

# The Single European Market: Challenges for Doing Business



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**Abstract** It is not easy to establish the precise moment when the concept of economic integration emerged in the sense that it was given after the start of the European integration process. Pelkmans define economic integration as a process of “*elimination of economic frontiers between two or more economies*” considering that “*the fundamental significance of economic integration is the increase of actual or potential competition*”. This chapter contains a few answers to some important questions such as: what is the substance of integration and what are the criteria underlying the decision of states to launch an integration process? What are the symptoms based on which one can decide whether the integration process functions properly or if it still is a desideratum? This chapter analyses the single internal market as an essential stage of the European integration process stressing the four freedoms of goods, services, capitals and human resources.

## **The key points of the chapter are the following:**

1. To discuss the conceptual approaches related to the process of economic integration;
2. To explain the main stages of the European integration phenomena;
3. To provide a presentation of the wider context of the Single European Market;
4. To analyze the free movement of goods, services, capitals and human resources at the European Union level;
5. To clarify the reasons for the necessity of upgrading the Single Market

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## 1 Introduction

The main analytical challenge linked to the concept of economic integration is not related to the insufficiency of its definitions, but to the abundance of its somewhat contradictory definitions. From the many different perspectives that this term has been approached, there is one aspect about which researchers seems to have reached consensus the phenomenon of economic integration can be understood both as a process run on a certain long-term horizon and as a state of fact, a complex economic reality identifiable at a given moment. One of the most elaborate analysis of the concept of economic integration is found in Balassa, who drew attention to the risks attached to too general definitions. He proposed the conceptual delimitations of rigor between “*commercial integration, integration of production factors, political integration and full economic integration*”. A first aspect of the process of economic integration was the one on the integration of markets, used by Vajda in a cognitive relation with the integration of production processes and the integration of development processes and programs. It has been pointed out that the expected effects are different if the integration concerns only certain markets (the market for industrial products, the market for agricultural products, the market for certain types of services, etc.), if the integration of all the sectoral markets is expected. The main challenge faced by the political decision-makers in the European countries that have decided to participate in the mainland integration exercise was the choice of the appropriate integration factor that those states are willing to accept. Referring to modern economies, Tinbergen distinguishes between *negative integration* (removing obstacles affecting the economic relations between different states) and *positive integration* (creating equal conditions for the functioning of components of integrated economies). In practise, negative and positive integration will go together. Starting from the author’s point of view and taking into account the process of integration at European level, it can be argued that if the first version seems to be simpler as it involves structural deregulation and trade liberalization, the latter proves to be much more complex as it presupposes more sophisticated forms of state intervention in the economy and the harmonization of general and sectoral public policies. The process of economic integration has gone through several stages the most acclaimed in the literature being: *Free trade area (FTA)*, *Customs union (CU)*, *Common market (CM)*, *Economic union (EU)*, *Total economic integration (TEU)*. The transition from one form of integration to another and from one stage to another must be a process with a high degree of flexibility that cannot be described in detail since the beginning of integration. The first stages of integration (FTA and CU) mainly refer (sometimes even) to the integration of commodity markets and fall within the defining logic of *laissez-faire* theory. The more advanced stages of integration (CM, EU, EMU or TEU) imply a much higher level of macroeconomic and intersectoral coordination. Integrative reality has shown that the latest stages of integration cannot gain solidity and irreversibility unless it advances sufficiently in the direction of political integration. The achievement of the common market stage, referred to as the European Union Single

European Market (SEM), has always been at the center of economic integration. The most common of the definitions of this integration stage was the focus on ensuring freedom of movement for goods, services, capital and human resources. On the SEM example, both the determinants of negative integration (ensuring relevant freedoms) and positive integration (the harmonization of the regulatory and institutional framework needed to guarantee these freedoms and the implementation of common commercial, agricultural, competition policies, industrial). As the achievement of the single market also implied a high coefficient of positive integration, the Single Act defined the necessary policies for the creation of a comprehensive market (social policy, economic cohesion and social cohesion) and policies aimed at the success of an inclusive market and technological development). This ambitious goal was to establish, by 31 December 1992, an “*area without frontiers*” in which the movement of goods, labor, services and capital is ensured. The reform underlines the absolute priority of the rapid realization in less than seven years of a single market which at that time was no longer just the means to develop the progressive interpenetration of the economies of the member countries but especially the chance for European industry to report differently to global competition. The target to create a Single Market also aimed at developing a feeling for Europeans that they belong to the same ensemble within which they will be able to move freely without formalities and to study and work where they wish. The Single European Act represented a crucial moment in the history of European integration, but not only. A single market, as defined by those strategic document, implied: Free movement of capital, labor (people), services and goods; Removing border controls; Harmonization of VAT rates; Mutual recognition of certification standards and procedures; The right of residence without necessarily having a job; Common commercial policy (not just a common foreign trade tariff); Untenable regulation of public procurement; Community control over competition policy and mutual aid; Increased structural funds; Qualified majority in the Ministerial Council.

The Single Market has generated new opportunities for companies and strengthened competitiveness of European economy, has created new jobs and offered greater choice for consumers and has enabled people to live, study and work where they want. It has contributed to better integrating EU firms into international value chains and a new level of involvement of European economies in a globalized world. The functioning of the Single Market has led to an important increase in intra-Community trade and has increased the share of EU countries in total foreign direct investment flows. Economies, and in particular industries in EU countries, underwent an in-depth restructuring, characterized by a burst of mergers and acquisitions, coupled with increased competition on national markets, leading to increased convergence in prices of goods and services. However, according to the experts of the EU Commission, there was a decrease in the national concentration, even if the average size of the companies remained relatively stable. This seemingly paradoxical situation, in the opinion of the some experts, was explained by a double phenomenon: on one hand there was a reduction in the weight and importance of the dominant enterprises in their national markets as a result of intensified competition

and on the other hand an increase in the “position” of the same companies at Community level through “pan-europenization” of their work. That is, the volume of activity of large industrial groups has grown globally at Community level, but the geographic distribution of this activity has changed, with relative activity falling relative to the domestic market and increasing in other EU markets. The European economic and social landscape is experiencing significant changes as a result of concerted action on the following factors: *economic and financial crises; the very high level of unemployment; low levels of growth; inadequate levels of investment and obstacles in product and services markets; outdated and excessively burdensome regulations the entrepreneurs are confronted with.*

## 2 Some Conceptual Approaches

### 2.1 *The Path from Economic Disintegration to Economic Integration*

In the field of economic sciences, the term integration was first used in conjunction with industrial organizations to express a set of transactions between firms embodied in commercial arrangements on a *vertical axis*, for the purpose of linking suppliers to users, and on an *horizontal*, basis concerning the cartels that may take place between economic actors in various forms of competition. The attempt to establish when the concept of economic integration emerged in the sense that it was given after the start of the European integration process is not very easy task. The *Encyclopedia of Social Sciences*, published in 1937, contains the term integration but reduces it only to industrial integration. A new edition of the same Encyclopedia, published in 1968, contains four definitive positions for the concept of international integration. Of these, three (regional integration, global integration and functional integration) are developed by specialized researchers in the field of political science and only one (the one referring to economic unions) was developed by a specialist in economics. When Jan Tinbergen published the paper “*International Economic Integration*” (Tinbergen 1954), he stated in the preface that the earlier edition of this book was called “International Economic Cooperation.” From an epistemological point of view, until the concept of economic integration has been reached, other concepts such as economic cooperation, economic solidarity, merger or unification have been used. One can appreciate that, in its modern sense, the term of economic integration is found in several specialized papers without reference to each other (Machlup 1977). One of these works belongs to German researchers specialized in commercial statistics and was published in 1933 (Ropke and Misses 1933).

It has been believed for a while that the term was used by Eli Hecksher in his work “*Mercantilism*” published in 1935 (Hecksher 1935). A comparison between the original content of this work (published in Swedish) and the one published in English revealed that the author did not use the term of economic integration in the

original version but the one of integrated state policies. The analysis of the literature on the subject shows that the term of economic disintegration and not that of economic integration was initially used (Bonn 1938; Hayek 1939). A more ambitious approach to this area is found at Hilgert (1942), which has expanded its analysis of the fundamentals of international trade, considering that “*despite the systemic deterioration of the 1920s and the 1930s, it remained the central factor of the mechanism of transmission of the unit on a global scale.*” It is appreciated that the current understanding of the term of economic integration was first found in the documents drawn up for the launch of the Marshall Plan. Thus, in a report of a special committee dealing with the US Naval Strategy Coordination (US Department of State 1947), the concept of economic integration was used in two paragraphs, even if it had somewhat different meanings. The two concepts were “*the need for effective integration and coordination of economic programs in critical regions*” and “*the reintegration of European countries into a productive and commercial global and regional health system*”.

The main analytical challenge linked to the term of economic integration was not the one related to the insufficiency of definitions given to it, but to the abundance of somewhat contradictory definitions. For example, Pelkmans defines economic integration as a process of “*elimination of economic frontiers between two or more economies*” considering that “*the fundamental significance of economic integration is the increase of actual or potential competition*” (Pelkmans 2001).

From the many different perspectives that this term has been approached, there is an aspect that seems to have come to the consensus that the phenomenon of economic integration can be understood both as a process run on a certain long-term horizon and as a state of fact, a complex economic reality identifiable at a given moment.

From the perspective of economic integration as a dynamic process, full or incomplete integration have been mentioned in the literature. From this perspective, the main question concerned the subject of integration. It has been explained that it can be represented by populations, geographical areas, different market categories, production processes or resources. Other questions that economic analysts attempted to provide useful answers to were: *what is the substance of integration and what are the key criteria underlying the decision of states to launch an integration process? What are the symptoms on which to decide whether the integration process has begun to function properly or is it still in the desideratum?* The answers to these questions differ according to the school of economic thinking to which those who tried to offer them belonged. A second area of consensus among different analysts is the one on the following three issues:

- Economic integration refers in particular to division of labor and to intra and international specialization;
- Integration presupposes freedom and mobility of goods and factors;
- Integration is closely linked to differentiated commercial treatment as to the origin or destination of goods, services, capital and human resources.

One of the most elaborate analyses on the concept of economic integration is found in Balassa (1961), who stressed the risks attached to too general definitions. This author proposed rigorous conceptual delimitations between “*commercial integration, integration of production factors, political integration and full economic integration*”. Starting from this point, other authors (Machlup 1977) brought into the analytical landscape concepts such as: **national integration** (intranational or inter-provincial); **regional (plural) integration** and **global integration** (multi-lateral or universal). A first question was asked, namely the extent to which the integration of factors should refer to all or only a part of them. This question was necessary in order to be able to treat adequately the phenomenon of liberalization of the movement of the factors connected with the free movement of commodities (goods and services). A first aspect of the process of economic integration was the one on the integration of markets, used by Vajda (1971) in a cognitive relation with the integration of production processes and the integration of development processes and programs. It has been pointed out that the expected effects are different if the integration concerns only certain markets (the market for industrial products, the market for agricultural products, the market for certain types of services, etc.), if the integration of all the sectoral markets is expected. The main challenge faced by the political decision-makers in the European countries that have decided to participate in the mainland integration exercise was the choice of the appropriate integration factor that those states were willing to accept. Thus, the dilemmas related to the sequence of integration versus its completeness, the unique velocity for all members, or the variable geometry. The concrete realities of the integration phenomenon taking place at the European level have provided answers to some ~~most~~ of these dilemmas, but have left others unclear. Full market integration involves adequate (not optimal) mobility of what is being offered and required in those markets and the liberalization of flows under non-discriminatory treatment. Mobility of the factors of production and non-discriminatory treatment for market actors are rather the conditions of the integration process than essential elements for defining the term of economic integration.

Without being an end in itself, economic integration has served to achieve strategic results. The most important strategic objective of the integration process was to increase the welfare level for entities involved in the integration exercise. In connection with this comprehensive objective, it is possible to place the one of increasing the coefficient of political stability in the regions of the states that have decided to become involved in the integration phenomenon.

Another perspective on the economic integration process has revealed two other aspects of it, namely: **static integration** and **dynamic integration**. In its static approach, the concept of economic integration can be perceived as a state of affairs in which the national components of a composite economy are no longer separated by economic boundaries, but operate interdependently, which leads to the emergence and maximization of synergy effects. From a dynamic perspective, economic integration implies the gradual withdrawal of barriers that separate certain national economies (which may amount to removing many forms of discrimination), with national states participating in this process reaching a certain level of institutional,

regulatory and behavioral harmony. The ratio between the static and dynamic dimensions of the economic integration process has been different during the stages of the European economic integration process. Referring to modern economies, Tinbergen (1954) distinguishes between **negative integration** (removing obstacles affecting economic relations between different states) and **positive integration** (creating equal conditions for the functioning of components of integrated economies). In practise, negative and positive integration will go together. Starting from the author's point of view and taking into account the process of integration at European level, it can be said that if the first version seems to be simpler as it involves structural deregulation and trade liberalization, the latter proves to be much more complex as it presupposes forms more sophisticated by state intervention in the economy and the harmonization of general and sectoral public policies.

**Negative integration** involves a number of easier steps to go through and can be titled with the phrase "*delete and not print*". Negative integration measures can be more clearly defined and, once negotiations have ended and commitments entered into treaties, they become mandatory for public authorities, for the corporate environment and for citizens. In this analytical logic, it can be said that permanent decisions of a sophisticated administrative machinery are no longer required. Monitoring compliance with assumed commitments becomes a task of bodies set up and able to respond to complaints from economic actors who consider their interests to be harmed.

**Positive integration** implies a more active, permanent and flexible participation of the societal actors involved in the integration process. Such an approach is based on a process of assuming commitments at the beginning with a certain level of generality. For these reasons, positive integration requires the creation of joint institutions to analyze societal phenomena and processes, to formulate proposals of a regulatory nature, to initiate measures to enable it to achieve the desired goals and to determine national institutions to implement a series of measures, often unattractive for certain societal categories. Because generic commitments have to be defined, redefined or even substantially altered, if the economic environment changes significantly, uncertainty arises, especially at the level of private societal actors, which cannot significantly affect the operational mechanisms and the principles underlying economic play. It turned out that positive integration became the domain of politics and bureaucracy, not one of predictability and rigor.

## 2.2 *Stages of the Economic Integration Process*

The process of economic integration has gone through several stages, the most acclaimed in the literature being (Table 1):

The transition from one form of integration to another and from one stage to another must be a process with a high degree of flexibility that cannot be described in detail since the beginning of integration. The first stages of integration (FTA and CU)

**Table 1** The Balassa stages of economic integration

Nr. Crt.	Stage	Definition	Characteristics
1.	Free trade area (FTA)	<ul style="list-style-type: none"> <li>✓ Tariffs and quotas abolished for imports from area members</li> <li>✓ Area members retain national tariffs (and quotas) against third countries.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Essence of GATT definition</li> <li>✓ No positive integration</li> </ul>
2.	Customs union (CU)	<ul style="list-style-type: none"> <li>✓ Suppressing discrimination for CU members in product markets;</li> <li>✓ Equalisation of tariffs (and no or common quotas) in trade with non-members.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Essence of GATT definition</li> <li>✓ No positive integration</li> </ul>
3.	Common market (CM)	<ul style="list-style-type: none"> <li>✓ A CU which also abolishes restrictions on factor movements.</li> </ul>	Is “beyond” GATT; definition should also include services: no positive integration.
4.	Economic union (EU)	<ul style="list-style-type: none"> <li>✓ A CM with “some degree of harmonisation of national economic policies in order to remove discrimination due to disparities in these policies”.</li> </ul>	Positive integration introduced; extremely vague.
5.	Total economic integration (TEU)	<ul style="list-style-type: none"> <li>✓ “Unification of monetary, fiscal, social and counter cyclical policies”</li> <li>✓ “Setting up of a supranational authority where decisions are binding for the member states”.</li> </ul>	Centralist; vision of unitary state; supranationality only introduced here.

Source: Balassa, 1961

mainly refer (sometimes even) to the integration of commodity markets and fall within the defining logic of laissez-faire theory. The more advanced stages of integration (CM, EU, EMU or TEU) imply a much higher level of macroeconomic and intersectoral coordination. Integrative reality has shown that the latest stages of integration cannot gain solidity and irreversibility unless it advances sufficiently in the direction of political integration. All of the above stages of integration have at least two common features.

- On the one hand, they minimize the discrimination between economic actors in the partner countries (fulfilling what analysts call the *internal purpose of integration*).
- On the other hand, certain forms of discrimination are maintained or introduced in relation to third party economic actors (which can be termed the *external purpose of integration* processes).

All stages involve a complex process of cooperation between public authorities and private actors in the countries involved. The cooperation will focus on the procedures for harmonizing different divergent interests, obtaining consensus on the ways to follow, developing and applying new forms of economic conduct. In other words, any step forward in the process of advancing integration requires the



agreement of all partners on the rules to be followed in the process of obtaining the acceptable general or sectoral integration coefficient.

As the advancement progresses towards the common market stage and goes beyond this integration stage, the only institutional or regulatory harmonization is not enough, making compulsory the transfer of decisional abilities from national to supranational level. For the objectives of integration to be achieved, it becomes mandatory to create joint decision-making institutions, which makes adjusting the freedom of action of economic actors and that of political decision-makers in the member countries. It has become clear that the more advanced the stage of integration has become, the more obvious the restrictions the executive decision-makers of the participating states have to face.

Integration reality at European level has established the following hierarchy of cooperative policies:

- **Information.** The partners agree to inform each other of the tools and mechanisms that define the economic policies they intend to implement. This information can serve a beneficial redefinition of the intended macroeconomic strategies by each participating state to make them more consistent with those of the other participants. At this stage of cooperation, each partner reserves their full freedom of action, which does not affect national public policy competences.
- **Consultation.** The partners decide to enforce the commitments, in addition to the mutual supply of economic information, to seek both the opinion and the support of the other partners about the decision packages they intend to formalize. Cross-cutting analysis and open negotiations are actively promoting more coherent macroeconomic and sectoral policies. And in this case, at least on a formal level, the sovereignty of each of the states participating in the integration process is not altered in any way, even if certain punctual interests may suffer.
- **Coordination.** It is a step forward in the integration process as it forces partners to seek and obtain the agreement of others about the actions they intend to take to implement a series of common sectoral policies. There are analysts who call this cooperative stage as cooperation, especially when reaching macroeconomic goals. Coordination often means adopting rules that increase the international component of collaboration. Coordination can lead to the harmonization of national laws and regulations of an administrative nature. Also, at this stage of the co-operation process, the convergence of the target variables of structural policies can be achieved. However, the agreements reached on the way of coordination are not accompanied by ways of sanctioning the failure of the agreed ones, because, at this stage of the cooperation, the desiderata and the types of political actions at national level are not limited.
- **Unification.** It means, in principle, either abandoning the instruments previously used at national level and replacing them with the most successful measures taken at Community level, or adopting single instruments that are binding for all the participants in the integration process. At this stage of the process of conciliation, we are witnessing the diminution of national competence in the choice of macroeconomic or sectoral policy instruments.

It should be noted that there may be a close correlation between the stages of integration and the stages of the co-operation process between the decision-making authorities of the countries participating in the integration process. In more sensitive situations, when actors involved in integration dynamics are not willing to accept the same integration factor, one can call upon the mechanism called *multilevel governance*, which makes some sectors move forward faster while others can. Expected some states to implement certain phases of integration procession while others may decide to wait until they have reached the desirable level of economic, social or territorial convergence.

### **3 The Single Internal Market: The Essential Stage of the European Integration Process**

The achievement of the common market stage, referred to as the Single European Market (SEM), has always been at the center of economic integration. The most common of the definitions of this integration stage was the focus on ensuring freedom of movement for goods, services, capital and human resources. On the SEM example, both the determinants of negative integration (ensuring relevant freedoms) and positive integration (the harmonization of the regulatory and institutional framework needed to guarantee these freedoms and the implementation of common commercial, agricultural, competition policies, industrial). As Craig said, “*any accurate assessment of the meaning, content and development of the single market must take account of four factors. These are the primary Treaty articles themselves, Community law, ECJ’s jurisprudence and action taken by the Community institutions*” (Craig 2002). All four are of importance for understanding the single market, and interact in interesting and significant ways.

#### **3.1 The Economic Context that Led to the “Single European Act”**

Article 9 of the Treaty of Rome, which entered into force in 1958, states that “*the Community will be based on a customs union that will cover all trade in goods and which will involve the prohibition of customs duties on imports and exports of products between States Member States, as well as other charges having equivalent effect*”. In July 1968 all tariff barriers and most of the existing quantitative restrictions on trade between Member States were eliminated. Later, new and new areas that have not been predicted to be directly related to the completion of the single market have been incorporated as parts of it: public procurement, intellectual and industrial property, company law, energy, tax policy, consumer protection, competition policy, etc. The founders of European Communities opted for a CU

covering all trade in goods taking into consideration also what Art. 24 from GATT calls “*other restrictive regulations*”.

Several academic analysts, as well as representatives of various societal groups, asked how necessary a ‘single market’ was? Few assumptions have been made about either increasing the competitive force of communities towards the US and Japan, or political unity. But these are not the only reasons, because there are other important economic fundamentals, due to the logic of integration and interdependencies. In developed societies, behaviors have their own autonomy, and the most obvious are related to the strength and weakness of companies. An European economic architecture divided into small markets could not take full advantage of the effects of scale production, because an adequate market was not only achieved by suppressing trade barriers. The European financial markets were microscopic to the American and Japanese ones, although the European Union generated an impressive part of the capital of the world. On the other hand, the challenges of the third industrial revolution were no longer based on mass production, and hierarchical, rigid structures. Because the integration process had entered a certain stagnation, in 1985 the European Communities bodies debated the desideratum on the completion of the European single market. On the basis of a position paper issued by the Commission and entitled White Paper, the “Single European Act” was adopted in June 1985, which was ratified by the parliaments of the 12 member countries at that time between 1986 and 1987. The Single European Act entered into force on 1 July 1987, being the first legal document to amend and complete the Treaty of Rome. Many years ago, a French economist (Schreiber 1967) warned that the US-led war and then Japan against Europe “*is not given with dollars, oil, tons of steel, not even modern cars, but with creative imagination and talent organization*”. The same economist said that “*it is the first great war without weapons and no armor!*” Became mandatory for Europeans to have a European industrial policy, without whom American industry will continue to organize the future of the Common Market. It is noted that in the struggle for competitiveness West European producers found easier reasons for cooperating with American or Japanese firms than with each other. Western Europe has been removed itself not in the field of fundamental research, where it excelled, but in the field of applications, where the industrial battle was disputed. Offensive growth of Japanese productivity, Western Europe opposed a defensive growth that destroyed jobs by substituting them for capital.

The Treaty of Rome provided for the free movement of goods, but in reality, customs duties were replaced by value added tax (VAT), different in terms of levels and ways of perceiving from one country to another, which did not suppress at all the control of goods, and people at the border. Fought by the founders of the Common Market, protectionist “hidra” has spread to new forms along the Community frontier as well as alongside the Community. Technical rules, reciprocity conditions, certifying the origin of products, the obligation of companies to have a representative in the country of export, the ban on advertising for imported products, the regime of credits, subsidies and national preferences have frequently applied to intra-Community trade. States have shown a special imagination to protect their localized industry on their territory, even when its capital was

American or Japanese. For example, in the case of automobiles, Italy requires a certificate of origin to register the imported ones; The British banks were mainly crediting sales for those made in-house; Germany applies tax relief to car buyers equipped with catalytic exhaust drums. The examples are numerous: the use of a telephone not supported by the French specialist company was penalized with a consistent fine and three months of imprisonment in case of a repeat offense. Afnor, Cnet in France, British Standards Institutions in England, or Deutscher Ausschuss in R.F. Germany were bodies with unlimited powers that made the Common Market too little “*common*” (Delors 1987). Restrictions were even more numerous in the area of government procurement. In the sphere of agro-food products, the import country’s prescriptions to products of a controlled origin and a traditional brand that consumers would have unchanged have gone through. After the completion of the customs union in 1968, the European integrationist architecture seemed to have lost its dynamism, and the ambitious objectives of the Treaty of Rome on creating an economic and monetary union seemed to have been postponed. The process of deepening integration seemed to be slowing down and the European project gained in dynamism only in terms of increasing membership. Industrial, economic and not just commercial integration has prevented physical, technical barriers (norms, closure of public markets) and fiscal barriers, whose action with a brake effect has not been offset by any other incentive. The interpenetration of the areas covered by the Single Act is evident: the free movement of capital requires a harmonization of taxation, financial instruments, banking regulations, monetary policies. All relate to investment and commerce, and through production, research, and payroll.

By September 1987, for example, the EC Commission had proposed 190 barrier removal measures out of a total of 300 provided by the White Paper and another 20 additional. Of these, the Council of Ministers had only approved 75. Progress was relatively slow and could not have expected anything else. Member states could not be indifferent if their businesses favored in any way the “big market” at the expense of their own national markets. The big market could not be done without governments being prepared and economic legislation reconciling the single market’s goal with national priorities. The single internal market of the EEC is, in fact, the beginning of the achievement of the economic and monetary union within the Community and it does not involve the abolition of national entities. Taking into account the individual, the European citizen, explains why the Single Act introduces the notion of “*space without frontiers*”, a wider and deeper concept than that of a “*common market*”. The Single Act should not be understood as something that would imply the same step for all members of the community, differentiation and the nation-state remaining an essential component of the whole process, the central place of macroeconomic policy, with the combined economy of the country.

The most important contribution of the reform to the completion of the single internal market by the end of 1992 was the transition to a “qualified majority” for the key provision of the Treaty of Rome (Article 100 which allows for the harmonization of legislation). In fact, the majority rule applies to decisions on the big market, economic and social cohesion, technological cooperation, while unanimity will be preserved for a qualitative leap in the Western European Monetary System, free

movement of persons, fiscal harmonization, orientation of multiannual programs in Research and development or environmental issues. In other words, the majority will apply to those areas for which the principles of action have been agreed unanimously or to which Member States may decline their interest.

### 3.2 *Single Internal Market Objectives*

Because the achievement of the single market also implied a high coefficient of positive integration, the Single Act defined the necessary policies for the creation of a more inclusive market (social policy, economic cohesion and social cohesion) and policies aimed at the success of a large market (And technological development). The objective was to establish, by 31 December 1992, an “*area without frontiers*” in which the movement of goods, labor, services and capital is ensured. The reform underlines the absolute priority of the rapid realization in less than seven years of a single market which at that time was no longer just the means to develop the progressive interpenetration of the economies of the member countries but especially the chance for European industry to report differently to global competition. The objective of creating the Single Market also aimed at developing a feeling for Europeans that they belong to the same ensemble within which they will be able to move freely without formalities will be able to study and work where they wish.

It should also be recalled that another important single market objective was the changeover to the qualified majority which would gradually replace the unanimity rule. In order to allow for some flexibility, the possibility for States to continue, on request, under the double control of the Commission and the Court of Justice, has allowed them to apply more protective national provisions and regulations, particularly in the fields of health and environment. This was allowed even after the adoption of a harmonization measure at Community level. The reform of the Treaty of Rome, as agreed in the Single European Act, also aimed at achieving other objectives such as (Sută 2000):

- *Economic cohesion*, which means that conditions are created for each member to perform in managing its economic policy in a convergent way with those of the partner countries in the Community, thus counting on EEC support.
- *Harmonization of social policies*, i.e. the possibility for the community bodies to adopt and implement in all member states social regulations aimed at harmonizing the working and living conditions of the citizens of the member countries.
- *Coordination of Member States’ research and technological development efforts* with multilateral Community support, including financially.
- *Monetary cooperation*.
- *Voting by qualified majority*, to gradually replace the rule of unanimity.
- *Enhancing the powers of the European Parliament*, elected by direct universal suffrage and receiving power of amendment in new areas where decisions are taken by a qualified majority.
- *Strengthen the Commission’s executive role*.

The Single Act, in order to achieve these objectives, provided for a coherent decision-making system based on three types of programs:

- A multiannual framework program adopted by unanimity, which opens the field for Community action, setting out the general objectives, the Community's financial participation and its division between the different actions.
- Specific programs, adopted by a qualified majority, defining the specific objectives of each action, technical content, duration, means and modalities of execution.
- Complementary programs, to which only some Member States participated, which ensured their funding, subject to possible participation. The implementation of these programs depends on a set of appropriate instruments created by the Community through actions whose funds are allocated to joint ventures. The notion of complementary programs opens the prospect of a technological community within a framework accepted by all partners.

Therefore, the Single European Act represented a crucial moment in the history of European integration, but not only. Single Market, as defined by the Single European Act, implied: Free movement of capital, labor (people), services and goods; Removing border controls; Harmonization of VAT rates; Mutual recognition of certification standards and procedures; The right of residence without necessarily having a job; Common commercial policy (not just a common foreign trade tariff); Untenable regulation of public procurement; Community control over competition policy and mutual aid; Increased structural funds; Qualified majority in the Ministerial Council.

### ***3.3 The Four Freedoms of Movement***

**Free Movement of Goods** At the time of July 1, 1968, the European Community had, in general terms, achieved the status of customs union. However, the entirely free movement of goods in the European space proved to be difficult to achieve. After the creation of the customs union, the protectionist effect of tariff barriers removed from intra-Community trade relations was successfully taken over by technical, tax barriers, non-harmonization of customs and tax laws, etc. The creation of the internal single market thus meant, in addition to customs union, the suppression of internal border control, the harmonization of tax and customs legislation, the removal of technical barriers and other non-tariff barriers that limited the proper functioning of the free movement of goods in practice. The free movement of goods in the European Community area meant, first of all, the suppression of internal customs frontiers. This challenging goal was achieved in two stages. The first stage involved the introduction of the Single Administrative Document (SAD) as the only document required in the EEC to fulfill customs formalities, thus replacing the numerous and different documents previously used and significantly simplifying customs procedures at the Community's internal

borders. Also, a unique classification system for goods was adopted, which also entered into force in 1988. The second step involved the removal of customs formalities and controls at intra-Community frontiers. The sanitary and veterinary inspection for animal and plant products has, as an exception, remained a period after 1993 being replaced by the sanitary veterinary control at the place of production and marketing. As a result of the elimination of internal customs frontiers, since 1 January 1993, there is no longer any customs staff at intra-Community frontiers. After July 1, 1968, the free movement of goods in the community space has been seriously disrupted by the emergence of new barriers through the non-recognition by some states of national norms and standards in certain areas. Customs frontiers were replaced within the Community with “technical frontiers”. The most affected were the electronics, chemicals, medical devices, construction materials, etc. The Commission and the other institutions have tried to harmonize Member States’ regulations and technical standards, but the move has proved difficult. In 1979, following a case brought to light by the European Court of Justice, problems arising from the coexistence of a large number of national regulations in the Community area were resolved by generalizing the principle of mutual recognition according to which *“According to the rules in force in its home country, must be able to circulate freely in all the countries of the Community provided that the essential security requirements are met.”* Meantime the Community has developed a comprehensive process of normalization of technical standards, based on three pillars:

- The harmonization of national regulations, which consists in laying down minimum standards of exigency, the protection of health and the environment that must be met by products circulating in the community space;
- Elaboration of European single standards and standards elaborated by European standardization bodies, such as: the European Committee for Normalization, the European Committee for Electrotechnical Normalization, the European Telecommunications Normalization Institute, etc.;
- Generalized application of the principle of mutual recognition for products for which no single European standards have been achieved or harmonization of national rules.

In addition to increasing the transparency of technical standards, in 1983 a Community Directive was issued requiring Member States to notify the Commission of the technical rules which they intended to adopt in the future, the Commission was entitled to suspend or prohibit the adoption of a rule National authorities by a Member State, if it considers it appropriate that it should be the subject of a Community initiative rather than a national initiative. Since 1997, EU Member States have to inform the Commission every time they refuse to recognize a rule accepted in another Member State. The non-harmonization of national tax regulations made it possible for the positive effect on the intra-EEC trade flow to be seriously diminished after 1968. The place of customs frontiers was taken over by national tax frontiers. Although VAT has been uniformly applied since 1977, progress on the alignment of rates and the VAT regime (i.e. the perception method,

products and sales types subject to VAT) were considered insufficient and inconsistent. At the launch of the Single Market. In these circumstances, the Commission recommended in 1987 the following measures:

- Generalized application of VAT to all types of sales, not only for domestic sales, but also for sales of products from one Member State to consumers in another Member State. According to the Commission's recommendation, VAT was to be invoiced to the producer and the country of origin for all transactions. Two particular situations were also highlighted:
  - if the buyer of a product is also the final consumer of the product, then the VAT payment will be made in the country where the product was purchased;
  - if the buyer is an entity subject to turnover tax (e.g. an enterprise), then he/she will pay VAT in the country where the product was purchased on purchase, and if the product is resold, the entity will invoice the VAT, At the existing level in his country.
- Limit the value added tax to two in each country, i.e. a normal value added tax and a reduced value added tax; It has also been proposed to limit the list of products subject to reduced VAT. Also in order to unify the VAT regime, the Commission proposed that each country set the normal VAT rates between 14 and 20% and the reduced VAT rate in the range of 4–9%

The VAT harmonization process has continued on the harmonization of VAT levels between Member States and the replacement of the charging principle at the place of destination, with the principle of toll taxation at the place of origin. With regard to the second axis, in 1993, the Ministerial Council decided to apply the principle of VAT to the place of origin in a generalized way, which was to take place during a four-year transition period between 1993 and 1997, in two steps. Since 1997, the principle of VAT billing at the place of origin has generally been applied to all types of transactions, but this system has raised some problems with the functioning of VAT settlement and reporting mechanisms between Member States. After 1989, VAT exemption for each country through which the product was passed became operational, the rule being that the VAT is paid only once to the tax authority of the state where the product is imported. For companies, this meant the abolition of about 60 million customs documents that had to be drawn up in one year for such operations. In order to avoid fraud, excise goods are subject to a number of limits on their own consumption. These limits can be exceeded if there is evidence that they will be subject to their own consumption. In order to protect the health and safety of people, Community law requires manufacturers to bring only safe products to the market. To that end, in order to achieve the highest level of protection, confidence and safety of products, particular account must be taken of: the characteristics of the product; its effects on use with other products; product presentation, labeling, and any instructions for use and storage; categories of consumers exposed to a particular risk while consuming the product in question, especially children.



Also in the context of product safety specific rules have been adopted that take more seriously into consideration the nature of certain products. These refer to foods that require a certain degree of hygiene and labeling and products for a particular nutrition. It was necessary to strictly specify the ingredients and instructions for use. For example, pharmaceutical products are subject to very strict authorization procedures for their marketing on the market. Furthermore, all medicinal products intended for the public should contain a leaflet with information and precautions for use, but in particular possible contraindications or adverse reactions. Community labeling provisions provide for articles on the environmental dimension of products. In particular, household appliances must be labeled with the Community Ecolabel and be subjected to environmental tests in advance.

**Free Movement of People** For most people, the most tangible sign of their belonging to a common European space without internal barriers is the freedom of movement of people. Passenger border control when crossing from one member country to another was virtually eliminated. Article 48 of the Treaty of Rome provided for the creation of conditions for the free movement of persons within the Community. This meant abolishing all discrimination based on nationality in terms of employment, wage setting and working conditions. The first measures to ensure the freedom of movement of workers were adopted in 1964 when the holders of the so-called “liberal professions” had the right to practice in any of the member countries on the basis of the harmonization of professional qualifications. Since 1985, harmonization has been dropped in favor of mutual recognition of vocational training and qualifications. Any diploma or university degree awarded in a member country after at least three years of study is recognized in the other countries. That is why the EU has created a system for the recognition of diplomas and citizens’ training in the member countries. The basic principle is that once a person is qualified to practice in his country, he/she is qualified for the same profession in any other EU country. The Social Charter, adopted in 1989, also included provisions on ensuring the free movement of persons. The freedom of movement of persons can not be complete without the freedom of establishment, thus facilitating the implementation of one of the fundamental rights of the citizens of this common European area: the right to live and work in any EU country of their choice for the same salary, and tax regime, having access to education and vocational training, enjoying social protection and having the right to vote and to be elected in municipal and European elections under the same conditions as the citizens of the chosen country of residence. The only restrictions that remain in the way of free movement of persons are those related to guaranteeing the security and protection of citizens. Governments of EU Member States are currently concerned with identifying the best ways to eliminate identity control. Efforts to promote open borders have taken into account, in parallel, the avoidance of proliferation of international terrorism, clandestine immigration and drug trafficking. These have been achieved by coordinating policies in the field of justice and home affairs, as well as by setting up an information exchange network within Europol. For a certain period of time did not proceed to identity control at intra-Community borders. As a result of recent events, particularly those related to terrorist attacks and immigration

flows, relaxation in the field has been slowed down being performed some steps ahead to harmonize social policies, recognize diplomas, repatriate social assistance rights, pensions, etc.

The right to live and benefit from social protection in any EU country also benefits freelancers, students, pensioners and other non-working people if they prove they have enough income so as not to become a burden on the host country. If a person moves from one country to another, that person is free to bring his property into the country without paying any kind of tax. However, some Member States may require car registration taxes or impose restrictions on certain goods such as weapons and ammunition. In the new country of residence, the citizen of the Community has the same rights to engage as nationals of that country. However, there are sectors to which he or she has no access (military, police, diplomatic services, justice, etc.). Some member countries require diplomas, titles, certificates or other special qualifications as conditions for joining positions with a certain remuneration. Sometimes it can be very difficult for all skills and qualifications to be recognized. This is because of the significant differences that exist in each country's education system (Office for Official Publications of the European Union 1999).

In the EU there are rules in the legislation of each Member State that provide for the protection of personal data. Personal data can be requested when opening a bank account, an insurance policy, when signing contracts. Every citizen of the Community has the right to the protection of personal data, information on the use of data, to be asked and to give consent for their use. Those working in another country have the right to join freely in trade unions, vote or stand as candidates, enjoying the same rights with residents.

The Community has introduced a number of measures that improve health and safety at work. For this purpose, in 1996, Bilbao, Spain, became the headquarter for "European Agency for Safety and Health at Work". Its objective is to ensure decent working conditions for workers, especially in the SME field (European Agency for Safety and Health at Work 1999). The Agency has set up a network of information at European level with which it cooperates with representatives of the Member States. The network is based on the Internet and can also be accessed by the competent bodies of the Central and Eastern European countries which have subsequently become members of the EU. Networks include EU directives, other type of legislation, research projects, training courses in areas such as health and safety at work, practical solutions, preventive action, cooperation. Last but not least, the free movement of people also applies to young people. For them, perhaps the most attractive thing is to get to know their European neighbors and live among them. The European Commission has launched several initiatives to facilitate the free movement of young workers, students, teachers and scientists in member countries.

**Free Movement of Services** Although the services sector is the most labor force intensive for the EU (over 60%), the progress in liberalizing the sector has been slower than those recorded in the case of the movement of goods. In the field of financial services, for example, only banking services were fully liberalized on 1 January 1993. Insurance services fully entered the Single Market on 1 July 1994. Subject to Articles 52 and 54 of the Treaty of Rome, freedom of movement of

services is based on the principle that companies in a Community country are in possession of their operating license in the country of origin in order to be able to operate throughout the EU. The Treaty on the European Union regulates the principle of liberalizing services in two forms:

- The right of establishment of nationals of a Member State on the territory of another Member State of the European Union for the purpose of providing a service;
- Service provision, on a cross-border basis, without having to travel to the provider.

Freedom to provide services, according to art. 59 and 60 of the TEU is valid for nationals of Member States who are resident in the territory of another Member State. These two conditions: *the nationality of a Member State* and *domicile in the territory of another Member State* are cumulative. The provisions of art. Articles 59 to 66 TEC apply only to services. For the purpose of art. 60 of the ECT are considered to be services, those self-employed activities temporarily exercised in another State, rewarded with a sum of money, to the extent that they are not subject to the rules on the free movement of persons, capital and persons. In this sense, the service category includes: industrial activities; commercial activities; craft activities; liberal professions. Under the notion of services within the meaning of Art. 60 includes activities for remuneration, which constitute a component part of the economic life of that State. Therefore, the provisions of art. 60 does not apply to the national education system. State education does not fall into the category of services according to art. 60 TEC, considering that state education is not an economic activity, but rather has social political functions; Private education falls within the scope of art. 60 to the extent that fees are charged for the activities performed. The transmission of television signals, including those with advertising character, is considered an area on which the provisions of art. 59–66 TCE. However, trade in goods, sound recordings, films and other products used for the dissemination of advertising messages to which the Treaty rules on the free movement of goods apply. By associating these two freedoms, it has been established that “*the exclusive rights that a company enjoys for broadcasting television advertising are not incompatible with the rules on the free movement of products which it promotes*” Community law classifies the services into three broad categories: *Active Services*; *Passive services*; *Correspondence services*.

*Active Services* This type of service assumes that the one who intends to provide a service moves for this purpose to another EU country. For example, when a French architect moves to Italy to supervise the building of an Italian client’s building. For the case of active services, art. Article 60(2) EC provides that Community provisions on the right of establishment shall not be infringed where the service provider temporarily carries on business in the State in which the service is provided in accordance with the rules laid down in that State for its own nationals. In other words, the service provider from another EU country must be subject to the same rules as service providers who are nationals of the State where the activity in

question is performed. Although not expressly mentioned, the right of entry and stay on the territory of the receiving State of the service provider for the period of such service is implicitly included in the provisions of Art. 59-66 TCE. Article 60, paragraph 3 states that all those who fall within the scope of the freedom to provide services must be treated in the same way as domestic service providers—the “principle of national treatment”. The free movement of services therefore contains a ban on any measure which, directly or indirectly, is discriminatory on grounds of nationality. Certain measures are not considered to be discriminatory, even if they have a different effect on natives and foreign service providers: the requirement that the foreign presser possess a certificate of knowledge of the language of the country where the service is provided, for example. Also, Art. 59 and 60 provide for the requirement that the service provider should reside or reside in the territory of the State where he is operating. The European Court of Justice has determined that the requirement for the service provider to be resident in the State in which the activity is performed is likely to eliminate the beneficial effects of Art. 59 in the context of the liberalization of the movement of services within the EU, therefore such a restrictive provision should be removed. In the case of active services, it is necessary to eliminate not only discriminatory but also non-discriminatory measures which have a restrictive effect on the freedom to provide services. The logic underlying this prohibition is the following: if the categories favored by the provisions of the free movement of services would be subject to the same rules as the natives, achieving this desideratum would be much more difficult. For example, a freelancer who would like to provide high-level services could be compelled (if ad litterate to be non-discriminatory) to be a member of professional organizations in both countries. Eloquent is the example of a Belgian lawyer who tried to represent a Dutch client before a Dutch court. This was forbidden because the Dutch law allowed only persons domiciled in the Netherlands to plead before a Dutch court and the lawyers who advocate in the Dutch courts to be members of the Dutch Bar. Subsequently, these restrictions were abolished on the basis of the TEC provisions on the liberalization of the movement of services.

*Passive Services* This type of service assumes that the consumer moves to the country of the service provider. Although par. 3 of art. Article 60 expressly provides only for situations in which the service provider moves to the beneficiary State, however the interpretation of this text may be extended and also applied to passive services. The case concerning the free movement of passive services was appreciated by the Court of Justice as a corollary to Art. 60, “thus achieving the goal of liberalizing lucrative activities not included in the free movement of goods, capital and people”. As a result, by extension, the freedom to provide services must also include the freedom of the recipient to move within the EU to receive a service in any of the Member States. This freedom must also be extended to payments, tourist services, medical services, etc. All persons traveling to Member States for one of the purposes mentioned above are to be considered recipients of services to which

they will benefit under the same conditions as nationals of the State where the services are provided.

*Correspondence Services* It refers to the case where only the proper services cross the border, the consumer and the provider remaining in their country of residence. In the category of correspondence services there may be listed: sending architect's plans for construction to his client abroad, consultancy services, radio and television broadcasting, etc. In this case, the country from which the service provider and the consumer of the services originate is not essential but crosses the border between two EU Member States. Also, the existence of previous relationships between the provider and recipient is not a condition for the application of the freedom of movement of correspondence services. Under the provisions on freedom to provide services, there will be not only restrictions established in the country of destination but also those existing in the country of origin, even if they are generally applicable, non-discriminatory, and neither the object nor their effects follow To favor service providers in that country from other EU suppliers.

Freedom of movement and provision of services is delimited by other fundamental freedoms. Article 60 TEC expressly states that the free movement of services is not applicable as long as there are competing and contrary provisions in the area of free movement of goods, persons or capital. The specific features of the services, within the meaning of art. 59–66 TCE are: the temporary and self-employed nature. The delimitation of freedom to provide services over other freedoms of movement can sometimes be difficult, especially when services are linked to a product. Less difficult is the delimitation of the right of free movement of services to the freedom of movement of labor. The provisions of art. 48 (freedom of movement of labor), however, refers to non-dependent activities provided by natural persons in subordination relationships, while freedom of movement of services concerns self-employment. The most problematic delimitation occurs in the case of freedom of establishment with regard to the free movement of services. As regards freedom of establishment, it is the long-term integration of the service provider into the economic life of that State. Even if a person moves to another EU country, he/she may, under certain conditions, use either the freedom of establishment or the freedom to provide services. Freedom of establishment is regarded by some specialists as a fundamental component of the freedom of movement of persons within the EU. By default, however, this freedom is associated with the freedom to provide services, based on the need to ensure an optimal distribution of all factors of production at Community level, so that their mobility allows for the pursuit of commercial and productive activities in a favorable environment. According to art. 52 par. 2 TEC, freedom of establishment also includes the right to start and continue as non-self-employed, which means the right of access to such activities and the right to set up and manage companies. Article 52 required that any restriction on the freedom of establishment of nationals of a Member State in the territory of another Member State to be abolished in progressive stages until such time as they have been completely abolished.

And in the case of freedom of establishment for the purpose of providing a service or practicing a profession, the principle of non-discrimination and national treatment (as regards nationals of the Member States) applies. In situations where restrictions are imposed on the territory of a State, service providers or persons exercising a liberal profession would be required to bear extra costs to those of residents (difference of treatment which has no objective justification). Freedom of movement of services is one of the fundamental freedoms, so that it can only be restricted by provisions justified by the general interest. Where there are no single Community provisions in certain areas related to the free movement of services, certain national restrictive provisions may be accepted if the following conditions are met cumulatively: *To be non-discriminatory; Be justified by stringent reasons relating to the general interest; Have a moderate action in relation to the intended purpose.* If these restrictive regulations already exist in the service provider's State of origin, these measures become redundant in the receiving State and must therefore be removed. The essential condition for the adoption of such restrictive national provisions is the absence of single Community rules. If such Community rules exist, national rules must be interpreted in the light of these provisions. In this context, it is important to highlight the importance of Community acts on the recognition of professional diplomas and certificates. The non-discriminatory character of the restrictive measures is necessary for them to be justified by the legitimate interests mentioned in art. 59. These provisions can be justified in some cases on the basis of the exceptions listed in Art. 66. Within the legitimate interests, there are: *professional regulations concerning obligations, conduct and professional responsibility; Consumer protection, functioning of the state's legal system effect, functioning of the national tax system.* The moderate nature of restrictive measures implies that, for several possible measures, the State may choose those which least obstruct the freedom to provide services. Unacceptable are generally the domicile obligations of the provider in the receiving State. For example, a lawyer may represent a client in front of any court within the EU but the condition that he or she be contacted in a timely manner. However, there are some areas where domicile in the state where the service is pressed is compulsory: insurance, certain categories of doctors. National restrictive provisions requiring the provider's membership of certain professional organizations of the recipient state of the service are not acceptable. The receiving State of the service must consider whether all the checks, professional examinations in the provider's country of origin are compatible with their own requirements. In this respect, restrictive provisions requiring the repetition of examinations already held in the State of origin are prohibited. Irrespective of the content of a restrictive measure, the State which adopts it must prove its legitimate interests.

Exceptions to the free movement of services are mentioned in Art. 66 and are related to activities involving the exercise of state authority for reasons of order, security or public health. Under these exceptions, certain services may not be provided in the territory of a State of nationals of another Member State. For a unified use of the public administration exception, this notion is defined at Community level as all activities directly or indirectly involving the state authority in exercising the sovereignty of a state—posts in public administration, army, police,

army. As regards the activities of lawyers as being related to the exercise of State authority, the Court of Justice has determined that this profession falls under the category of free professions and is not subject to exceptions to public administration. However, certain types of activities performed by lawyers are attributable to the activities of exercising public authority and are subject to the provisions of art. 66. A somewhat peculiar status has financial services whose liberalization has had a dynamic and a range different from those of other categories of services. Most studies on this issue have highlighted the importance of deregulation of the financial services sector, which would have beneficial macroeconomic and microeconomic effects. The financial services sector has been very sensitive subject in the integration process. Even in the Treaty of Rome, despite the declaration of the Member States' intention to liberalize the movement of capital and services, only a degree of liberalization of the financial services sector was sufficient "to ensure a satisfactory functioning of the single market". Excessive regulation and existing restrictions on the free movement of financial services have a negative impact on the efficiency of the sector and the increase in operational costs. The result of these restrictive policies finds its correspondent in the significant differences between the national financial markets in the EU: the increased role of banks in the capital market, the degree of openness to external competition (higher in the case of the UK), the portfolio of offered products, the prototype of the universal bank in Germany, the traditional prototype of the bank). The 1980s were characterized by efforts by the EEC and national authorities to deregulate and liberalize the movement of the financial sector. The liberalization strategy for financial services really started only at the time of the adoption of the White Paper in 1985. In order to achieve this, it began with the adoption of specific measures aimed at facilitating the free and full circulation of capital. This condition was necessary but not sufficient to create the single European financial market, and harmonization of national regulations in the field was necessary. The liberalization of insurance services in the European Union continues to make progress. The only segment of fully liberalized insurance in the EU remains reinsurance.

In recent years, two key service sectors have been liberalized: telecommunications and transport. Liberalization of telecommunications took place at the end of 1998, with the exception of mobile telephony that was liberalized in January 2003. New service areas, such as electricity, audio-visual services and the explosion of on-line information services were Commission's concerns. Also, the liberalization of services includes the construction of trans-European networks (TENS). The Maastricht Treaty recognizes the importance of such networks (transport, telecommunications, oil and gas). In addition to very fast rail links between Member States, infrastructure and electricity supply should also be mentioned. The European Union has an obligation and has committed itself to developing these networks, including the latest ones: computer, satellite transmission. Financing the development of trans-European infrastructure and networks has been and is the priority of the European Investment Bank. The EU also finances numerous R & D projects and pilot projects for each region in Europe (Structural Funds).

The regulation of services of general interest in Europe is based on two principles: **Neutrality** (as regards the status of private or public companies and their

employees guaranteed by Article 222 of the Treaty) and **the freedom of member countries to define their services of general interest** (to guarantee the special or exclusive rights that are required of the companies providing them, to regulate their management, to finance them in accordance with Article 90 of the Treaty) (Office for Official Publications of the European Communities 1999). The conditions of Article 90 do not apply to non-economic activities or vital issues of national interest. Services of general economic interest are subject to Community rules designed to create the Single Market. Monopolies that may obstruct the proper functioning of the market by blocking a particular sector of the market are included. Legislation regulates this monopoly situation, while maintaining intact services of general interest. Suppliers of certain services of general interest (infrastructure, energy, communications) may obtain derogations when they influence their performance. Definitions of tasks of general interest need not necessarily determine how they will be resolved. For this reason, any exception to the rule is subject to the principle of proportionality. This principle, contained in Article 90, is designed to ensure the best match between the obligation to provide services of general interest and the way in which they are provided, so that the means used are proportionate. The principle is formulated to allow a flexible, contextual balancing that takes into account the different objectives and circumstances of the Member States as well as the technical and budgetary constraints that vary between the sectors of the integrated economy. The principle also allows for the best possible interaction between market efficiency and needs in the general interest, ensuring that the means of satisfying them do not adversely affect the Single Market or trade, which would be contrary to the Community interest.

The results obtained so far from this interaction have been very positive, both in terms of the efficiency of services of general interest and the implementation of the rules. All legal instruments on air, rail and electricity have been unanimously adopted by the Member States in the Council. The Court of Justice has confirmed these instruments by striving to achieve the best possible balance. The European Commission, the European Parliament, the Council of Ministers and the Court of Justice have also respected the national definition of the general interest, based on the national specificity of each member country and their social and cultural characteristics. The promotion of the European general interest, a concept launched by the European Commission and developed by Parliament and the Council of Ministers, was meant to ensure the provision of very high quality services, all at a price that every citizen can afford. The concept is based on the following principles: equality, universality, continuity and adaptability. These criteria are not always met at national level, but will be fully implemented and effectively visible. Public service obligations may be imposed by general interests such as land-use planning, security and environmental protection. The Single Market provides consumers with very good services and puts Europe in a stronger position in line with international competition. Services of general interest can be provided by the public sector as well as by the private sector. The goal is to provide a service at the highest level, which everyone at the scale of the Single Market, including people with social, financial or health problems, can afford.



**Free Movement of Capital** It involves the removal of control over capital flows. It must be perfectly integrated with the harmonization of national capital taxes in order to ensure fair competition between low-tax and high-taxation countries. The liberalization of capital movements was the first of the four freedoms that have been achieved. A directive regulating the abolition of control over capital flows was adopted in 1988 (Commission Européenne 1997). It was followed by other directives for the liberalization of banking and financial services. In the view of the authors of the Single Act, the emergence of financial Europe is proof of economic maturity. It was the condition of achieving the Single Market, allowing for the optimal circulation and placement of resources in European projects and in performing firms. The White Paper, in the area of financial services liberalization, states: *“The liberalization of financial services, parallel to the movement of capital, will be an important step in European financial integration and the deepening of the internal market.”* At present, the emphasis is increasingly on the free movement of financial products as a lever to facilitate, among other things, technical progress by resorting to minimal coordination of financial and banking regulations as a basis for mutual recognition By Member States of what each of them does to protect the public. In the case of securities, the coordination of the rules applicable to collective investment undertakings is intended to grant equivalent protection to investors, irrespective of the Member State in which they are established, with the right to free trade throughout the Community. The full liberalization of capital movements has been and is a sine qua non condition for the free exchange of financial products and services within the Union and an optimal allocation for productive and commercial purposes of funds deposited with financial institutions. The total liberalization of capital movements was conceived in three stages:

- Liberalization of capital operations—such as commercial loans or direct investments—which are directly related to the free movement of goods and persons and the freedom to set up institutions with direct consequences on balance of payments;
- The liberalization of operations with financial instruments (bonds, shares and other equity), creating broad arbitrations between the financial markets of the member countries, putting them in direct competition;
- Liberalization of operations with financial and money market instruments.

## 4 Upgrading the Single Market

The Single Market has generated new opportunities for companies and strengthened competitiveness of European economy, has created new jobs, offered greater choice for consumers and has enabled people to live, study and work where they want. It has contributed to better integrating EU firms into international value chains and a new level of involvement of European economies in a globalized world. Designed to suppress the “stiffnesses” of the Community market as well as

the barriers to the mobility of the factors of production that the operators in the countries suffered, this project has proved to be fully effective, both in terms of industrial development and of mutual trade. The balance of the Single Market is considered, with some reservations, to be positive, although both the domestic and the external environment have put its mark on it, especially on the dynamics of the Single Market. In the opinion of the EU Commission experts, the economic impact of the Single Market is generally encouraging, but it is premature to see that the measures adopted are fully effective. The same experts believe that, according to preliminary data, the signs of a sensitive transformation of Member States' economies through the functioning of the Single Market are clearly perceptible and highlighted by:

- Strengthening competition between businesses, both in the productive and service sectors;
- Accelerating the pace of restructuring in industry, advancing as a corollary improving competitiveness;
- A wider range of goods and services offered at lower sales prices, especially in newly liberalized sectors;
- Greater rapidity and lower costs of cross-border deliveries due to lack of goods controls at internal borders;
- Increased mobility within the EU of workers and non-workers;
- Creating new jobs in the EU countries;
- Additional revenue growth in the EU, in the order of 1.1–1.9% in the period 1987–1998;
- Inflation rates lower by 1–1.5 percentage points, than those that would have existed in the absence of PIUs;
- Strengthening convergence and cohesion between the different regions of the EU;
- Ensure a competitive climate conducive to economic growth, discouraging the creation of large national monopolies;

The functioning of the Single Market has led to an important increase in intra-Community trade and has increased the share of EU countries in total foreign direct investment. Economies, and in particular industries in EU countries, underwent an in-depth restructuring, characterized by a burst of mergers and acquisitions, coupled with increased competition on national markets, leading to increased convergence in prices of goods and services. However, according to the experts of the EU Commission, there was a decrease in the national concentration, even if the average size of the companies remained relatively stable. This seemingly paradoxical situation, in the opinion of the same experts, was explained by a double phenomenon: on one hand there was a reduction in the weight and importance of the dominant enterprises in their national markets as a result of intensified competition and on the other hand an increase in the “position” of the same companies at Community level through “pan-Europeanization” of their work. That is, the volume of activity of large industrial groups has grown globally at Community level, but the geographic distribution of this activity has changed, with relative activity falling

relative to the domestic market and increasing in other EU markets. The European economic and social landscape is experiencing significant changes as a result of concerted action on the following factors: *economic and financial crises; the very high level of unemployment; low levels of growth; inadequate levels of investment and obstacles in product and services markets; outdated and excessively burdensome regulations the entrepreneurs are confronted with.* For these reasons, in order to capitalize and consolidate the outcomes achieved at the level of the single market, the following axes of an action nature are needed:

- *A deeper and fairer Single Market.* To fulfill this objective is necessary to create a better business environment for investment by providing greater regulatory predictability and further strengthening the Single Market. Implementing initiatives for European Energy Union, for a Digital Single Market Strategy, for the Action Plan on building a Capital Markets Union, for the planned Circular Economy package, at the European and national level are created conditions for business environment to benefit from a more integrated European economy.
- *A new Single Market Strategy based on opportunity, modernization and results.* Barriers to the free exchange of products and services, inadequate enforcement of existing rules, low levels of cross-border public procurement and insufficient political support for structural reforms limit the opportunities for businesses and citizens, resulting in fewer jobs and economic inefficiency. European Union decision-makers invite all societal actors to involve themselves in a process of creating opportunities for consumers, professionals and businesses, encouraging and enabling the modernization and innovation that Europe needs and ensuring practical delivery that benefits consumers and businesses in their daily lives.
- *Enabling the balanced development of the collaborative economy.* This new type of business model leads to greater choice and lower prices for consumers, provides growth opportunities for innovative start-ups and existing companies, increases employment and benefits employees by allowing for more flexible schedules, from non-professional micro jobs to part-time entrepreneurship, allow that different kinds of resources can be used more efficiently thereby increasing productivity and sustainability.
- *Helping SMEs and start-ups to grow.* In the European Single Market SMEs complain about: the complexity of VAT regulations; uncertainties over company law; understanding and complying with regulatory requirements; a lack of access to finance; the fear of punitive bankruptcy laws; barriers to innovation. In this respect Commission need to perform some activities such as: *put forward a legislative proposal on business insolvency, including early restructuring and second chance; launch a Start-up initiative, to initiate a broad assessment of requirements for start-ups and ways to reduce such requirements and to facilitate compliance; use COSME funds to provide targeted information to encourage young innovative SMEs to expand cross-border and make use of the possibilities offered by the Single Market; ask the REFIT platform to focus on barriers to innovation and discuss how they can be removed or reduced.*

- *Making the market without borders for services a practical reality.* Having in mind that businesses and professionals still face too many difficulties operating across borders, at the European and national levels is necessary to address regulatory barriers such as diverging legal form, shareholding requirements and multidisciplinary restrictions in key business services. In line with the ‘once only’ principle, the services passport will eliminate the need for multiple requests for information and documentation already provided to the home Member State, through the creation of a ‘common electronic repository’ of documents by the home country administration upon the request of a service provider.
- *Preventing discrimination of consumers and entrepreneurs.* The rise of online trade and increased travel between Member States, has led to new business opportunities for entrepreneurs and access to a wider range of offers in goods and services for consumers. The decision-makers are obliged to take measures—both legislative and enforcement actions—to fight unjustified different treatment of customers on the basis of residence or nationality in terms of access, prices, or other sales conditions by: identifying and banning specific forms of residence-based discrimination not grounded on objective and verifiable factors; making it easier for consumers and consumer associations to know if and how there is discrimination, including through the use of transparency tools; and improving enforcement by national authorities through the reform of the Consumer Protection Cooperation Regulation.
- *More transparent, efficient and accountable public procurement.* In the European Single market procurements are still often carried out without the necessary business skills, technical knowledge or procedural understanding, leading to a lack of compliance and negative consequences for both businesses and taxpayers. It will seek to facilitate the collection, consolidation, management and analysis of procurement data, supporting Member States’ efforts towards better governance in public procurement. Building on the policies already in place, such as eProcurement, the Commission will foster the development of tools for improved data quality and availability by streamlining existing data gathering mechanisms and supporting the creation of contract registers. It will also promote the development of data analytics tools, in particular to detect anomalies in the procurement process. The Commission need to seek to improve the effectiveness, efficiency and transparency of the procurement remedies system under the Remedies Directives, to encourage first instance review bodies to cooperate and network to improve the exchange of information and best practice and to paid attention to the strengthening of the specialized first instance administrative review bodies. In addition, the Commission need to offer Member States the possibility of receiving assistance and advice on the legality of the procurement aspects of projects they intend to launch.
- *A culture of compliance and smart enforcement.* Effective compliance is essential to deliver the opportunities and benefits of the Single Market. The Commission need to apply a smart enforcement strategy, including sectoral strategies. It

will propose a regulatory initiative allowing it to collect reliable information directly from selected market players, with a view to safeguarding and improving the functioning of the Single Market. It will further deepen its partnership with Member States through implementation plans for new major legislation, compliance dialogues organized on a yearly basis with each Member State and the possible development of a data analytics tool to improve the monitoring of Single Market legislation.

### Questions and Activities

1. The main analytical challenge linked to the term of economic integration was not the one related to the insufficiency of definitions given to it, but to the abundance of somewhat contradictory definitions. Explain and comment upon this statement in the light of the challenges facing the Europe after the Second World War. Shortly
2. What is the main area of consensus among different analysts linked to answering the following questions: What is the substance of integration and what are the key criteria underlying the decision of states to launch an integration process? What are the symptoms on which to decide whether the integration process has begun to function properly or is it still in the desideratum?. Shortly explain your answer.
3. Starting from the Jan Timbergen's point of view and taking into account the process of integration at European level, shortly explain *positive* and *negative integration* taking into consideration the stage of Single European Market.
4. Some analysts consider that "*All stages of an economic integration process involve a complex process of cooperation between public authorities and between private actors in the countries involved in the process*". Do you agree with them (make sure you justify your answer)?
5. Integration reality at European level has established the following hierarchy of cooperative policies: **Information; Consultation; Coordination; Unification**. Explain and comment upon each of these cooperative policies in the light of the challenges currently facing EU's economic governance.
6. Craig said, "*Any accurate assessment of the meaning, content and development of the single market must take account of four factors. These are the primary Treaty articles themselves, Community law, ECJ's jurisprudence and action taken by the Community institutions*". Do you agree with it (make sure you justify your answer)?
7. Shortly explain how necessary a '**single market**' was for the European integration process?
8. Shortly explain the objectives aimed to be achieved through the reform of the Treaty of Rome, as agreed in the Single European Act.
9. Shortly explain one of the four freedoms of movement (*Free movement of goods; Free movement of services; Free movement of capital; Free movement of persons*). Make sure you justify your answer.
10. Shortly analyze five axes of an action nature in order to capitalize and consolidate the achievements at the level of the single market.

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