European Free Trade Association (EFTA) countries (€8.3 billion) (National Bank of Poland 2023). Thus, investments from countries belonging to the SM accounted for almost 90 per cent of all FDI in Poland.

However, there is a wide range of target industries for FDI in the CEE countries, which makes it difficult to deduce a pattern. In Bulgaria, for instance, the majority of FDI is directed to industries, trade, the financial sector, and real estate operations, with the latter being the leading sector. In Czechia, the banking and insurance sectors are the dominant targets, with retail, wholesale, and manufacturing being of importance as well.

While Czechia has observed a slight increase in FDI in the information technology sector since 2010, the overall structure of investment in the Czechia still tends to be more in line with sectors that do not produce value-added products as much as the latter. Ultimately, the FDI in CEE is not limited to industries that produce high-value-added products, resulting, in some cases, in a slower transformation into knowledge-based economies.

In conclusion, while participation in the SM is not the sole reason for positive FDI-related developments in the CEE member states, it certainly is an important factor, not only due to the lower administrative burden but also due to the stability implied by it, in addition to the imported technical as well as managerial know-how. Nonetheless, member states must attract FDI that will help them transform into economies that produce high-value-added products and services and restrain from implementing measures restricting FDI flows in the future.

Labour movement

When analysing the share of intra-EU migration in a member state's total migration, two factors must be considered. First, many EU nationals currently reside in the UK – this is especially true for the CEE member states – for instance, Poland and Romania. This is so because when it still participated in the SM, the UK opened its labour market before other member states, thus becoming a popular destination for workers from the CEE region. While individuals living in the UK are not categorised as intra-EU migrants anymore, a large part of this migration is the consequence of the SM.

Second, the statistics are 'distorted' due to the ongoing Russian invasion of Ukraine, as a consequence of which millions of Ukrainians have fled the country, often for the CEE countries given the geographical, cultural, and linguistic proximity. Subsequently, the share of intra-EU migration is being 'pushed down'.

Despite these developments, the importance of intra-EU labour mobility is considerable. In the case of the CEE countries, the trend is quite clear: a higher number of individuals move to other, mainly, western EU member states to benefit from the higher wages and better living standards than the other way around. This trend also extends to students studying abroad – or benefitting from programs such as Erasmus – which increases the probability of settling in another country. In the future, the CEE member

states might have to resort to competing for workers from outside the SM rather than for those from the western bloc of the EU.

However, the SM does not solely enable permanent relocation to other member states. It also provides the advantage of facilitating cross-border employment, wherein individuals reside in one member state but regularly commute across the border to work in another. Moreover, even the CEE member states' diasporas still contribute to their home countries, for example, through remittances. In 2022, for instance, Poles living and working abroad transferred approximately €4 billion to Poland (National Bank of Poland 2023). These transfers were predominantly from Western EU countries and the UK. Notwithstanding, it can be concluded that the region is currently losing the battle for labour to western EU member states.

Other benefits

In addition to the extensively debated areas of trade, capital movement, and labour mobility, the SM offers numerous other advantages to EU member states and their citizens. For example, one other economic benefit is low-cost public debt in countries benefitting from conservative policies; strong, well-functioning institutions; and participation in a project (the SM) of enormous proportions characterised by greater resistance to external influences and crises.

However, the SM also encourages collaboration beyond purely economic domains. For instance, it cultivates an environment wherein academics and scientists can cooperate internationally and address issues that transcend national borders more readily. These efforts are facilitated, among other things, by shared, EU-wide, data collection and publishing initiatives. Another example is the Baltic Energy Market Interconnection Plan (BEMIP), which was designed to better integrate the Baltic states' energy market. It was approved in 2009 by the European Commission. It was a key factor in Lithuania's energy independence, which would not have been possible to achieve for Lithuania alone.

Lastly, the SM also has 'soft' political impacts. For instance, it curtails the political influence of the member states' politicians on national economic policies since the harmonisation of regulations within the SM reduces the ability of national politicians to steer economic policies. This may seem as entailing an equal likelihood of helping and hindering – if governments with protectionist tendencies are in power, it is helping but if economically

liberal politicians are in power, it is hindering. In the case of the CEE member states, however, the EU's unifying approach to the SM has presumably acted as a balance to the numerous populist governments the region witnessed in the past years and decades.

Summary

This initial section underscores the significance of the SM for both EU member states in the CEE region and those outside it. Data and past experiences indicate that involvement in the SM has eased trade, capital flow, and labour mobility, leading to the CEE's convergence with the EU's average. Furthermore, the SM fosters stability and collaboration in the region, offering prospects for continued growth not only in CEE but beyond as well.

However, past achievements should not lead to complacency. The SM still has room for improvement, and additional liberalisation is necessary for it to fully realise its potential. The next chapter delves into specific aspects of the SM, pinpointing its deficiencies to lay the groundwork for policy recommendations outlined in the third chapter.

Chapter 2:
Barriers to and deficiencies of the Single Market

Having analysed the SM's hitherto benefits, we now turn to the factors hindering it from reaching its full potential. The following sections analyse seven main areas or different perspectives of an SM: the services sector in the SM; legislation enforcement; the capital market in the SM, the labour market in the SM; regulations and barriers to trade; digital markets; and artificial intelligence (AI).

The services sector in the SM

While trade in goods within the internal market is quite intensive and realises the fundamental idea of a single market, the services sector remains a 'work in progress',[6] as 'the cross-border provision of services is still largely underdeveloped' (Saulnier 2022). This is due to the numerous barriers obstructing the evolution of a proper services sector in the SM such as complex administrative procedures, varying national services rules across the region, and inaccessibility to information regarding rules and requirements.

The OECD Services Trade Restrictiveness Index (STRI) is a,

> unique, evidence-based tool that provides information on regulations affecting trade in services in 22 sectors across all OECD member countries and Brazil, the People's Republic of China, India, Indonesia,

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6 'The critical importance of the Single Market for Europe's global trade performance', *ECIPE*, May 2023 (https://ecipe.org/blog/single-market-europes-global-trade-performance/).

Kazakhstan, Malaysia, Peru, Singapore, South Africa, Thailand, and Vietnam. (Organisation for Economic Co-operation and Development n.d.)

The index evaluates the countries on a scale of 0 to 1, where 0 indicates no restrictions and 1 indicates maximal restrictiveness. Unfortunately, only 22 of the 27 EU member states[7] are included in the index, with three of the five countries missing being from the CEE region (Bulgaria, Croatia, Romania). The STRI was launched in 2014. Table 2 provides statistics for 2014 and 2022 across various sectors.

7 Bulgaria, Croatia, Cyprus, Malta, and Romania are not included.

Table 2: STRI of CEE and western European countries in 2014 and 2022

Sector	Bloc					
	CEE			Western EU		
	2014	2022	Change	2014	2022	Change
Logistics and cargo-handling	0.145	0.175	0.030	0.183	0.188	0.005
Logistics, storage, and warehouse	0.132	0.167	0.035	0.178	0.192	0.014
Logistics and freight forwarding	0.141	0.163	0.021	0.176	0.178	0.001
Logistics and customs brokerage	0.137	0.156	0.020	0.168	0.173	0.005
Accounting	0.193	0.214	0.021	0.288	0.294	0.006
Architecture	0.204	0.227	0.023	0.187	0.188	0.001
Engineering	0.241	0.258	0.017	0.201	0.207	0.006
Legal	0.463	0.470	0.007	0.317	0.322	0.006
Motion pictures	0.147	0.168	0.021	0.160	0.174	0.014
Broadcasting	0.213	0.231	0.017	0.216	0.219	0.003
Sound recording	0.141	0.168	0.027	0.170	0.186	0.016
Telecommunications	0.143	0.165	0.022	0.144	0.159	0.016
Air transport	0.401	0.409	0.008	0.399	0.400	0.001
Maritime transport	0.232	0.252	0.012	0.233	0.235	0.002
Road-freight transport	0.170	0.195	0.025	0.208	0.215	0.007
Rail-freight transport	0.189	0.208	0.020	0.190	0.188	−0.002
Courier	0.153	0.171	0.019	0.160	0.166	0.006
Distribution	0.142	0.161	0.019	0.183	0.187	0.004
Commercial banking	0.157	0.172	0.015	0.173	0.183	0.010
Insurance	0.130	0.136	0.007	0.174	0.175	0.001
Computer	0.153	0.183	0.031	0.188	0.198	0.010
Construction	0.193	0.224	0.030	0.193	0.202	0.009

Source: OECD

Among the various insights offered in Table 2, two are the most concerning. First, there has been a somewhat pronounced increase in restrictiveness in both the CEE and western blocs. None of the examined sectors in the CEE, and only one in the western bloc, underwent liberalisation: the average STRI score decreased only in the western bloc's rail-freight transport sector (−0.002 points). In the remaining service areas, the increases ranged between 0.007 points (legal services sector) and 0.035 points (logistics, storage, and warehouse sector) in the CEE and 0.001 points (insurance; air transport; architecture; and logistics and freight forwarding sectors) and 0.016 points (telecommunication and sound recording sectors) in the western bloc.

Second, in each of the examined sectors, on average, the increase in restrictiveness has been more pronounced in the CEE region than in the western bloc. The smallest difference between the regions (0.001 points) can be observed in the legal services sector: the STRI score increased by 0.007 points in the CEE and by 0.006 points in the western bloc. The greatest difference can be noted in the logistics and cargo-handling sector: the CEE's score increased by 0.030 points, while in the western bloc, the increase only constituted 0.005 points (a 0.025 points difference).

However, it should be noted that significant heterogeneity prevails within the CEE. In Hungary and Poland – both of which have been characterised by populist and conservative policies in recent years – the observed changes amounted to +0.050 and +0.036 points, respectively, whereas all other countries experienced changes below 0.030 points. Conversely, Slovakia experienced a modest increase of 0.009 points while Estonia witnessed a decrease of 0.014 points.

Further, these changes are mirrored by another alarming development: the declining number of less-regulated sectors in the CEE vis-à-vis the western bloc. While in 2014, the CEE had a clear majority of less-regulated sectors – eighteen in the CEE and four in the western bloc – by 2022, the numbers begin to correspond – twelve in the CEE and ten in the western bloc. These numbers hint at a worrying trend of increasing regulatory burden in the CEE region, which threatens to stifle economic growth in the upcoming years if not reversed soon.

Legislation enforcement

The EU's legislative process involves not only passing regulations but also ensuring their implementation by member states – a complex process often requiring enforcement mechanisms. One such mechanism is the infringement procedure, which involves several steps. First, the European Commission (EC) requests further information from the member state (letter of formal notice). Second, it issues a formal request for compliance (reasoned opinion). Ultimately, if non-compliance persists, it may refer the matter to the Court of Justice. Financial penalties may also be imposed for continued non-compliance.

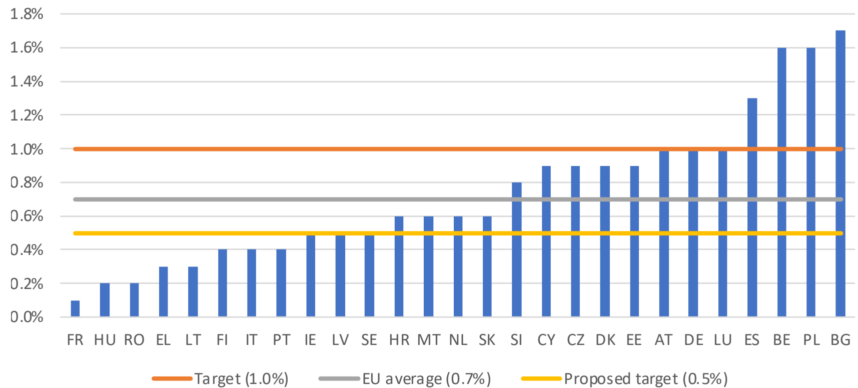
The EC releases an annual report on the implementation of EU law (European Commission 2022a), with the latest edition spanning from 2018 to 2022. This section encapsulates the key findings of the report and explores their significance for the analysis presented herein.

In the study period, there has been a notable increase in the number of new infringement cases from 644 to 903. However, in 2021 and 2022, this trend underwent a reversal, with only 551 new infringements recorded in 2022. In 2018, the primary policy area with the highest number of new infringements was the internal market, industry, entrepreneurship, and SME sector. In 2019 and 2020, it was overtaken by the environment sector, followed by the financial stability, financial services, and Capital Markets Union sector in 2021, and the mobility and transport sector in 2022.

The EC also publishes data on transposition deficit, which is defined as 'the percentage of Single Market directives not yet completely notified to the Commission out of the total number of directives that should have been notified by the deadline' (European Commission n.d.a). The average transposition deficit in the EU is 0.7 per cent.

A target deficit of 1 per cent was set in March 2007. Currently, 23 member states are in line with this goal. Out of the four member states that are currently not meeting this goal, two are from the CEE – Poland at 1.6 per cent and Bulgaria at 1.7 per cent (Graph 2). These two countries are also the states with the highest transposition deficit.

Graph 2: Transposition deficit of SM directives by member states and proposed target as of 5 December 2023



Source: European Commission n.d.a.

As stated by the EC, '[a] new 0.5% target was proposed in the April 2011 Single Market Act and in the March 2023 Communication The Single Market at 30' (European Commission n.d.a). This target is currently being met by eleven member states, four of which are in the CEE – Hungary and Romania each at 0.2 per cent, Lithuania at 0.3 per cent, and Latvia at 0.5 per cent.

However, the recent decrease in new infringements contrasts with the rising number of cases remaining open at the end of each year. While there was a slight decrease between 2018 and 2019 from 1,571 cases to 1,564 cases, there has been a consistent rise since then, with 1,787 cases in 2020; 1,930 in 2021; and 1,991 in 2022. Despite fewer new cases, the EU faces a backlog because more cases are being initiated than resolved. This backlog undermines the instrument's effectiveness and exposes EU policymakers to negative publicity. Therefore, the EC may become even more more lenient in employing the infringement procedure and addressing non-compliance cases to manage the workload more effectively in the future.

An important and interesting pattern emerges when examining closed infringement cases on the basis of the procedural stage. In each of the study years, the majority of cases were closed after the issuance of a letter of formal notice or stage one. Moreover, following a significant increase from approximately 55 per cent in 2018, cases closed at this stage comprised at least 70 per cent of all cases in subsequent years.

Closures following a reasoned opinion (stage two) ranged between approximately 20 per cent and 35 per cent throughout the examined period, while closures after referral to court represented only between 10 per cent and 4 per cent of all closures.

Over the years, the EU has established various mechanisms – such as the SOLVIT, the EU Pilot, and the Single Market Enforcement Taskforce (SMET) – intending to enhance the implementation of EU legislation. These mechanisms assist member states in certain instances and adopt an enforcement approach in others. Although evaluations have indicated some modest improvements in, for instance, pretrial bargaining efficiency and information availability, they frequently underscore the limited personnel capacity, inefficiencies (e.g. a weakening of EU surveillance of member states' activities or lack of awareness of the options available), and, sometimes, even adverse impacts of certain initiatives (such as a greater manoeuvring space for member states and their political interference in EU's activities).

In essence, the EU's current approach prioritises dialogue over punishment for non-compliance, aiming to maintain positive relations among member states and encourage cooperation. However, this attitude risks undermining regulatory predictability in the SM, which demands swift resolution of non-compliance incidents.

Moreover, the rising number of unresolved infringement cases and EU Pilot cases are markers of a system that may not be sustainable in the long term. Instead of temporary fixes, the EU should conduct a thorough review and consider adopting a stricter approach to non-compliance procedures, backed by a streamlined infringement process.

The capital market in the SM

The EU economy has long been based on the strong position of banks since European firms raise funds for investment primarily from household savings in banks. This is in marked contrast to the US and other developed economies, where access to financial market resources, whether bond or equity finance, is much more widespread. As noted by Popov in this paper published by ECB:

> A number of recent papers have shown that the marginal contribution of banks to economic growth declines, while that of capital markets

> increases with economic development, notably because market finance is better at promoting innovation and productivity, and at financing new sources of growth. (Popov 2017, p3)

The EU capital markets lag well behind the US. Based on estimates of IEM:

> By the end of 2020, the total capitalisation of EU stock exchanges stood at €9,900 billion. This was four times lower than that of the US stock exchanges (€37,700 billion for the NYSE plus Nasdaq). The leading EU stock exchange, Euronext, was four times smaller than the NYSE (traditional US equities) and three times smaller than the Nasdaq (technology equities).[8]

Currently, raising capital is tougher in the EU than in the US, which hinders the development of companies in many areas. Although there are many advantages of bank financing from the perspective of owners – for instance, full control of shareholders – the conservative approach deployed by banks translates to limited innovation in the economy (Zhang, Sheng, and Guo 2019), lesser risk-taking, and limited capital.

The EU should strengthen the free movement of capital in the region and pursue the creation of a viable capital union to increase opportunities for financing business and investment in the EU. Regulations inhibiting the development of non-bank sources of financing should be reduced, and the venture capital market should be developed further. Developed capital markets are one of the tools to drown out the constant calls for more state aid and protectionism.

Nevertheless, the Capital Markets Union must be supported not only to promote economic growth but also to stimulate the wealth of households. As noted by Epicenter:

> The Dutch pension model, which is based on contributions that are accumulated in private funds and which are then reinvested, illustrates this efficiency – a 25 per cent contribution rate leads to a net salary replacement rate of 89 per cent.

8 ‘Europe is missing 10,400 billion euros in market capitalisation’, *Epicenter*, 4 September 2023 (https://www.epicenternetwork.eu/blog/europe-is-missing-10400-billion-euros-in-market-capitalisation-3270/).

> In contrast, in France, a contribution rate of 28 per cent leads to a replacement rate of 74 per cent (OECD 2021).[9]

The synergistic effects of a vibrant capital market and pension savings do not require any emphasis. The availability of savings, invested with a long-term horizon, acts as a critical financial injection for initially risky investments. However, the transformation of pension schemes from the pay-as-you-go (PAYG) principle to funded savings is long and politically costly. The EU SM presents an opportunity to accelerate this process. The pan-European Personal Pension Product (PEPP) initiative is a positive example of how the share of available capital savings can be extended. Nevertheless, as noted by Šebo, Danková, and Králik (2020), despite the scheme's potential, national protectionism inherent to government-managed pension systems significantly inhibits its development.

Last but not least, we must also mention the measures that impose constraints on the development of the capital market in the future. An important trend observable in recent years has been the strengthening of FDI screening by member states, particularly, the CEE member states. In Czechia, for example, the Czech National Screening Mechanism was introduced in 2021, ending the local laissez-faire phase of FDI as well as the Czechia's advantage at the expense of the western bloc countries.

Romania's FDI regime has also become stricter in recent years. In 2022, the Romanian government passed legislation amending the country's screening framework. At present, FDI projects in designated areas of the economy whose value exceeds the €2 million threshold[10] are subject to government authorisation. The regime applies to investors from non-EU countries as well as to EU investors that are directly or indirectly controlled by non-EU persons.

A similar amendment was implemented in Slovakia in early 2023. Although such caution is appropriate given the current scenario of security risks to an extent, governments should only resort to such measures in exceptional cases as well as provide adequate and transparent justification for their decision. The development of capital markets requires investments from third countries as well.

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9 'Q.E.D. Why politicians need an evidence-based approach to policy problems, *Epicenter*, February 2024 (https://mcusercontent.com/00442427a26e721103255eff7/files/fb7ac991-d8b0-6c6e-ea09-c869e3bffb55/Q.E.D..pdf)

10 'Romania introduces amendments to the FDI screening regime', *UNCTAD*, 14 April 2022 (https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3911/romania-introduces-amendments-to-the-fdi-screening-regime)

State aid

State aid is any kind of financial support that member states can provide to companies or industries. It takes various forms such as subsidies, tax breaks, loan guarantees, or preferential rates for public services. State aid is sometimes justified on the grounds of, among other things, supporting economic development, promoting innovation, increasing employment, protecting the environment, and ensuring public safety. State aid, as an important part of economic policy, is defined in the **Treaty on the Functioning of the European Union** (**TFEU**), one of two treaties forming the constitutional basis of the European Union (EU).

As a general rule,

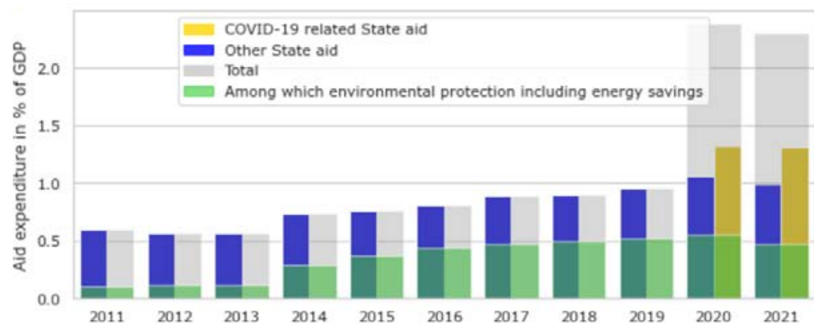
> any aid granted by a Member State or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market (Article 107 TFEU)[11].

Only later does the treaty enumerate the exceptional situations in which aid may be authorised. In other words, state aid, i.e., supporting companies with all taxpayers' money, should be a rare exception rather than a routine.

Despite the EC's relatively strict control over state aid, not only is the total volume of state aid growing but so is the share of state aid in the EU's GDP (Graph 3). This can be attributed mainly to the expanding volume of green subsidies. A rapid hike was noted in state aid during the COVID-19 crisis when it increased more than twofold.

11 The Treaty On The Functioning Of the European Union (https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12012E/TXT:en:PDF)

Graph 3: The evolution of total state aid expenditure in the EU from 2011 to 2021 as % of the EU27 GDP



Source: European Commission 2022b.

This steady increase in the volume of state aid is contrary to the original EU treaties and the idea of a single market. The reality, not only in the CEE but in the entire Union, is that many companies choose the final destination of investment according to which country offers the highest incentives. Such a situation is not only inefficient but distortive – for instance, richer economies can 'afford' more FDI – and leads to the creation of economic disparities.

Data for 2005–2016 show that the average state aid in the 'old' EU countries averaged €61 billion per year against €6,4 billion per year in the 'new' EU. Such disparities may be due to differences in the size and wealth of economies but, at the same time, may indicate differences in the treatment of companies and sectors across different parts of the EU (Semeniuk 2018[12]).

State aid rules should be reviewed to help create a level playing field. As the nine countries stated in their request to the Council of the EU (General Secretariat of the Council 2024), state aid should be designed in such a way that the rules of dispersion are based on the existence of market failures as a key condition for determining where state intervention can enhance competitiveness.

12 'Does EU competition law favor particular countries?' Piotr Semeniuk, PhD, LLM, June 2018 (https://www.law.nyu.edu/sites/default/files/upload_documents/Semeniuk.pdf).

Recently, there has been a growing political demand for a higher degree of energy[13] as well as raw materials self-sufficiency[14]. These demands tend to be justified by the high level of state aid in China or the US. However, joining the ranks of these countries implies joining a subsidy race in addition to the growth of protectionism, which ultimately undermines the existence of free trade at the global level. We are already seeing concentrated efforts to introduce and/or increase import tariffs.[15] The EU cannot participate in this distortive competition in subsidies, as it does not have own raw materials as China, a massive labour pool as Asia, or a world reserve currency that allows it to run extreme deficits as USA.

However, EU member states have tools at hand to support economic growth, other than the redistribution of high taxes. Above all, it is the deepening and scaling up of the integrated capital market, which is an instrument for mobilising private capital. A wide range of measures to remove regulatory barriers and promote free trade with third countries are the subject of this publication. We are aware that global competition in subsidies and national protectionism distorts trading conditions in the world market. Therefore, it is necessary for the European Commission to continue its efforts and pressure to reform the WTO rules, which would eliminate the scope of these interventions in the free market.[16]. The EU should also rigorously apply the requirement for a cap on state aid at a maximum of 1 per cent of the EU GDP. Further, the rules for granting state aid should be transparent and predictable rather than arbitrary and discretionary. The dimension of state aid and its effect on the integrity of the SM should also be captured in the regular assessment of the EU's competitiveness by European commission.

13 Europe can become energy self-sufficient by 2030, but it comes with a hefty price tag – study, *Euronews,* 10 October 2023 (https://www.euronews.com/business/2023/10/09/europe-can-become-energy-self-sufficient-by-2030-but-it-comes-with-a-hefty-price-tag-study).

14 Critical Raw Materials: ensuring secure and sustainable supply chains for EU's green and digital future, *European Commission,* 16 March 2023 (https://ec.europa.eu/commission/presscorner/detail/en/IP_23_1661)

15 EU Moves Toward Hitting China with Tariffs on Electric Vehicles, *Bloomberg*, 6 March 2024 (https://www.bloomberg.com/news/articles/2024-03-06/eu-moves-toward-hitting-china-with-tariffs-on-electric-vehicles).

16 Opening statement of the European Union made by Mrs Sabine Weyand, Director-General, Directorate-General for Trade, 5 June 2023, European Commission (https://www.eeas.europa.eu/delegations/world-trade-organization-wto/15th-trade-policy-review-european-union-5-7th-june-2023_en?s=69).

The labour market in the SM

Occupational licensing

Theory

Licensing and certification policies, i.e., occupational regulation, are a crucial part of the SM. They aim to ensure quality standards in the interest of consumers by establishing minimum skill requirements for entry into respective occupations. In this regard, research has also shown that 'higher investments in training have the potential to enhance the skills base in the economy' as argued by Koumenta and Pagliero[17] (2016: 13).

While the premise of this argument is sound, it is important to consider two key points. First, when regulations are instituted to address information asymmetries and mitigate harm to the public or consumer, one might anticipate a consistent regulatory approach across various member states. If occupational malpractice poses a risk to the public, such regulations should be uniformly implemented across the majority of, if not all, states. However, within the EU, this is frequently not the case; the regulation of the same occupation may vary from one member state to another.

Second, it is important not to assume that imposing higher-skill requirements will invariably result in products and services of superior quality. The correlation between these variables is contingent upon factors such as 'ability, resources, and economic incentives' (Koumenta and Pagliero 2016: 14).

Extent

The EC (n.d.b) maintains a database of regulated professions. These generic names of professions are further divided into sub-professions. For example, 'surgeon' falls under 'doctor of medicine'. Presently, the database encompasses 561 generic professions, with 'doctor of medicine' notably emerging as the most regulated profession with 1,517 entries. Despite potential overlaps in regulations among member states, the need to familiarise oneself with these regulations acts as a barrier for individuals seeking to offer services in another member state.

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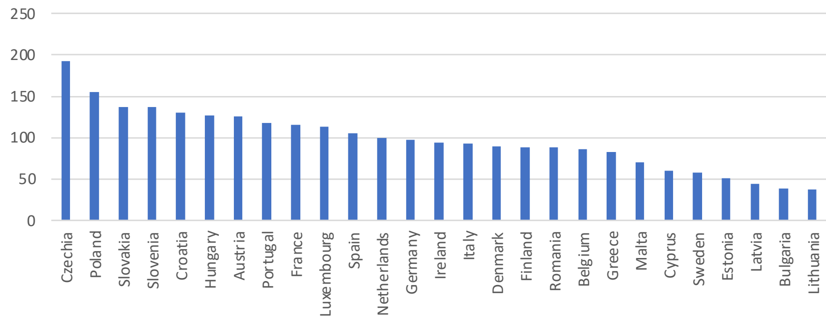
17 Koumenta, Maria and Pagliero, Mario (2016). "Measuring Prevalence and Labour Market Impacts of Occupational Regulation in the EU", *European Commission,* (https://ec.europa.eu/docsroom/documents/20362/attachments/1/translations/en/renditions/native).

An examination of the number of regulated generic professions unveils a trend of either notably high or low regulation within the CEE member states (Graph 4). The six most regulated states in the EU are located in the CEE: Czechia (192 regulated generic professions), followed by Poland (155), Slovakia and Slovenia (both with 137), Croatia (130), and Hungary (127). Conversely, Estonia has only 51 regulated professions, Latvia has 44, Bulgaria has 39, and Lithuania has 38.

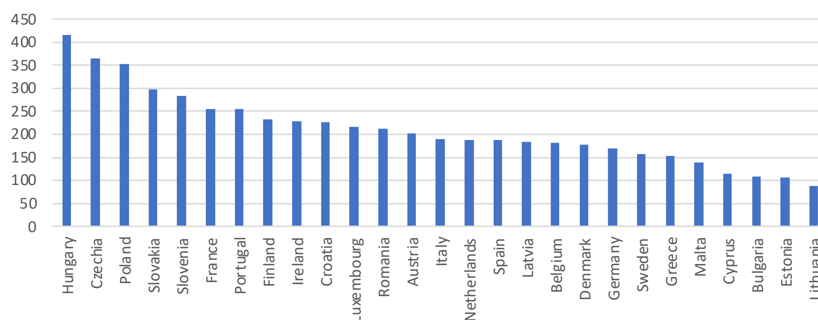
Graph 4: The number of regulated generic professions in EU27 states as of February 2024



Source: European Commission n.d.c.

The EC database also enables the examination of the number of specific regulated professions (Graph 5). For example, while Czechia recognises 45 different subcategories within the 'doctor of medicine' group, Austria only acknowledges 33 subcategories within the same generic profession group.

Graph 5: The number of specific regulated professions in EU27 states as of February 2024



Source: European Commission n.d.c.

Similar trends are revealed in the analysis of the number of specifically regulated professions. Hungary leads with the highest number of regulated professions (415), followed by Czechia (365) and Poland (352). Conversely, Bulgaria (109), Estonia (107), and Lithuania (88) have the lowest numbers of regulated professions.

In summary, this database highlights the diversity of regulated professions across EU member states, with significant variances observed, particularly in the CEE countries. This presents challenges for individuals seeking to provide services across borders. The data also reveals discrepancies in the specificity of regulations within certain professions, underscoring the complexities of navigating EU regulatory frameworks and undermining the public safety argument.

Impact

Koumenta and Pagliero (2016) also offer valuable insights into the state of occupational regulations within the EU. While around 22 per cent of workers in the EU are impacted by such regulations, the distribution of this impact is not uniform. The CEE and specific occupational groups exhibit a higher incidence of regulation. The authors assert that '[o]ccupational licensing is associated with an aggregate wage premium of about 4%' (Koumenta and Pagliero 2016: 4). Additionally, they acknowledge that 'the automatic recognition arrangements currently present in the EU are effective in facilitating entry into foreign markets and mobility across countries' (Koumenta and Pagliero 2016: 4).

However, the current regulatory framework also carries significant drawbacks. As the most stringent regulatory measure, licensing contributes significantly to wage inequality in the EU. Furthermore, it appears that licensing correlates with increased unemployment rates in the EU (by up to 705,000 jobs). Conversely, relaxation of regulations could potentially boost the number of workers in a particular profession by between 3 per cent and 9 per cent (Koumenta and Pagliero 2016: 66).

The impact of licensing on labour mobility is evident in the representation of foreign-born workers across professions. Licensed professions demonstrate greater disparities compared with unregulated ones, with foreign-born workers being underrepresented in certain fields. Koumenta and Pagliero (2016: 4) find that licensing distorts the value of education by levelling returns for lower-educated individuals while boosting them for university graduates, suggesting a shift away from meritocracy towards political influence.

This evidence provides a threefold argument for licensing liberalisation. First, policymakers should prioritise evidence-based approaches over purely political decisions, given the imbalance of the drawbacks of stringent regulation versus the benefits as illustrated above. Second, overly stringent licensing policies diminish the overall well-being of society. When individuals are unable to maximise their contributions by working in locations where their productivity surpasses that of their country of origin, society suffers a loss as a whole.

The third argument – concerning the EU's future regarding immigration – is two-part. One, due to demographic changes – such as an ageing population – the EU may need to attract talent from other countries. However, strict regulations, negatively supported by lengthy permit procedures, could limit this. Two, employment is crucial for integrating immigrants into society, especially since an increase in immigration rates is imminent due to climate change. Therefore, policies supporting immigrant employment are essential for both the economy and society.

Ultimately, Koumenta and Pagliero (2016) emphasise the complexity of the EU's occupational regulations. While beneficial for wages and mobility, these regulations also fuel wage inequality and unemployment. Licensing disparities affect foreign-born workers and hinder technology-driven efficiency gains. Improving these regulations is crucial for the EU's future amid economic challenges and impending demographic shifts.

Platform work

The EU has recently pioneered[18] legislation for digital platform work, which is a new phenomenon offering workers flexibility and utilising untapped resources such as private vehicles. The popularity of digital platform work surged during COVID-19: as of 2022, this sector engaged over twenty-eight million workers (Council of the EU 2024). These workers provide services through digital platforms voluntarily and often do not have access to social benefits and protection. Platforms capitalise on this regulatory gap to meet customer needs and enhance welfare.

However, EU and member-state legislation, which dates from the last century, fails to accommodate new forms of cooperation, dividing workers into only two categories: protected employees and self-employed. The rise of platform work – a new form of cooperation – is seen as a threat by unions. The demand for it, however, underscores mutual benefits. Rather than imposing heavy regulation, the market should be allowed to find balance. Even though platforms are adapting socially responsible rules, regulatory lobbying mainly lead by Unions representatives prioritises strong employee protection, hindering market dynamics. In light of this, the EU's unnecessary 2024 directive diminishes the attractiveness of new investments.

The new directive, even after undergoing several changes, lacks a clear definition of the employment relationship, deferring this to the member states. Not only does this prevent harmonisation based on strict rules but it also creates legal uncertainty and costly adaptation for digital platforms across 27 different legislations. Additionally, the directive presumes all platform contracts as 'employment', burdening platform managers with proving otherwise. This setup further raises uncertainty, legal costs, and risks for platforms, potentially endangering their existence due to the minority of workers, who expect the benefits of a classic employment relationship from the platforms.

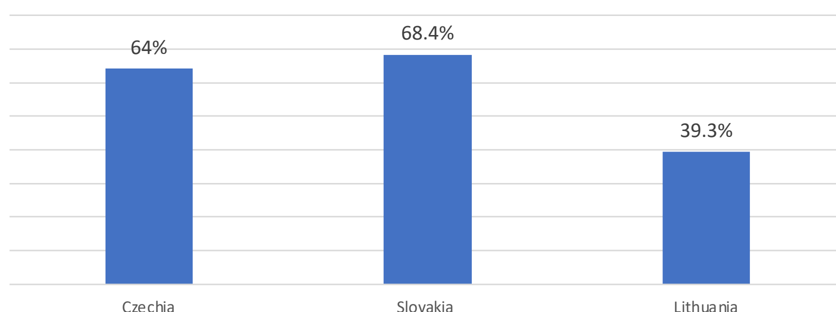
In reality, most of the workers start to participate on platforms just because of its flexibile conditions of work, and they are not willing to lose it in exchange for stronger labor protection. In a 2024 survey initiated[19] by

18 'Platform workers: Council confirms agreement on new rules to improve their working conditions', *Council of the EU*, 11 March 2024 (https://www.consilium.europa.eu/en/press/press-releases/2024/03/11/platform-workers-council-confirms-agreement-on-new-rules-to-improve-their-working-conditions/).

19 The survey will be published in spring 2024

Centrum tržních a ekonomických analýz (CETA) and conducted among food delivery couriers (Wolt), a majority expressed a preference for flexibility and independence over the security of traditional employment benefits (Graph 6).

Graph 6: Percentage of respondents unwilling to trade an 8 per cent–reduction in hourly pay for 4 weeks of paid vacation in Czechia, Slovakia, and Lithuania (survey conducted in March 2024)



Source: CETA

The new EU legislation thus imposes working conditions on platform workers contrary to their preferences (Lithuanian Free Market Institute 2022b), undermining the flexibility and efficiency that attracts them to these platforms. This approach increases costs for platforms, restricts flexibility, and undermines the algorithmic evaluation system. It replaces free collaboration termination with complex notice period rules, risking the platforms' advantage in operability and flexibility for customers as well. The directive not only reduces the appeal of platform work and discourages new investors but also harms citizens by limiting flexible income opportunities and reducing welfare due to increased costs and limited service availability.

Regulations and barriers to trade

Permitting

One notable area requiring enhancement lies in the realm of industrial permits. The current state of affairs reveals that the procedures involved in obtaining such permits are protracted and intricate, thus presenting a barrier to the competitiveness and transformative potential of the industry in the EU. These permitting regulations are dispersed throughout various pieces of EU legislation, resulting in a fragmented and duplicative system that is fraught with a notable degree of inconsistency, as highlighted in a report by BusinessEurope[20] (2024).

Consequently, there arises a pressing need for greater harmonisation within the EU's approach to permits across the industrial and infrastructural spheres. Such harmonisation stands as a pivotal factor in bolstering competitiveness and entails streamlining and consolidating permit regulations to ensure coherence and efficiency, thereby facilitating a smoother operational environment for businesses.

Furthermore, fostering dialogue at the EU level is paramount to facilitating the exchange of best practices among key stakeholders. This dialogue should encompass not only the EC but also national permitting authorities and representatives from the industry. By fostering an open exchange of insights and experiences, the EU can leverage collective expertise to refine permitting processes, promote transparency, and, ultimately, improve the overall business ecosystem of the region. Such collaborative efforts are integral to nurturing a regulatory framework that not only safeguards public interests but also catalyses innovation and sustainable growth across the EU's industrial landscape.

At the same time, maintaining technology-neutral approaches in economic policy and technological evolution is essential for the EU to avoid favouritism in legislation. By upholding this principle, the EU empowers consumers and entrepreneurs to select optimal solutions within market dynamics, thus fostering competition and innovation. This approach ensures fairness, encourages creativity, and promotes efficiency, benefitting consumers and driving progress across sectors in the long run.

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20 BusinessEurope (2024). "Licence to transform. SWOT analysis of industrial permitting in Europe", (https://www.businesseurope.eu/sites/buseur/files/media/reports_and_studies/2024-02-13_businesseurope_permitting_swot_analysis_-_final_report.pdf).

Embracing technology neutrality not only ensures fair competition but also serves as a catalyst for innovation. By allowing businesses to compete based on the quality and effectiveness of their offerings rather than artificial advantages created by regulations, this approach fosters creativity and drives progress across various sectors. Moreover, it fosters efficiency by enabling market forces to dictate the most effective solutions rather than propping up particular technologies or entities artificially.

Non-tariff measures (NTMs) and non-tariff barriers (NBTs)

Despite the EU's success in promoting free trade within its borders, non-tariff measures (NTMs) and barriers – as well as the complexities of opening the European economy to third countries – pose significant challenges to the free movement of goods. These NTMs extend beyond customs tariffs, affecting international trade by altering the quantities and prices of goods traded. Requirements such as labelling, inspections, certifications, registrations, testing, and packaging, and certain substance-use restrictions are common in the EU. The NTMs impact the food, chemicals, plastics, and textiles industries in particular. Cross-border retailers face hurdles in establishment and operations due to these measures.

The World Bank (2012: 136) has found that these measures "are almost twice as trade restrictive as tariffs." While often justified by health and safety standards, the NTMs act as protectionist trade barriers (Szczepański 2017). Further, according to the World Integrated Trade Solution database (2018), 94 per cent of EU imports and products are subject to NTMs, notably higher than in the US (77 per cent and 62 per cent, respectively) or Japan (76 per cent and 61 per cent, respectively). This raises questions about the value of extensive labelling or certification requirements.

The EC acknowledges the increasing importance of NTMs in trade policy and recognises that some NTMs are, in fact, non-tariff barriers (NTBs), which are often characterised by protectionist and discriminatory tendencies. Although SM legislation prohibits NTBs, they persist due to differing interpretations by member states and additional requirements imposed on importers – such as gold-plating – or time constraints. The NTBs become problematic when excessive, inconsistent, or poorly implemented. Some CEE countries' customs services are also known to impose technical restrictions, especially on food imports within the EU.

The SM's progress in terms of the free movement of goods requires a thorough review of NTBs, especially in the food sector, and a unified policy to remove them. This involves evaluating all such measures, assessing customs services' performance, and establishing a fast-track dispute resolution for interstate import issues.

Environmental, Social, and Governance (ESG)

The environmental, social, and governance (ESG) regulations refer to official guidelines set by governments concerning actions, reporting, or disclosures related to ESG. The ESG factors are used to assess the sustainability and ethical implications of a company or investment. At present, the EU ESG framework consists of five regulations and four directives, two of which are in the process of negotiation.

In general, it is difficult to define what counts as an ESG regulation and what does not. For example, the new Carbon Border Adjustment Mechanism (CBAM) directive is considered an ESG measure, although it can also be understood as part of the European Green Deal (EGD) and the 'Fit for 55' package. For this reason, it is not easy to quantify the impacts or benefits of the ESG measures; therefore, in this report, we will focus mainly on the reporting obligations for businesses, which have a direct impact on their overall bureaucratic burden and competitiveness.

There are two approaches to forming and enforcing ESG regulations: voluntary and prescriptive. The EU's approach to ESG regulation is historically prescriptive in nature: it reflects a tendency to regulate social relations through the adoption of a series of interconnected regulations to achieve certain goals. This is in sharp contrast to the US approach wherein the ESG requirements are rather voluntary and the legislator does not prescribe details of reporting.

The ambit of ESG regulations tends to grow in number of required reporting and thus increases the costs to businesses. A specific example of this process is the recent regulation of ESG ratings in the EU.[21] Until now, the rating of companies, or the 'green' bonds they issue, has been unregulated, which has led to glaring differences in the evaluation provided by rating

21 'Environmental, social and governance (ESG) ratings: Council and Parliament reach agreement', *Council of the EU*, 14 February 2024 (https://www.consilium.europa.eu/en/press/press-releases/2024/02/05/environmental-social-and-governance-esg-ratings-council-and-parliament-reach-agreement/).

agencies. The new regulation has handed the European Securities and Markets Authority (ESMA) the power to define the requirements for a proper rating and achieve higher transparency. This regulation was sanctioned even in light of a study published by the ESMA in 2023 according to which the sustainability factor does not play a role in the valuation of the sustainability bonds (ESMA 2023).

Nevertheless, the highest costs of ESG reporting will be borne by businesses. As a result of the Corporate Sustainability Reporting Directive (CSRD), enforced in January 2024 – which is expandable in scope and scale and hence will apply to a wider range of companies – it will be mandatory for up to 50,000 EU companies with more than 250 employees to report by 2029.[22] According to estimates of the European Financing Reporting Advisory Group (EFRAG), which is also the author of the CSRD framework each company will face: '… on average, a total of EUR 287 000 as a one-off cost of reporting and about EUR 320 000 on annual basis (of which EUR 173 000 for own costs equivalent to between 2 and 2.5 FTEs on average)' (2022: 17).

EFRAG also estimates that 'non-listed undertakings incur the lowest administrative costs (…) Their costs are expected to reach about EUR 36 000 on a one-off basis and EUR 40 000 on a recurring basis' (2022: 17). With about 50,000 companies reporting, this regulation translates into at least €2 billion of additional annual costs, without clear benefits, thus decreasing the international competitiveness of EU businesses.

A non-financial cost of these complex regulations is that they deprive the market participants of the possibility to demonstrate moral virtues. In the present scenario in the EU, morality is not being entrusted to the free will of each company and individual (in it). Instead, it is being 'socialised' and delegated as an obligation, which entails legal consequences – i.e., the risk of being prosecuted – and social side effects. A business owner's role is not to discover a customer's needs anymore; nonetheless, they are expected to produce what regulations require and enable. The customer is no longer the referee who can decide what is to be produced and who is supposed to produce it through the power of spending – regulations make the decision. The tradition of shareholders' capitalism has been distorted significantly in the free market environment.

22 'All about the CSRD (Corporate Sustainability Reporting Directive)', *Euronext Corporate Services*, 12 March 2024 (https://www.corporateservices.euronext.com/blog/esg/eu-csrd).

Digital markets

Digital Market Act (DMA)

For more than twenty years now, more and more regulations concerning the digital world have been appearing in EU law. However, these regulations have not led to a very dynamic development in European digital companies.

In 2021, of the 22 key online platforms operating in the EU, only 4 originated from Europe (Mariniello and Martins 2021).[23] **One reason for this is the over-regulation of the digital market and digital businesses in the SM as well as within EU member states.** According to a study by think-tank Breugel, 116 pieces of EU legislation relevant to the digital economy sector were created in 2019–23 (Marcus et al. 2023).[24] A frequent argument regulators put forward for this is ‘consumer protection’.[25] However, one can find various examples of provisions included in, for example, the Digital Marketplaces Act (DMA) that may produce the opposite results.

According to the EC, the DMA aims to foster fair and competitive digital markets. It reportedly seeks to prevent regulatory fragmentation within the SM, ensure a secure online environment, and level the playing field for businesses, particularly addressing the dominance of certain large online platforms acting as ‘gatekeepers’. Alongside the Digital Services Act (DSA), the DMA is a key component of the European digital strategy.

However, as reported by the Lithuanian Free Market Institute (2022a), there are several reasons to doubt whether the DMA will indeed bolster the internal market, foster competition, and drive innovation. First, it is characterised by a significant level of uncertainty, which stems from vaguely defined concepts and an expansive scope of regulatory authority. The EU is not constrained in determining whether an entity qualifies as a gatekeeper, and the potential fines lack proportionality, further exacerbating concerns.

Second, the DMA exhibits a misunderstanding of the concept of competition by adopting a somewhat static perspective and seeking to artificially

23 ‘Which platforms will be caught by the Digital Markets Act? The ‘gatekeeper’ dilemma’, *Bruegel,* December 14 2021 (https://www.bruegel.org/blog-post/which-platforms-will-be-caught-digital-markets-act-gatekeeper-dilemma).

24 ‘A dataset on EU legislation for the digital world’, Bruegel, November 16 2023, (https://www.bruegel.org/dataset/dataset-eu-legislation-digital-world).

25 ‘Digital Markets Act (DMA): A Consumer Protection Perspective’, *European Papers,* January 31 2023 (https://www.europeanpapers.eu/en/europeanforum/digital-markets-act-consumer-protection-perspective).

engineer what it deems fair and beneficial for consumers. However, attempting to preconceive the specific form of the market – including its size, the number of participants, and their behaviour – to suit consumer preferences is inherently flawed. Such efforts are bound to result in inefficiencies, as market dynamics cannot be predetermined accurately.

Third, and in continuation of the previous point, the DMA appears to view competition as an ultimate goal rather than a means to an end. However, competition should serve as a tool to satisfy consumers' desires and requirements. Yet, the DMA hinders competition from fulfilling this role for several reasons. Firstly, its influence may disrupt, degrade, or unexpectedly alter services that consumers freely enjoy. Secondly, consumers prefer optimised choices rather than an overwhelming abundance of options. Through this legislation, the EU essentially contends that optimisation equates to maximisation, thereby making decisions on behalf of consumers instead of empowering them to choose.

Fourth, the DMA is poised to inhibit innovation significantly. As Portuese[26] contends, suggesting to entrepreneurs that their innovative endeavours, which may grant them first-mover advantages and dominant market positions within the next few years, could result in their companies being classified as gatekeepers and subjected to a plethora of regulatory obligations, represents an exceptionally potent deterrent to innovation.

In addition to these arguments, further methodological and philosophical concerns arise. For instance, the DMA's impact assessment neglects to evaluate its adverse effects adequately while failing to substantiate the anticipated positive results. Moreover, there is scant evidence to support the assertion that the platforms subject to regulation truly constitute natural monopolies. The DMA also appears to disregard private property rights by treating platforms as public goods, despite lacking a rationale for such classification. Lastly, the DMA overlooks the inherent imperfections in both services and providers, despite the reality that imperfection is inherent in human action.

26 'The Digital Markets Act: European precautionary antitrust', *Information Technology and Innovation Foundation*, 24 May 2021 (https://itif.org/publications/2021/05/24/digital-markets-act-european-precautionary-antitrust/).

Digital Services Act (DSA)

Introduced by the EC in December 2020, the Digital Services Act (DSA) seeks to enhance online safety and governance. Yet, similar to numerous EU legislative acts, it risks impeding innovation and impacting consumers negatively despite its stated objectives.

The DSA incorporates an out-of-court settlement provision. This means that if the dispute resolution body rules in favour of the service recipient, the platform provider must cover all fees and reimburse other reasonable expenses. Conversely, if the resolution body favours the platform provider, the recipient will not reimburse any fees unless bad faith is found. These provisions may disproportionately burden smaller businesses which might struggle to bear such costs.

Additionally, the DSA places substantial transparency requirements on service providers, necessitating the hiring of staff and the implementation of new systems and policies, resulting in increased business costs. Moreover, the tangible benefits to customers from the additional published information remain unclear. Barczentewicz (2021) points out that neither the DSA nor associated documents from the EC address this concern.

Finally, from a philosophical standpoint, the legislation poses the risk of curtailing freedom of speech, as noted by Barczentewicz (2021: 3), potentially leading to an excessive removal of user content. Such trends could further result in the centralisation and monopolisation of truth, interfering with service providers' property rights. This underscores broader concerns regarding the balance between regulating harmful content and preserving free expression in online spaces.

Artificial intelligence (AI)

In early 2024, EU member states unanimously approved[27] the EU Artificial Intelligence (AI) Act (Coreper I 2024). This landmark legislation sets stringent standards for AI systems used in the EU, claiming safety, transparency, non-discrimination, and environmental sustainability as its goals.[28] It prioritises human oversight and adopts a risk-based approach to categorise AI according to potential risks:

- **Unacceptable risk**
  — For example: biometric ID and social scoring
- **High risk**
  — For example: AI in education, law enforcement, and critical infrastructure
- **Limited risk**
  — For example: AI in image, audio, and video manipulation
- **Minimal risk**
  — Everything else, for example, spam filters, AI enabled video games, or inventory-management systems

Specific rules[29] apply to general-purpose and generative AI systems such as ChatGPT, focussing on transparency and accountability.

Relevant AI stakeholders, however, warn about several potential risks of the AI Act. Numerous actors claim that, from a procedural perspective, the legislation appears to be rushed and that important additions were made in the last stages of the process. For instance, the Computer and Communications Industry Association (CCIA) states that 'the outcome seems to indicate that future-proof AI legislation was sacrificed for a quick deal'.[30] BusinessEurope agrees and states that '[i]t is worrying that the

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27 'EU countries strike deal on landmark AI rulebook', *Politico*, 2 February 2024 (https://www.politico.eu/article/eu-countries-strike-deal-ai-law-act-technology/).

28 'EU AI Act: first regulation on artificial intelligence', *European Parliament*, 8 June 2023 (https://www.europarl.europa.eu/topics/en/article/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence).

29 'The EU's AI Act creates regulatory complexity for open-source AI', *Center for Data Innovation*, 4 March 2024 (https://datainnovation.org/2024/03/the-eus-ai-act-creates-regulatory-complexity-for-open-source-ai/).

30 'AI Act negotiations result in half-baked EU deal; more work needed, tech industry emphasises', *Computer & Communications Industry Association*, 9 December 2023 (https://ccianet.org/news/2023/12/ai-act-negotiations-result-in-half-baked-eu-deal-more-work-needed-tech-industry-emphasises/).

deal on such a complex piece of legislation was rushed'.[31] Similarly, DigitalEurope argues that

> *the last-minute attempt* to regulate foundation models has turned this on its head [emphasis added]' and that '[t]he new requirements […] will take a lot of resources for companies to comply with, resources that will be spent on lawyers instead of hiring AI engineers.[32]

Presumably because of such a rushed process, numerous stakeholders draw attention to the potentially problematic parts of the legislation's content. BusinessEurope highlights potential legal uncertainty as a major issue, arguing that '[a]s a result [of a rushed deal], there are still many open questions, and the markets will remain confused with the outcome'.[33] The Information Technology Industry Council (ITI) also criticises the legislation for a lack of legal clarity and uncertainty on several issues, such as the identification of general-purpose AI (GPAI) as posing a systemic risk – which is based on technical parameters, that can quickly become outdated – or the application of copyright requirements on providers from outside the EU borders.[34]

Relevant stakeholders have expressed dissatisfaction and disapproval with what they perceive as a diversion from the long-heralded risk-based approach. DigitalEurope states that it '*fully supported a risk-based approach based on the uses of AI*, not the technology itself, but the last-minute *attempt to regulate foundation models has turned this on its head*'[35] [emphasis added]. DOT Europe's stance is aligned with that of DigitalEurope; it argues that the 'approach taken runs counter to the risk-based nature of the AI Act, fails to consider the specificities of the technology and lacks a clear understanding on where one technology ends and the other

31 'BusinessEurope reacts to political deal on EU AI Act', *BusinessEurope*, 11 December 2023 (https://www.businesseurope.eu/publications/businesseurope-reacts-political-deal-eu-ai-act).
32 'A milestone agreement, but at what cost? Response to the political deal on the EU AI Act', *DigitalEurope*, 8 December 2023 (https://www.digitaleurope.org/news/23173/?utm_source=substack&utm_medium=email).
33 'BusinessEurope reacts to political deal on EU AI Act', *BusinessEurope*, 11 December 2023 (https://www.businesseurope.eu/publications/businesseurope-reacts-political-deal-eu-ai-act).
34 'Getting the EU AI Act Done: What's Left to Do?', *The Information Technology Industry Council* , *September 28 2023,* https://www.itic.org/news-events/techwonk-blog/getting-the-eu-ai-act-done-whats-left-to-do
35 A milestone agreement, but at what cost? Response to the political deal on the EU AI Act', *DigitalEurope*, 8 December 2023 (https://www.digitaleurope.org/news/23173/?utm_source=substack&utm_medium=email).

begins'.[36] ITI further complains that the legislation extends the data processing requirements beyond the existing General Data Protection Regulation (GDPR) rules.

Lastly, the industry is concerned about additional obligations added to the legislation in the last stages of the process. Allied for Startups states that 'startup communities remain concerned about the last-minute obligations on general-purpose AI (GPAI) models, which will affect startups' ability to create and employ them'.[37] In this vein, it follows DigitalEurope's statement[38] about the foundation model regulation mentioned above.

The significant costs linked to compliance and other requirements predicted by the aforementioned organisations have been estimated in an EC study from 2021 titled 'Study to support an impact assessment of regulatory requirements for artificial intelligence in Europe'. Assuming that only 10 per cent of AI units will be subject to regulatory requirements (those identified as 'high risk'), the authors estimate that 'the total compliance cost for the global AI industry is estimated to range from EUR 1.6 billion to EUR 3.3 billion in 2025' (European Commission 2021: 12).

In addition to this, the study estimates the costs linked to a certification process. The authors conclude that

> under reasonable assumptions, obtaining certification for an AI unit through the EU-type examination may cost on average EUR 16,800-23,000, roughly 10 per cent to 14 per cent of the development cost. On the other hand, setting up a new QMS [*quality management system – note of the author*] may cost EUR 193,000-330,000 upfront plus EUR 71,400 yearly maintenance cost. (European Commission 2021: 12)

36 'DOT Europe welcomes AI Act progress while cautioning over departure from risk-based framework', *DOT Europe*, 9 December 2023 (https://doteurope.eu/news/dot-europe-welcomes-ai-act-progress-while-cautioning-over-departure-from-risk-based-framework/).

37 'Startups concerned about last-minute requirements on GPAI models agreed in AI trilogues', Allied for Startup, 10 December 2023 (https://alliedforstartups.org/2023/12/10/press-release-startups-concerned-about-last-minute-requirements-on-gpai-models-agreed-in-ai-trilogues/).

38 A milestone agreement, but at what cost? Response to the political deal on the EU AI Act', *DigitalEurope*, 8 December 2023 (https://www.digitaleurope.org/news/23173/?utm_source=substack&utm_medium=email).

This is even more alarming if we consider that the EU is lagging in the development of AI technologies. For example, data on venture capital involvement in the AI industry shows that in 2018–23, as much as 52 per cent of investments went to the US, 26 per cent to China, and only 6 per cent to Europe (OECD.AI)[39].

39 OECD.AI Policy Observatory, (https://oecd.ai/en/data?selectedArea=investments-in-ai-and-data).

Chapter 3: Policy and strategic recommendations

Building on the previous chapter, this last part of the analysis provides policy recommendations aimed at achieving a better functioning and more competitive SM, which would ultimately benefit not only CEE member states but also the whole EU. The policy recommendations fall into five broad categories, depending on their goal – the political prioritisation of the SM at the EU level; embracing a bolder approach to EU legislation enforcement; liberalising occupation regulations, the labour market, and the services sector; decreasing regulatory burden for a more competitive SM; digital services and digital markets; and achieving a more competitive Europe. The following sections describe each category and the corresponding recommendations in more detail.

Political prioritisation of the SM at the EU level

EU policymakers must acknowledge that despite projecting an image of professionalism, expertise, and technocracy, the EU fundamentally remains a political endeavour. We contend that this work demonstrates the paramount significance of enhancing the SM, and we implore EU-level decision-makers to acknowledge the significance of this policy objective. **The decision-makers must place the SM at the forefront of their agendas** and actively work towards persuading executives of member states to do the same. Simultaneous pressure from both the EU and national electorates, as well as civil society, can foster alignment of interests across various political levels.

Political prioritisation entails approaching the promotion of the SM comprehensively, by encompassing all pertinent legislative domains:

- Similar to the ambitious and PR-supported objectives outlined in regard to the green transition, the **EU should establish and advocate for ambitious goals for the SM**. These goals must be accompanied by quantitative key performance indicators (KPIs) to enable an assessment of member states' progress in attaining them.
- New legislation should not solely focus on enhancing intra-EU trade; instead**, efforts should be made to dismantle tariff and non-tariff barriers to facilitate increased trade opportunities with non-EU countries.** It is worth completing the ratification of the Canada Trade Agreement (CETA), wherein this has not yet been done, and also revisiting discussions on the EU–US trade agreement.
- **Every new proposed legislation should be accompanied by an evaluation of its implications for the SM**. In the short term, the existing one-in-one-out principle should be employed to assess the complete spectrum of costs incurred by regulations, not solely the administrative burdens. Over the long term, this principle should transition to a one-in-two-out approach to expedite the liberalisation of the SM.

Embracing a bolder approach to EU legislation enforcement

One of the **prerequisites of a well-functioning SM is a predictable regulation environment**. While a more relaxed and informal approach has its benefits, the EU must proceed in a manner that is not only prompt but also fair and equal for all member states. Research on the EU Pilot demonstrates that the initiative might be a tool of forbearance towards member states used by EU politicians to garner support for their agenda. However, for the SM to function properly, businesses need to be able to rely on the EU legislation being applicable in all member states.

The accumulation of unresolved EU Pilot and infringement cases demonstrates the EU's failure to enforce legislation effectively and promptly. To become stricter and more efficient in enforcing legislation, the EU should:

- **Streamline the infringement procedure by removing the 'reasoned opinion' phase.** Furthermore, in cases where a court finds a member state in violation of EU law, the ruling should always stipulate a defined

timeframe for compliance, with automatic financial penalties imposed if the breach persists, thus obviating the need for repeated referrals to the court.

— Although eliminating the ‘reasoned opinion’ phase will enhance the enforcement authority of letters of formal notice, it is anticipated that this change may also lead to a slight increase in the number of cases brought before the court. While establishing a timeframe for compliance after a ruling is likely to reduce its workload to some degree, efforts should be made to augment the capacity of the court as well.

— **Shorten to a maximum of twelve months the period from the sending of a letter of formal notice to the resolution** of a case or referral of an infringement case to the Court of Justice.

- **Scale back the utilisation of the EU Pilot programme.** This adjustment would increase pressure on member states to adhere to legislation, as the programme lacks punitive measures and solely precedes infringement procedures. Additionally, this measure would help curb the rise in new and unresolved cases.
- **Increase the utilisation of the infringement procedure** to live up to its role as the guardian of the treaties. Simultaneously, the EU should actively combat the politicising of infringements by member states.
- Undertake a comprehensive assessment of ongoing projects aimed at addressing non-compliance issues, such as SOLVIT. Enhance the capacities of initiatives that receive favourable evaluations based on predetermined criteria, while discontinuing those with unfavourable evaluation outcomes.
- Propose a standardised legal framework for conducting proportionality tests under the Services Directive.

Liberalising occupational regulations, the labour market, and the services sector

The current variance in licensed occupations among member states indicates that licenses are wielded as political instruments rather than serving primarily to address information disparities. Furthermore, existing research indicates a considerable untapped potential within the SM for services. To achieve this potential, the EU should undertake the following measures:

- **The regulatory framework of the country with the least stringent regulations for a particular profession should serve as the benchmark**, provided an analysis of outcomes in that country does not uncover significant deficiencies. For example, if an occupation remains unlicensed in a member state without significant adverse effects, other member states should be directed to abolish their licensing requirements for that occupation.
  - — Additionally, these **established benchmarks should undergo periodic review** to assess the potential for adjustments, including further liberalisation.
- A comparable approach should be applied within the services sector**. The OECD STRI index should be used to identify the country with the least restrictive legislation**. The lowest score attained by any member state for a specific industry ought to be adopted as the target value for all member states, with the inability to meet this benchmark within a designated timeframe resulting in financial penalties.
  - — After member states have aligned with the established benchmarks, the EU should encourage and advocate for continued liberalisation efforts among all member states.
- At the level of European legislation, **it is worth revisiting the discussion of the so-called country-of-origin principle for the provision of cross-border services**. This would mean providing a service according to the laws of the service provider's country of origin. This would allow service providers to operate within the familiar framework of their home country's laws, stimulate competition, and motivate governments from other countries to reduce the restrictiveness of domestic service providers.
- **The digital platform work directive should be redesigned.** The new legislation imposes working conditions on platform workers contrary to their preferences, undermining the reasons which attracted them to these platforms. It increases costs for platforms, restricts flexibility, and undermines the algorithmic evaluation system. Further, it replaces free collaboration termination with complex notice period rules, risking the inherent advantage of platforms vis-à-vis operability and flexibility for all actors involved. The legislation not only reduces the appeal of platform work and discourages new investors but also harms citizens by limiting flexible income opportunities and reducing welfare due to increased costs and limited service availability.

- **Europe should be open to labour immigration**. While immigration discussions have been dominated by topics related to the influx of refugees into the EU in recent years, anti-immigrant rhetoric must not be allowed to lead to a policy of closed borders. The EU needs an open and sensible migration policy to reduce labour shortages and mitigate the ageing population.

Decreasing regulatory burden for a more competitive SM

All regulatory initiatives within the EU should recognise that each regulation inherently distorts the market and imposes additional burdens on businesses, consequently slowing economic growth, which ultimately affects consumers and their living conditions. According to estimates by the European Parliamentary Research Service (EPRS 2023), the removal of barriers to the movement of goods and services at the level of member countries could bring an additional €644 billion to the economy.

Hence, during the implementation of new regulations, careful consideration must be given to these adverse effects. **Policymakers should endeavour to craft policies that minimise interference with the free market to the greatest extent possible** and implement mechanisms that mitigate regulations' harmful effects.

- **Adopt a technology-neutral approach within the emerging technology sector**, avoiding regulatory favouritism towards specific players.
- **Decrease the reporting burden on businesses** by enhancing coordination between the EU and national institutions to eliminate redundancies. **Virtue signalling should be left to the decision of market actors**, be they producers or consumers. At present, both groups have enough tools to recognise the quality of a good or service. Alternatively, private organisations can provide these services. The burden imposed on firms by various ESG requirements increases costs for firms across the economy and reduces their global competitiveness. The EU should reverse the impact of this legislation on medium and small businesses.
- **There should be greater harmonisation in the EU's permitting approach** across the industrial and infrastructure ecosystem, which is a key driver of competitiveness. National authorisation and permitting schemes must be re-evaluated to ease access to the EU market.

- **Foster mutual recognition of regulations in designated sectors** with trustworthy trade partners beyond the EU borders. The ultimate objective should not merely prioritise a more efficient SM within the EU but rather aspire towards establishing a vast global single market.

Digital services and digital markets

For more than twenty years now, more and more regulations concerning the digital world have been appearing in EU law. However, this has not translated into a very dynamic development of European digital companies. In 2021, of the 22 key online platforms operating in the EU, only 4 were from Europe. One reason for this is the over-regulation of both the digital market and, more broadly, the businesses in the SM and EU member states.

- **The EU should be wary of further redundant regulations** that would limit the attractiveness of the EU as a place for the development of digital companies and innovation.
- **The DMA should be re-evaluated.** The current formulation suffers from various shortcomings:
  - — Regulatory uncertainty: The legislation introduces uncertainty with vague concepts and broad regulatory power, along with disproportionate fines, creating a challenging environment for entities.
  - — Static view of competition: It misunderstands competition by attempting to engineer market outcomes, leading to inefficiencies due to a lack of recognition of market dynamics.
  - — Misplaced goal of competition: Attempting to dictate market structure and competition to align with perceived consumer benefits can lead to inefficiencies and unintended consequences.
  - — Deterrent to innovation: The potential classification of successful innovators as gatekeepers, subject to heavy regulation, could significantly deter entrepreneurial efforts.
- **The DSA should be improved**. The DSA presents a vital opportunity to protect and improve the regulatory framework that facilitates many of the undeniable benefits that Europeans enjoy online today. It could achieve this in two ways:
  - — By constituting a uniform code which would replace conflicting EU rules and preclude national laws undermining the integrity of the internal market in digital services. Provisions increasing legal

uncertainty and disproportionately burdening service providers – for example, by placing unjustified transparency requirements on the latter and establishing an unfair out-of-court settlement regime – should be removed.

— By harnessing regulatory competition through strong country-of-origin rules, precluding other member states from imposing stricter regulations on an online service provider than the rules of the member state where the provider is established or has a legal representative. Harmonising digital identity and e-signature frameworks to support cross-border digital transactions would increase the benefits of digitisation.

- **Regulatory sandboxes are only the second-best solution for digital innovation**. The better option is less stringent regulation with fewer legal uncertainties. Sandboxes are welcomed in legal areas hard to reform.
- **New AI regulation poses a risk** that new technologies will emerge in other regions rather than the EU; this may lead to a loss of competitiveness in Europe. The AI systems classified as high-risk will be subject to stringent rules that will apply before they enter the EU market, posing significant challenges for start-ups in terms of technical and organisational complexity and compliance costs. As this is the first example of wide-ranging legislation on AI, it is extremely hard to foresee the long-term effects.
- **EU should regularly review the new rules** that have already been enforced and react swiftly in recognition of over-regulation in some elements and lagging behind other markets. The EU is in a position to take full advantage of new technologies, and the development of various AI systems can support the competitiveness of the SM in the digital economy.

More competitive Europe

Increasing competitiveness should be the prime objective of member states' policies. Higher economic freedom is a well-proven concept for higher economic growth. The last twenty years in the CEE region have shown that liberalisation, deregulation, and low tax burdens contribute to catching up with the more advanced West. By pursuing these policies, the CEE countries should actively put pressure on the EC to formulate legislation that promotes economic freedom. There are several ways to support competitiveness and economic freedom.

- To fulfil the promise of the free movement of capital, the EU needs **to integrate national capital markets into a truly single market**. Investment screening policies should ensure that no member state over-regulates foreign capital, limit the possibility of political obstacles to foreign capital inflows, and set clear rules (checks and balances) for enforcement only in exceptional cases.
- **Regulations inhibiting the development of non-bank sources of financing should be reduced**, and the venture capital market should be developed.
- The synergistic effects of a vibrant capital market and **capital pension savings systems should be supported**. The easier availability of savings, invested with a long-term horizon, will act as a critical financial injection for initially risky investments. The EC should work to remove national barriers for higher acceptance of pan-European personal pension products.
- **Limited state aid,** i.e., supporting companies with taxpayers' money, should be the rare exception, not the rule. The large increase in state aid since the pandemic – reaching above 2 per cent of the GDP in EU27 – creates a risk of excessive interference by member states in various areas of national economies, which can distort competition and trade within the EU SM. State aid should return to pre-pandemic levels, capped at 1 per cent of the GDP in EU27.
- **Rationalising the EU's green policies**. Climate change and other environmental threats are a fact of life, and effective ways to protect our planet must be sought. At the same time, it should be borne in mind that overly ambitious goals or rapid implementation of change – in isolation from natural technological changes that result also from the will of consumers (who, in a democracy, are also voters) – can generate high costs and create excessive barriers in the SM. The EU should seek a reasonable compromise between the pace of green transformation and the costs involved. Some of the proposed green policies are worth implementing in a phased manner while improving the conditions for the development and market commercialisation of green, technological innovations.

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