WIRTSCHAFTS UNIVERSITÄT WIEN VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS

WIFO AUSTRIAN INSTITUTE FOR ECONOMIC RESEARCH

Learnings from 30 years of EU membership – Effects on trade and national competitiveness

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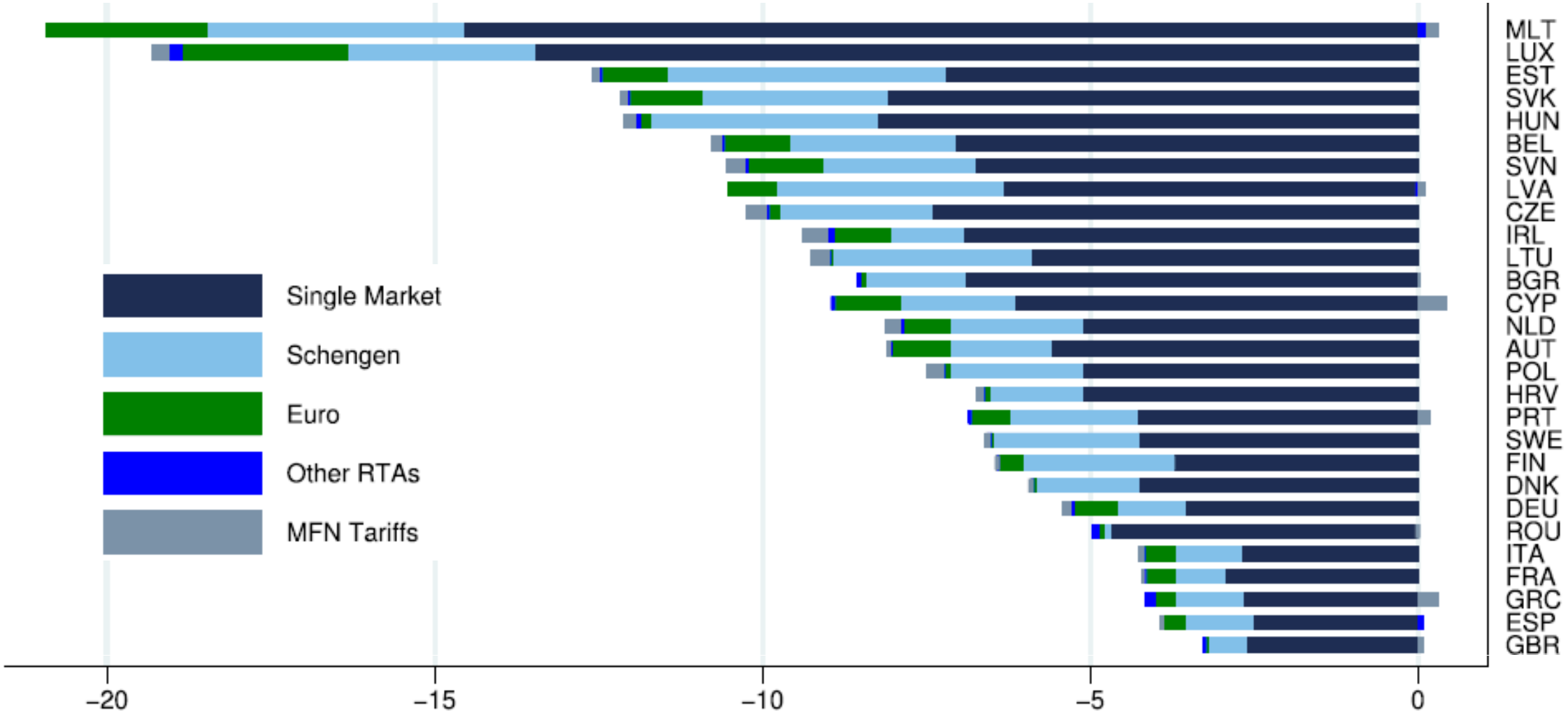
30 years of EU membership

WKO Vienna, February 13, 2025

Where do the net benefits of EU membership come from?

How much would the real value of GDP shrink as a result of disintegration, in %



Source: Felbermayr, Gröschl, Heiland, JIE 2022.

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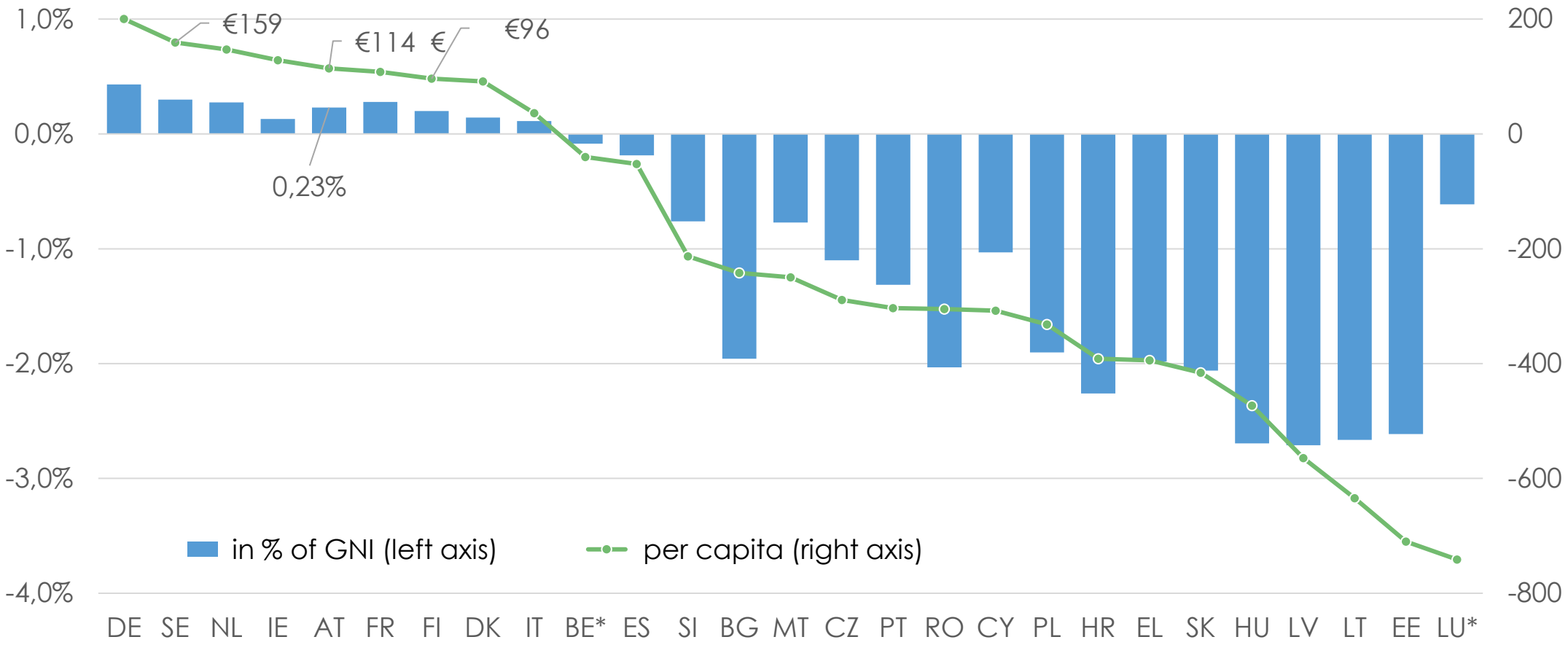
Net contributions to the budget of the EU

in € per capita and in % of gross net income, 2022



S: Felbermayr & Heiland (2024).

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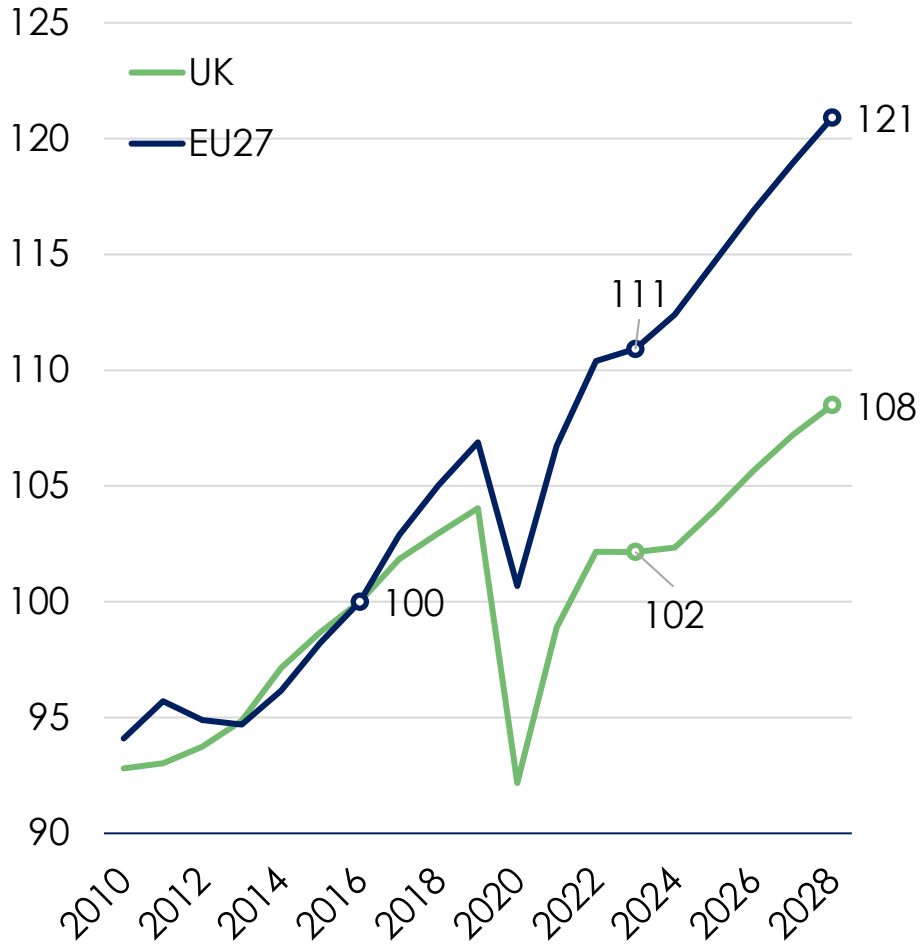
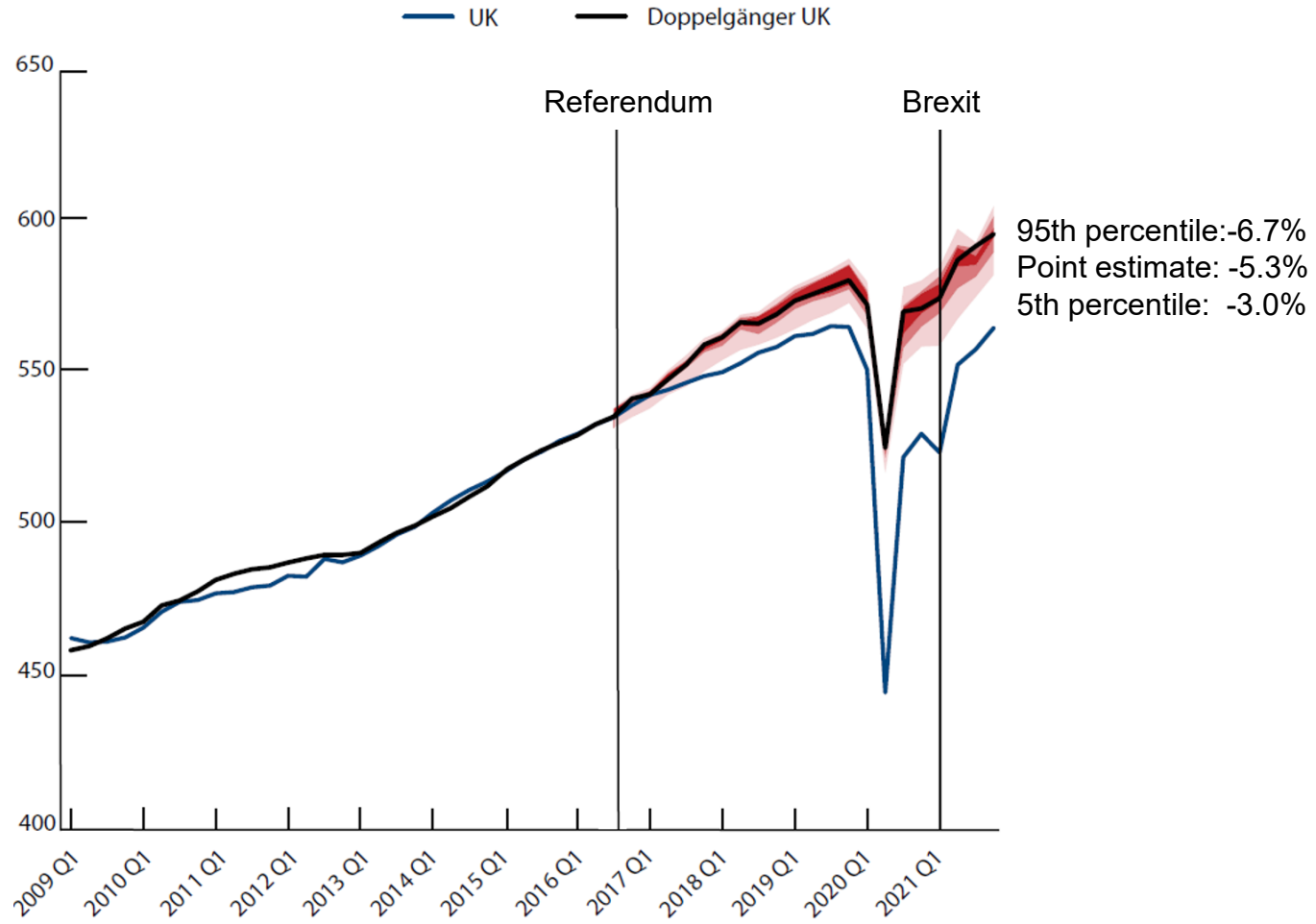
Brexit: Effects on real GDP in the United Kingdom

Real GDP per capita in PPP (2016=100)



Real GDP in bn. GBP



S: IMF World Economic Outlook October 2023 (series NGDPRPPPPC), own calculations and illustration. Springford (2023).

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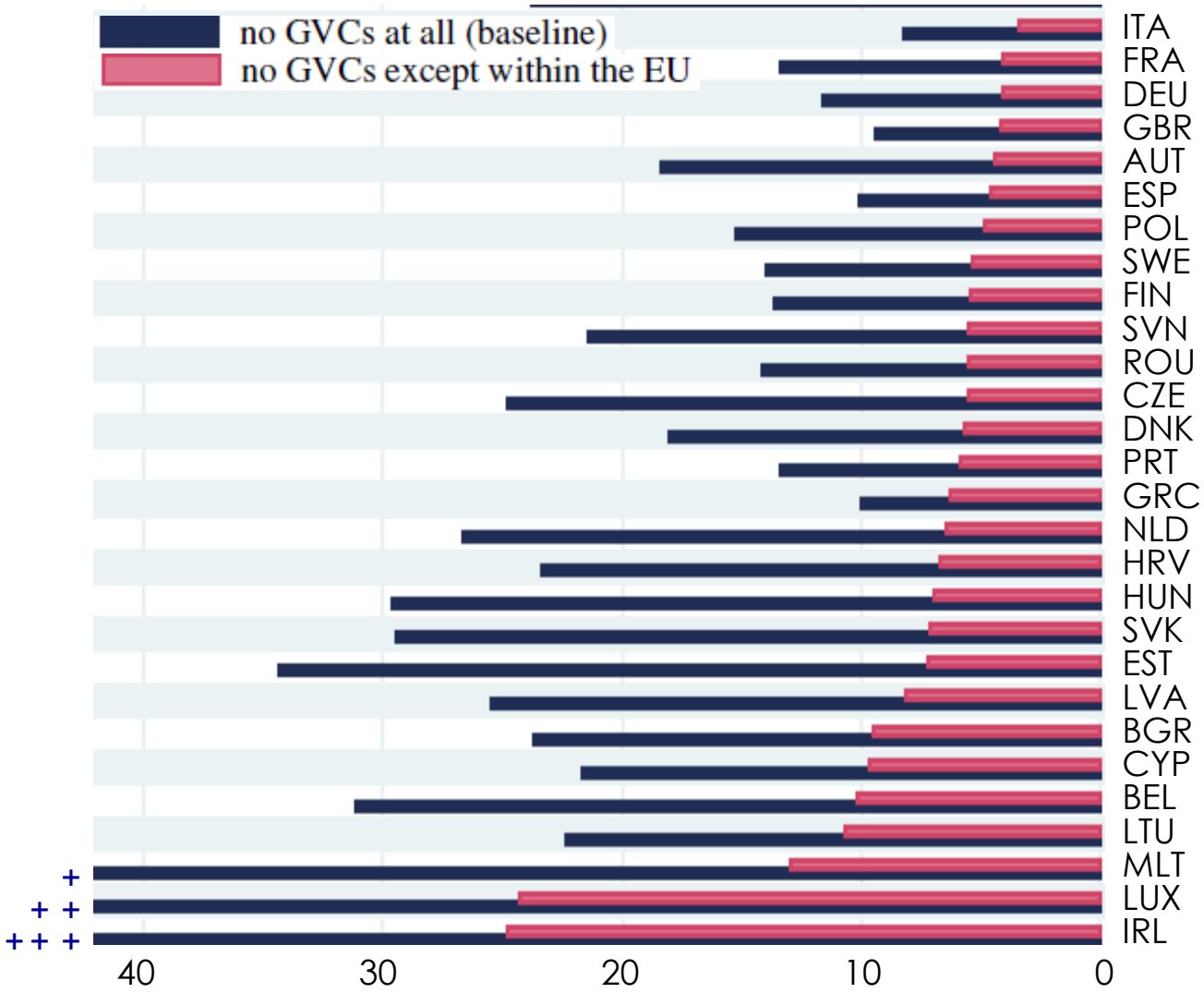
Welfare Losses from Decoupling of GVCs (%)



Source: Eppinger, Felbermayr, Krebs und Kukharsky (2023).

- GVC decoupling with EU Single Market functioning costs welfare damage to a third
- E.g., Germany: -11.6% vs -4.1%
- Intact **EU Single Market** is a powerful insurance device for Member States

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Borders Within the EU Still Disable a Lot of Trade

	(1)	(2)	(3)	(4)	(5)	(6)
	S_{nm}	S_{nm}	S_{nm}	S_{nm}	S_{nm}	S_{nm}
Border Effect	−1.808***	−2.002***				
	(0.123)	(0.108)				
Border / common language / common currency dummy			−1.724***	−1.725***		
			(0.214)	(0.182)		
Border / common language / different currency dummy			−1.855***	−1.833***		
			(0.146)	(0.151)		
Border / different language / common currency dummy			−1.719***	−1.995***		
			(0.148)	(0.147)		
Border / different language / different currency dummy			−1.848***	−2.096***		
			(0.145)	(0.127)		
Distance (constant-elasticity)	−1.412***		−1.410***		−1.473***	
	(0.0644)		(0.0655)		(0.0708)	
Origin FE	Yes	Yes	Yes	Yes	Yes	Yes
Dest FE	Yes	Yes	Yes	Yes	Yes	Yes
Distance (variable-elasticity)	No	Yes	No	Yes	No	Yes
Border dummies for each country pair	No	No	No	No	Yes	Yes
Observations	46,505	46,505	46,505	46,505	46,505	46,505
R^2	0.975	0.977	0.975	0.977	0.975	0.977

Border reduces trade by 82%

Standard errors in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$.

Notes: The dependent variable in all regressions is the normalized market share, the independent variables are a border dummy in Columns 1and 2, a Border dummy interacted with a language and/or currency dummy in columns 3 and 4 and a border dummy interacted with a country-pair dummy in columns 5 and 6. All regressions include a control for distance. The constant-elasticity distance measure is log kilometres (columns 1, 3 and 5), the variable-elasticity distance measure interacts distance with ten distance bins, to allow the elasticity of distance to vary by distance-bin (columns 2, 4 and 6). All regressions include origin-region and destination-region fixed effects as specified in equation 11. All regressions are estimated by PPML. Standard errors are clustered at the country-pair level in all specifications.

Source: Santamaria, Ventura, Yesilbayrakhtar (JIE 2023).

Border Effect Is a Function of Transport Infrastructure

	(1)	(2)	(3)
Border (0,1)	-0.804***	-0.547***	-0.422**
	(0.170)	(0.180)	(0.176)
ln great circle distance	-1.112***		
	(0.128)		
ln road distance		-1.171***	
		(0.123)	
ln travel time			-1.361***
			(0.124)
Common language (0,1)	0.761***	0.840***	0.841***
	(0.132)	(0.134)	(0.125)
Contiguity (0,1)	0.326**	0.215	0.134
	(0.157)	(0.154)	(0.141)
Constant	14.92***	15.58***	16.07***
	(0.881)	(0.872)	(0.802)
Observations	441	441	441
R-squared	0.989	0.990	0.991

Notes: Pseudo Maximum Likelihood (PPML) estimations of Poisson models. All models contain complete sets of separate exporter and importer fixed effects. Robust standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

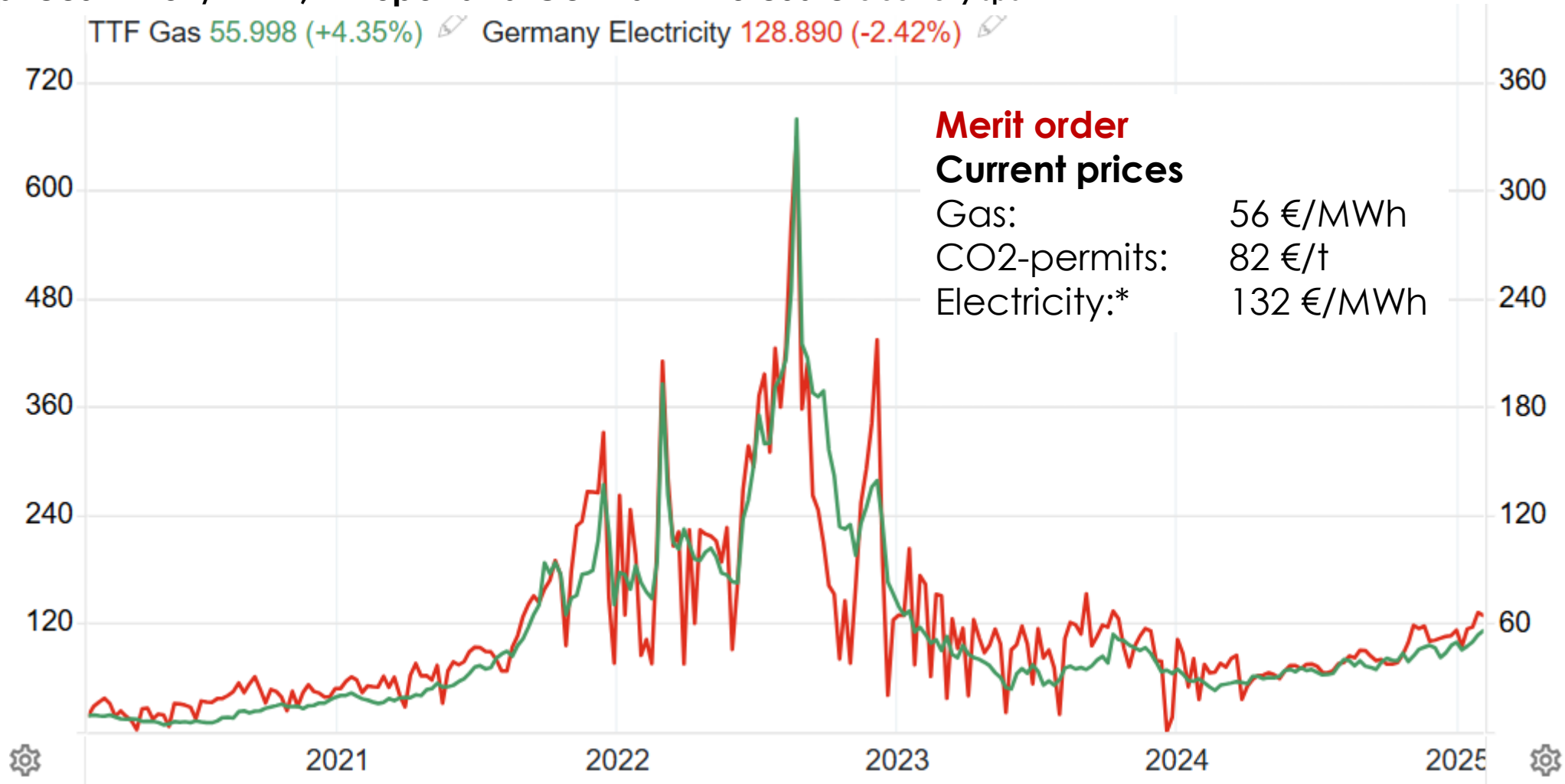
- Border Effect with mismeasured transportation costs: -55%
- With measure of road distance it is lower: - 42%
- With measure of travel time it is even lower: -34%

- Functioning of single market has physical preconditions

Source: Felbermayr and Tarasov, JUE 2022.

EU Market Governance: Locked Gas & Electricity Prices

prices in EUR/MWh, TTF Spot and German wholesale electricity spot



efficiency of gas power stations on average 66%; variable production costs for electricity generation from gas: (1/0,55)(56+0,2*82)

Q: Trading Economics.

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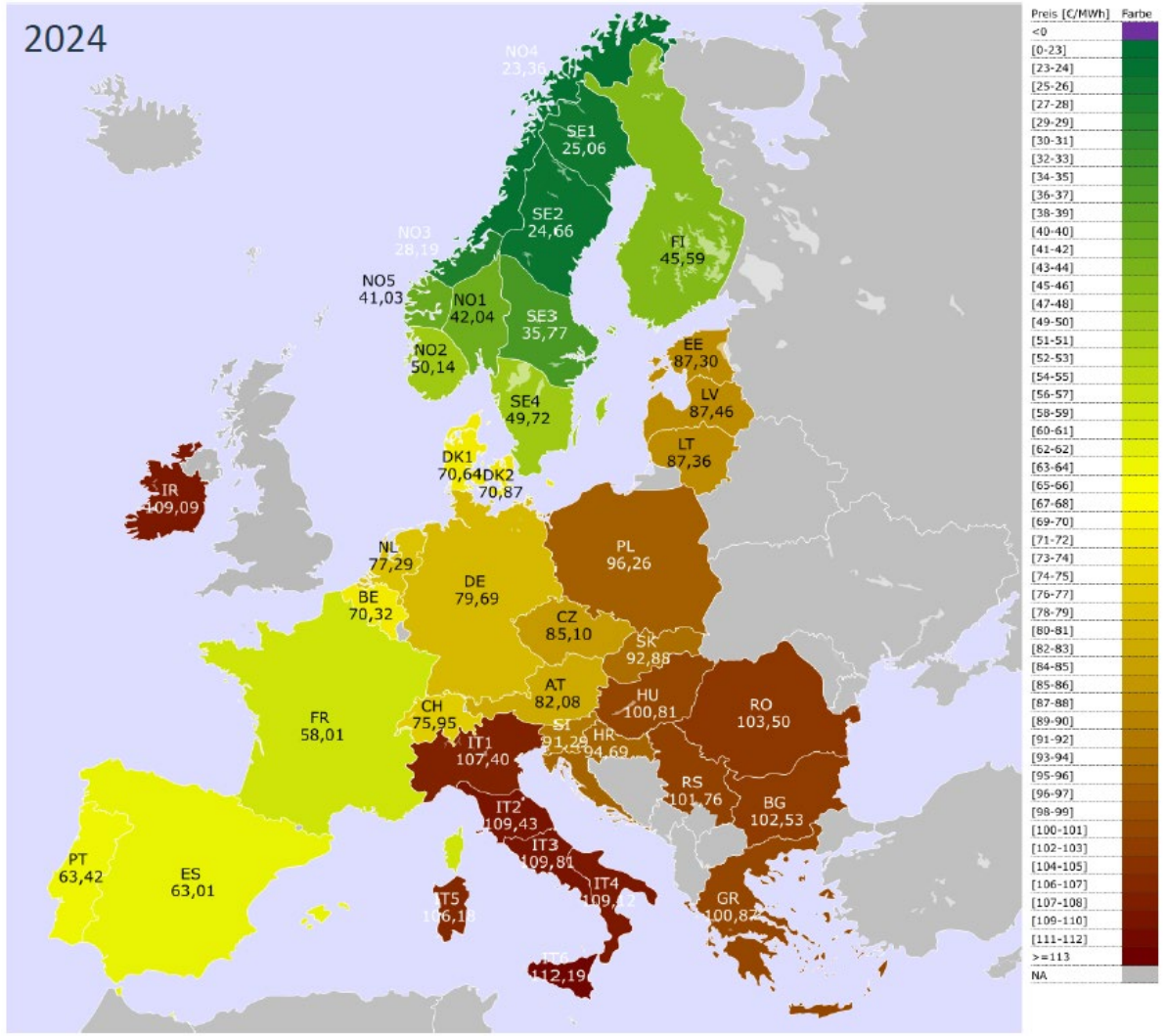
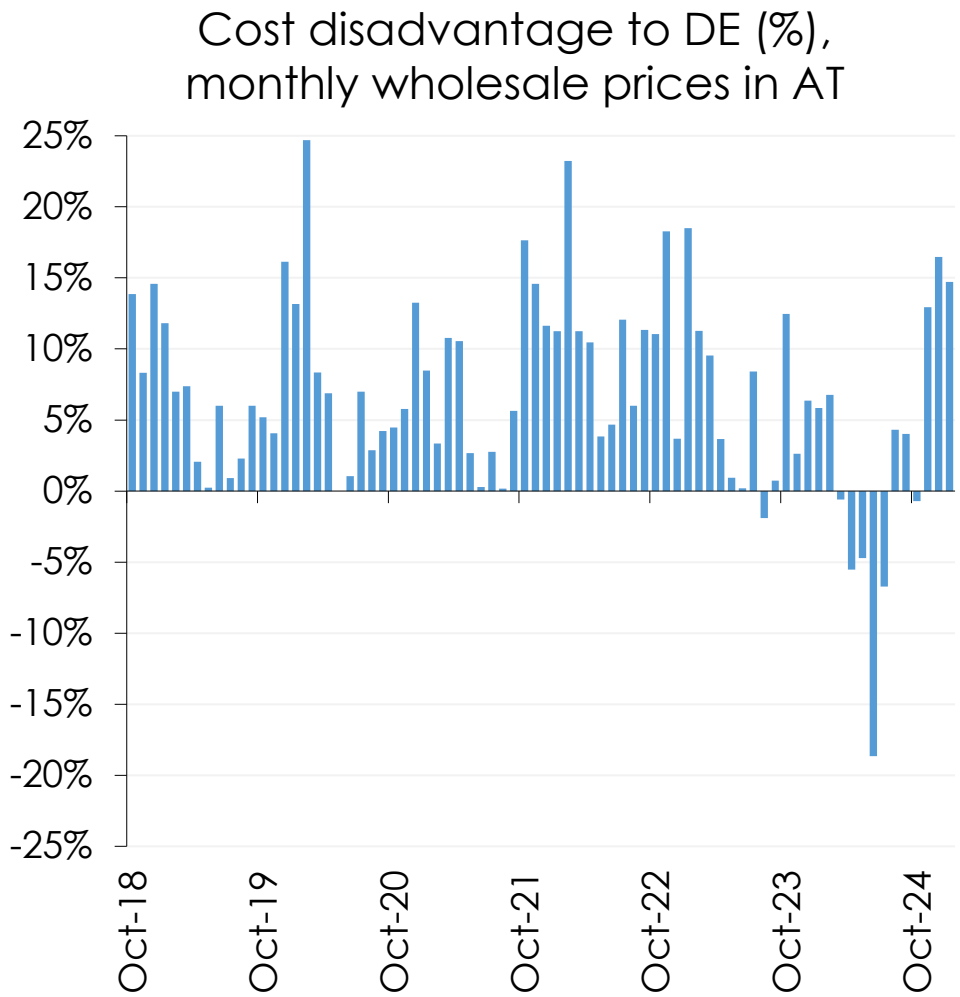
No Single Market for Electricity, Bad for Austria





S: APG, ENTSOE and won calculations.

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Pan-European Infrastructure: Worth a Big Push

- EU needs a major infrastructure investment effort: Pan-European road/rail/electricity/gas/data-networks
- Networks have the character of European public goods – subsidiarity implies a central role for EU institutions
- We argue that this involves a financing capacity as well including common EU-wide borrowing
- Several macroeconomic advantages: efficiency gains from internalization of externalities, more automatic stabilization, fiscal relief at MS-level, improved cohesion, …

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