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Fewer barriers in the EU single market could increase Danish welfare

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The Danish economy has benefited significantly from the EU single market, but considerable potential remains. Despite progress in trade integration, many barriers persist. Model calculations show that reducing internal trade barriers within the EU could substantially increase Danish welfare – and, in some cases, mitigate the negative consequences of global fragmentation. A better-functioning single market could therefore be a key element in securing future growth and stability for the Danish economy.

The EU single market has been a major driver of the Danish economy

As a small, open economy, Denmark has benefited greatly from the single market since its inception in 1993. Economic integration within the EU has deepened considerably and internal trade has increased significantly. Currently, around 42 per cent of Danish exports of goods and services go to other member states, making the single market Denmark's most important trading area.

The single market still faces many internal trade barriers

Over decades, the EU has strengthened integration through common rules and standards. However, trade barriers remain, particularly in the form of national requirements, which impose costs on companies, for example when exporting to different member states. These frictions prevent the full potential of the single market from being realised and result in the EU functioning less as a single economic entity than it could.

Further integration within the EU could increase welfare and resilience in the Danish economy

Model calculations indicate that reducing internal trade barriers in the EU could contribute to higher welfare in Denmark as well as mitigate the effects of global trade fragmentation, including higher US tariffs on EU exports. The gains from lower barriers are estimated to be greater for Denmark than for the EU as a whole, reflecting Denmark's high degree of trade integration.

Why is this important?

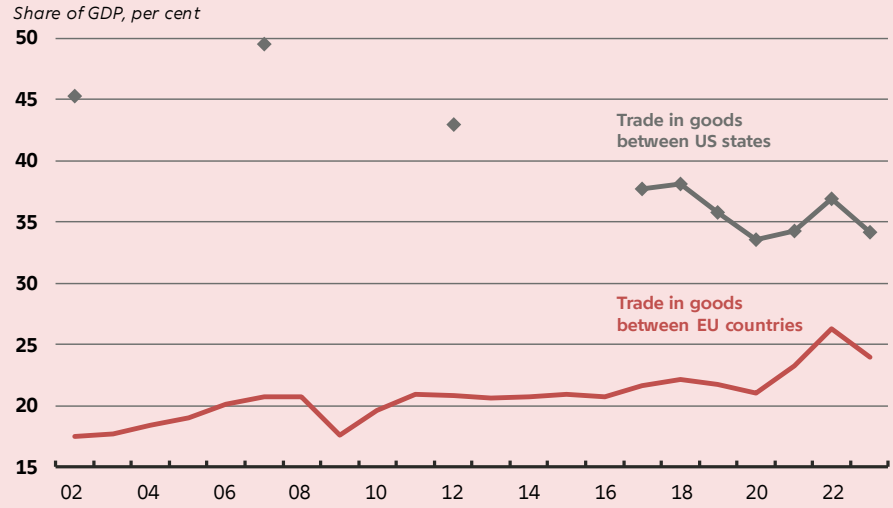
The EU is Denmark's largest export market. In a time of geopolitical tensions and trade policy uncertainty, the single market is therefore an important source of stability and growth. Further integration could increase trade and welfare, as well as help mitigate the negative consequences of fragmentation in global trade. It is therefore crucial for Danmarks Nationalbank to understand the extent of internal trade barriers in the EU and the effects of deeper integration in the single market in order to support a robust Danish economy and ensure stable prices.

Europe faces a choice between exit, paralysis, or integration.

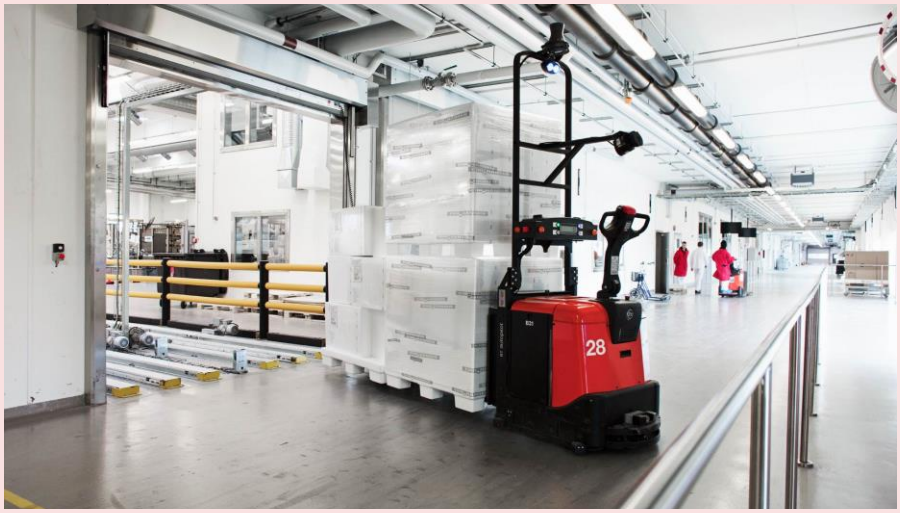
— Mario Draghi,
Former President of the
European Central Bank, ECB

Main chart

There is potential for more trade between EU countries



Note: Before 2017, data for the US is only available for the years 2002, 2007 and 2012. The data covers 27 EU countries and 50 US states, as well as the federal district of Washington D.C.
Source: Eurostat, US Freight Analysis Framework and own calculations.



Keywords

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01

The EU single market is key for the Danish economy

Since its formal establishment in 1993, the EU single market has been a driver behind economic integration in Europe. The Customs Union of 1968 eliminated tariffs between member states, and since then, technical trade barriers have been gradually reduced through common standards and regulations. The free movement of goods, labour, services and capital has contributed to creating a common economic area that has promoted growth across member states.[1]

Several analyses indicate that Denmark, as a small, open economy, has particularly benefited from the single market.[2] Access to a significantly larger market of over 450 million consumers has strengthened exports, increased competitiveness and created growth and jobs in Denmark.

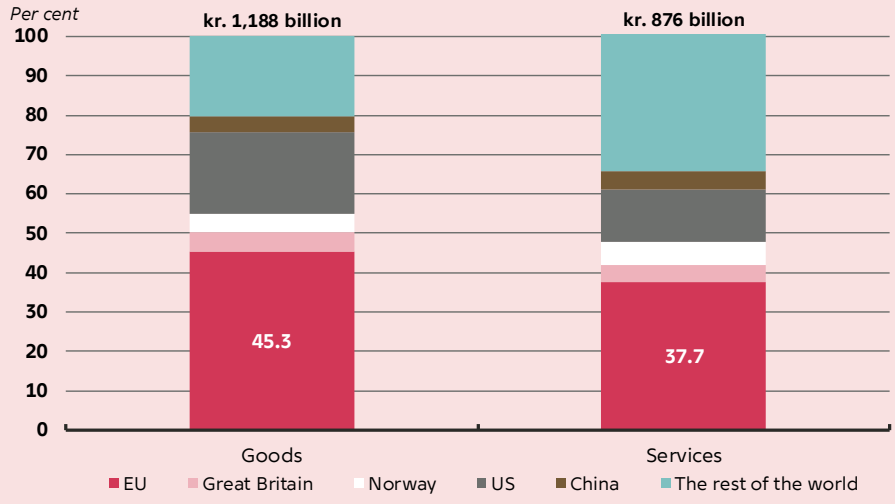
In 2024, Danish companies exported goods and services to the single market worth kr. 869 billion, corresponding to approximately 42 per cent of total Danish exports.[3] This makes the EU Denmark's largest export market. Around 45 per cent of total Danish exports of goods and almost 38 per cent of total exports of services went to the EU that year, see chart 1.

Denmark is among the member states that have benefited most from the single market.

CHART 1

The EU is Denmark's most important export market

Danish exports by country/region



Source: Statistics Denmark and own calculations.

[1] See the EU website on the single market, (*link*). This analysis focuses on the single market for goods and services and does not include capital and labour.
[2] See Freeman et al. (2022), Mion and Ponattu (2019), European Parliament (2019) and in 't Veld (2019).
[3] See data from Statistics Denmark.

The single market has also contributed to a significant increase in EU's overall GDP. In 2018, the European Commission estimated that the economic gain of the single market corresponds to almost 9 per cent of the EU's GDP. Other empirical studies suggest gains in the range of 3-20 per cent of the EU's GDP, depending on the calculation method and assumptions.[4]

There are signs that economic integration in the EU has strengthened since the establishment of the single market. EU countries are increasingly trading with each other rather than within their own economies. Trade in goods between EU countries has increased from 20 per cent of total domestic trade in goods in 1995 to over 30 per cent in 2020, see chart 2.[5] The increase may partly reflect fewer barriers between countries, while EU enlargements have also contributed to greater exploitation of comparative advantages among countries with different economic structures.[6]

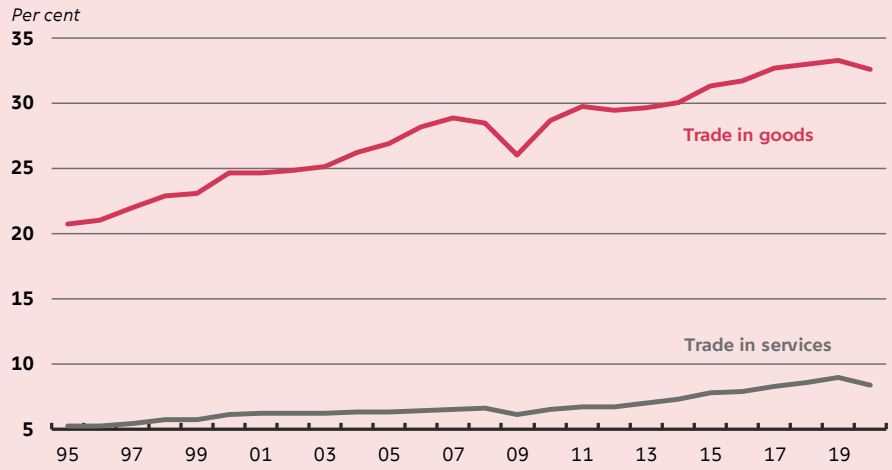
However, this trend has been less pronounced for services. Cross-border trade in services accounts for just under 10 per cent of total domestic trade in services, see chart 2. To some extent, it is to be expected that services are less traded across borders as they often require a physical presence. But it may also reflect that barriers in the single market for services have largely remained unchanged over a number of years.[7]

The single market has increased internal trade in goods and contributed to a significant increase in the EU's GDP.

CHART 2

Trade between EU countries has increased significantly relative to domestic trade, especially for goods

Trade between EU countries relative to trade within each country



Note: It is possible to break down total economic activity into detailed flows between sectors and geographical units in input-output databases. This allows for a comparison of the scale of cross-border trade with the economic activity that takes place within a country.
Source: OECD Inter-Country Input-Output Tables and own calculations.

[4] See Durá and Pasimeni (2025), Lehtimäki and Sondermann (2020), in 't Veld (2019), European Commission (2018) and Badinger (2005).
[5] The ratio of trade between EU countries to total domestic trade can be calculated using input-output data. Trade within a country's own borders is typically not affected by cross-border barriers and can therefore serve as a reference when analysing EU integration.
[6] See Beyer et al. (2025) and Pasimeni (2024).
[7] 60 per cent of reported barriers in the services sector remained unchanged from 2002 to 2020, see European Commission (2022).

02

Trade in the EU is still limited by sizable barriers

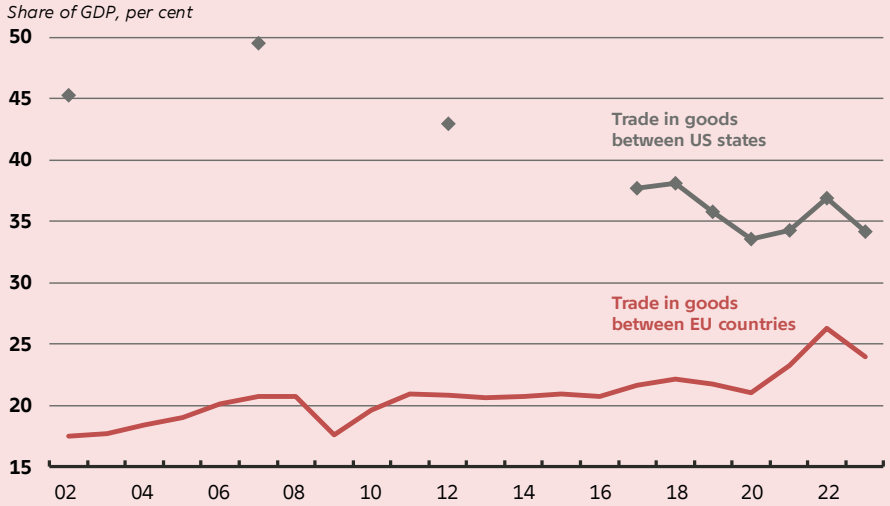
Despite significant progress, the EU single market still does not function as a fully integrated economic entity. This is particularly clear when comparing trade between EU countries with that between states in the US.[8] In 2023, trade in goods within the EU accounted for around 25 per cent of total GDP, compared with 35 per cent in the US, see chart 3. This indicates that economic activity in the EU is more nationally oriented compared to the American states.

However, the difference in internal trade in goods as a share of GDP between the EU and the US has narrowed in recent years. In the EU, internal trade has grown faster than GDP, reflecting, among other things, a more open economy. In the US, on the other hand, the share has decreased, partly as a result of a structural shift where services account for an increasing share of the economy. Despite this convergence, the gap remains significant and points to a potential for strengthening trade in the EU.

The EU single market is less economically integrated than the US states.

CHART 3

Trade in goods between EU countries is still well below the corresponding level of trade between US states



Note: Before 2017, data for the US is only available for the years 2002, 2007 and 2012. The data covers 27 EU countries and 50 US states, as well as the federal district of Washington D.C.
Source: Eurostat, US Freight Analysis Framework and own calculations.

[8] The EU is often compared to the US, as both represent large economies with a common market. However, it is not realistic to expect the EU to achieve the same level of integration as the US, where states have more uniform regulations. The EU is made up of sovereign nations with variations in politics, culture and consumer preferences, which can limit opportunities for internal trade compared to the US. See Rodríguez-Aguilera de Prat (2020).

Trade barriers in the EU can be quantified by comparing internal and cross-border trade with a structural gravity model

The difference in the degree of economic integration between the EU and the US indicates that there are invisible barriers to trade within the EU that can hamper the functioning of the single market, even though tariffs and formal restrictions have been largely eliminated. Barriers can take the form of technical standards, national provisions or administrative requirements that make it more difficult to trade across borders. Many of them do not reflect resistance to trade, but rather national preferences and political considerations, such as food safety, health or the environment.

To illustrate the extent of hidden barriers between EU countries, a structural gravity model is applied. Data shows that all EU countries trade far more with themselves than with other EU countries, see chart 2. However, this may reflect factors such as geographical distance, shared language and country-specific characteristics. The gravity model makes it possible to control for such factors and estimate the part of the difference that is solely due to cross-border trade.[9] Although the model accounts for language differences and therefore does not include language in the estimation of implicit trade barriers, language can still pose a practical challenge to integration in the EU, where linguistic diversity is significantly higher than, for example, in the US. See box 1 for a more detailed description of the model and the data used.

BOX 1

A structural gravity model is used to illustrate trade barriers between EU countries at the sector level

The gravity model is one of the most commonly applied tools in empirical trade theory and is widely used to analyse trading patterns. It is based on the empirical observation that trade between two countries typically increases with their economic size and decreases with frictions such as distance and linguistic, cultural and institutional differences. Furthermore, a structural gravity model captures that a country's trade with a partner depends not only on bilateral relations but also on its access to alternative trading partners.[1]

The key parameter in the model for this analysis is *the border effect*, which measures the extent to which economic agents trade more with partners within the same country than with comparable partners abroad, after controlling for factors such as language and distance.[2] The border effect can thus be seen as a measure of implicit trade barriers, such as differences in technical standards, administrative requirements or regulations that are not necessarily apparent in formal trade agreements. It is converted into *ad valorem equivalent* trade barriers, which express trade costs as a percentage of the value of the goods and can be interpreted as the tariff that would generate the same effect on trade. The conversion is based on sector-specific trade elasticities from the existing literature, allowing for an assessment of the economic impact of these barriers across sectors.[3]

The analysis applies the model to OECD Inter-Country Input-Output (ICIO) data, which covers domestic and international trade flows in the EU across 45 sectors. Data on distance and language is taken from the CEPII gravity database.[4]

[1] The literature on border effect was founded by McCallum (1995) and later further developed by Anderson and van Wincoop (2003).
[2] The gravity model does not explicitly account for currency differences within the EU. This can affect the results as, according to the literature, currency differences can reduce trade and act as an implicit trade barrier. See Gunnella et al. (2021) for a discussion on the impact of the euro on trade in the EU.
[3] See Fontagné et al. (2022), Caliendo and Parro (2015), Ossa (2015), Broda and Weinstein (2006).
[4] See Conte et al. (2022).

[9] The model recognises that country-specific characteristics can change over time, such as GDP growth and productivity development, which affect value of trade and a country's role as a trading partner. But separating the effect of language from national borders is difficult, as they largely coincide in the EU.

Model calculations indicate that significant trade barriers persist between EU countries

Calculations based on the structural gravity model indicate that there are still considerable costs associated with trade between EU countries, both for goods and services. In 2020, the estimated trade barriers for goods corresponded on average to a tariff rate of around 50 per cent, see chart 4.[10] These model results can be interpreted as reflecting barriers that limit trade between EU countries beyond factors such as distance or language differences.

For services, the estimated trade costs are remarkably higher and correspond to an average tariff rate of almost 110 per cent when excluding public services such as administration, defence and health care that are not traded across borders, see chart 5. This indicates that the single market for services remains less integrated than that for goods. However, the average figures for both areas mask substantial variation across sectors.

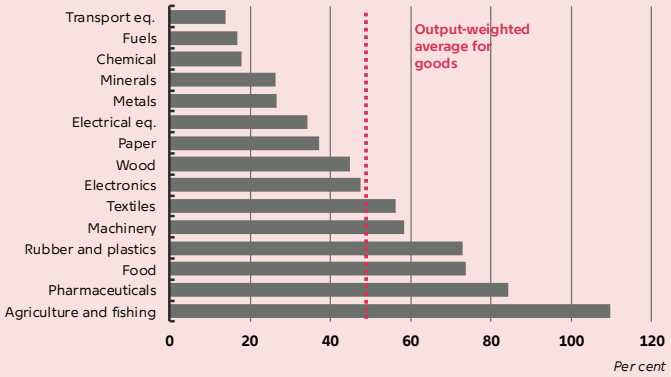
The calculated barriers are identical across countries within the same sector as a result of the specification of the model. The results should therefore be interpreted as an average level of sector-specific barriers in the single market. In practice, however, the actual barriers can vary between companies and countries, depending on administrative practices and implementation of EU regulations.

According to the model calculations, there are still considerable barriers to trade in goods and services in the single market.

CHART 4

Model-based estimates suggest that trade costs for goods between EU countries remain significant

Estimated trade barriers for goods trade between EU countries in 2020



Note: The estimates are based on coefficients for a dummy variable that captures trade between EU countries. The estimates are converted into *ad valorem equivalent* trade barriers using sector-specific trade elasticities that correspond to the median value of estimates from the existing literature. The dotted line indicates an output-weighted average for all products.
Source: OECD Inter-Country Input-Output Tables, Conte et al. (2022), Fontagné et al. (2022), Caliendo and Parro (2015), Ossa (2015), Broda and Weinstein (2006) and own calculations.

CHART 5

Model calculations indicate even higher trade costs for services between EU countries

Estimated trade barriers for services trade between EU countries in 2020

Note: The estimates are based on coefficients for a dummy variable that captures trade between EU countries. The estimates are converted to *ad valorem equivalent* trade barriers using sector-specific trade elasticities from Fontagné et al. (2022). The dotted line indicates the output-weighted average for all services. Services in public administration, defence, and health and social services are excluded, as these are typically not included in cross-border trade.
Source: OECD Inter-Country Input-Output Tables, Conte et al. (2022), Fontagné et al. (2022) and own calculations.

[10] An *ad valorem equivalent* tariff is a way of expressing trade costs as a percentage of the value of the goods and is often used to quantify barriers in international trade, see Adilbish et al. (2025). It can be interpreted as the tariff rate that would generate the same effect on trade.

The model calculations are sensitive to the size of trade elasticities, but in line with international studies

The model results should be interpreted with caution as several methodological factors may affect the estimates. The estimated trade barriers reflect the difference between cross-border and domestic trade that cannot be explained by language differences, distance or country-specific characteristics. These may include regulatory requirements and national provisions, but also cultural preferences and differences in production and distribution structures across countries. They should therefore be regarded as an upper bound of the trade barriers that could be reduced through political action.

The model calculations are sensitive to assumptions about trade elasticities, which vary considerably across empirical studies due to differences in data sources, estimation methods, time periods and the degree of sector disaggregation.[11] The choice of sector-specific elasticities has a significant impact on the model results, which can vary substantially, see chart 6.

Similarly, the underlying data can also influence the results. Model calculations based on aggregated trade data may overlook important sectoral variations and thus underestimate the extent of trade barriers.[12] This analysis uses sector-specific data, and the results are in line with comparable studies, see chart 7.

The variation in the estimated trade barriers across goods and services sectors are consistent with the literature. Several studies find that the highest internal trade barriers for goods are found in agriculture and food, while barriers for services are highest in the construction sector and lowest in industries such as retail, wholesale and transport.[13]

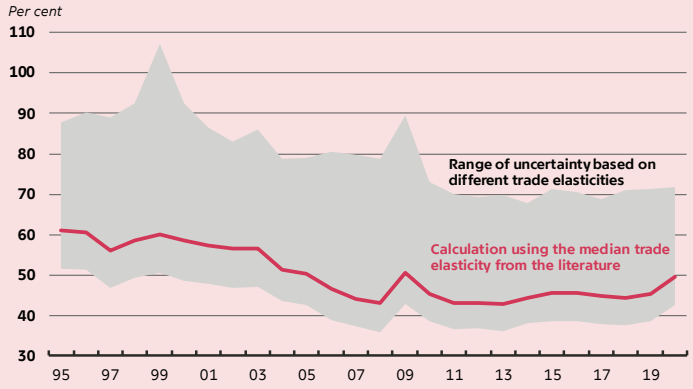
The barriers in the model do not solely reflect obstacles in final consumer sale, as the calculations also include transactions at various stages of the production chain. In addition, input-output tables classify trade by economic function rather than by product characteristics, meaning that activities related to the same product may appear across multiple sectors. For example, pharmaceuticals exported directly by manufacturers are typically recorded under manufacturing, while parallel trade via wholesalers is recorded under wholesale. This may lead to an underestimation of actual cross-border trade in certain sectors, potentially resulting in higher estimated barriers. This could apply, for example, to pharmaceutical products, where estimated trade barriers may appear relatively high despite medicines being centrally authorised in the EU through the European Medicines Agency, EMA. Nevertheless, the European Commission notes that the single market for pharmaceuticals remains fragmented, as member states may still require a national marketing authorisation in addition.[14] Such requirements can prolong the overall approval process and delay market entry in individual countries – factors that can be considered trade barriers.

[11] See Ahmad et al. (2021).
[12] See Adilbish et al. (2025) and Head and Mayer (2021).
[13] see Adilbish et al. (2025), Miroudot et al. (2013) and Fontagné et al. (2011).
[14] See European Commission (2023a) and European Commission (2020c).

CHART 6

Variations in assumptions about trade elasticities can lead to substantial differences in the estimated barriers

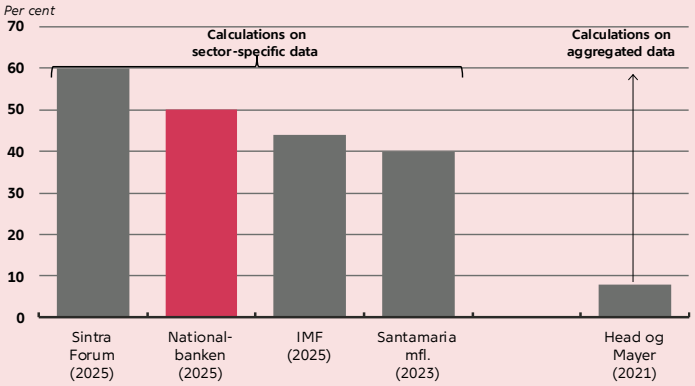
Estimated trade barriers for trade in goods between EU countries over time



Note: The reported median is based on the central value among sector-specific trade elasticities from the literature. The range of uncertainty reflects the variation in model results using the lowest and highest elasticities from the literature, respectively.
Source: OECD Inter-Country Input-Output Tables, Fontagné et al. (2022), Caliendo and Parro (2015), Ossa (2015), Broda and Weinstein (2006) and own calculations.

CHART 7

The model results are in line with the literature using a similar methodological approach



Note: Sintra Forum (2025) refers to Airaudo et al. (2025), which was presented at the ECB Forum for Central Banking in June 2025. IMF (2025) refers to Adilbish et al. (2025).
Source: Airaudo et al. (2005), Adilbish et al. (2025), Santamaria et al (2023), Head and Mayer (2021) and own calculations.

Varying implementation of EU rules is a barrier to the single market

One of the main reasons for barriers in the single market is the divergent implementation of EU rules. This applies to both goods and services. Considerable progress has been made in the integration of the goods market, where it is in principle possible to trade freely across borders. 82 per cent of products currently traded in the single market are covered by harmonised rules, while the remaining 18 per cent fall under the mutual recognition principle.[15]

Even in areas of harmonised legislation, differences in national implementation and oversight can create significant obstacles. This is especially the case when the rules are adopted as directives, as these require transposition into national law, as opposed to regulations, which are directly applicable in the member states.[16] Directives and minimum harmonisation provide opportunities for member states to impose stricter requirements than common EU standards – a practice known as *gold-plating*, which can increase complexity and create unnecessary burdens for companies. A survey conducted by the Confederation of Danish Industry in 2022 shows that 62 per cent of exporters feel that common EU rules are applied, enforced or interpreted differently across member states.[17]

In areas covered by the principle of mutual recognition, national requirements can also constitute significant barriers. These rules are typically justified on

Differences in national implementation of EU rules can be a barrier to the single market.

[15] The principle of mutual recognition means that a product or service that is legally offered in one member state can generally also be marketed in others. See European Economic and Social Committee (2022).
[16] See European Commission (2022) and European Commission (2020a).
[17] See Confederation of Danish Industry (2023).

grounds of health, safety or environmental protection and may lead to divergent national requirements, which in some cases may be mutually contradictory.[18]

Although national differences in the application and interpretation of EU rules create trade barriers, they are generally permissible under EU law and often reflect political priorities. While such measures may be well-founded and legitimate, they nevertheless contribute to the fragmentation of the single market. See box 2 for specific examples of how such barriers materialise across sectors.

BOX 2

Examples of sector-specific trade barriers in the EU single market

Trade barriers in the EU single market are most prevalent in highly regulated sectors and often stem from national requirements and differences in member states' implementation of common EU regulations. In goods sectors, this is particularly the case for agriculture and food, see chart 4.

In the agriculture and food sector, national regulations on food safety, content, storage and labelling can create significant barriers. For example, specific rules on salmonella control may result in products from one member state being subject to additional controls in another.[1]

In addition to the agricultural and food sectors, there are also a number of national requirements for the labelling and certification of industrial products. These include, for example, fire safety certificates, producer responsibility and waste sorting, which may require companies to register with multiple authorities in order to sell the same product in different countries.[2]

In the services sector, barriers are highest in construction, see chart 5. These include limited mutual recognition of qualifications and requirements for documentation of occupational health and safety and climate competences. Furthermore, differences in national procedures for building permits and access to liability insurance are often complex and time-consuming.[3]

Financial services are an example of a service industry that is primarily regulated at the EU level through directives, although regulations have been used more extensively since the financial crisis, which contributes to harmonisation. The widespread use of directives means that differences in national implementation of directives continue to hamper cross-border financial activity in the EU.[4] This is partly due to national *options and discretions* in EU legislation.[5] In areas such as consumer protection, business conduct and anti-money laundering, minimum harmonisation allows stricter national requirements, for example, to take account of specific national circumstances and risks. In addition, there are key areas that are not harmonised at all, including insolvency law and taxation, which remain nationally anchored and vary significantly across member states. It is also worth noting that trade barriers in financial services can, in practice, be higher than the estimated 100 per cent, see chart 5.[6]

Across sectors, the absence of common digital reporting systems in the EU is a general barrier. Companies often have to complete documents manually and adapt to different national formats and requirements, for example, for tax reporting, regardless of whether they trade in goods or services.[7]

[1] See European Court of Auditors (2024), EuroCommerce (2024), European Commission (2020b), Confederation of Danish Industry (2019) and European Commission page on combating salmonella, (*link*).
[2] See European Commission (2025a), European Round Table for Industry (2025) and Confederation of Danish Industry (2019).
[3] See European Round Table for Industry (2025) and European Commission (2020a).
[4] See Buch (2025), Elderson (2025) and European Commission (2023b).
[5] *Options and discretions* refer to provisions in EU legislation where member states or competent authorities can either choose whether to apply a given provision (discretions) or how to apply it among several defined alternatives (options). See ECB (2024).
[6] Input-output tables measure financial services as value added created through financial services, for example, interest income less interest expenses, fees and commissions. As the metric does not capture the underlying transactions, it may underestimate the extent of cross-border activity and thus hidden real barriers.
[7] See European Round Table for Industry (2025) and European Commission (2020b).

[18] According to the European Commission, 71 per cent of small and medium-sized enterprises that have used the existing mutual recognition system for non-harmonised goods have experienced market access refusals, see European Commission (2020a).

According to the model calculations, Danish goods exports are relatively more exposed to the high trade barriers than services exports

The specific exposure of a country's exports to the average trade barriers depends on two factors: the size of the barriers in each sector and the country's export composition. By weighting each EU country's sector-specific export shares with the estimated barriers, it appears that Denmark has a relatively high exposure in the goods sector. This is partly because a large proportion of Danish exports is concentrated in sectors such as agriculture, food and pharmaceuticals, where barriers are among the highest, see chart 8. This means that on average, Danish companies face higher trade costs when exporting goods to other EU countries.

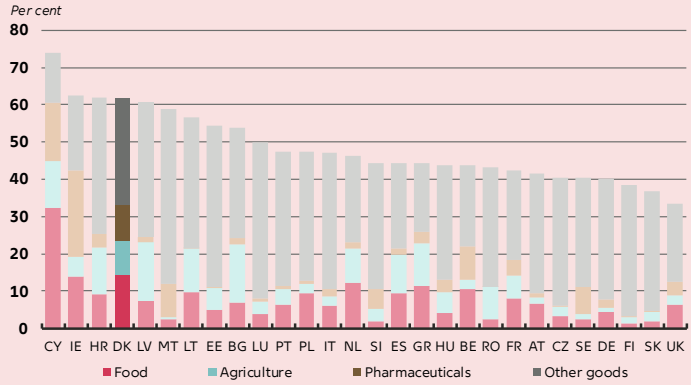
By contrast, the model calculations show that Danish service exports are among the least affected by internal barriers, see chart 9. This reflects the fact that Denmark has a relatively large share of service exports in sectors where the estimated barriers are low. For example, retail trade accounts for 23 per cent of Danish exports of services to other EU countries.[19] In comparison, retail makes up an average of 14 per cent of service exports in the EU. Shipping, which also has low barriers, also accounts for a significant share of Danish service exports.

Denmark mainly exports goods from sectors with high barriers, which may reflect strong competitiveness in these areas.

CHART 8

Danish goods exports are concentrated in sectors with high barriers in the EU single market

Effective trade barriers for exporting goods to other EU countries

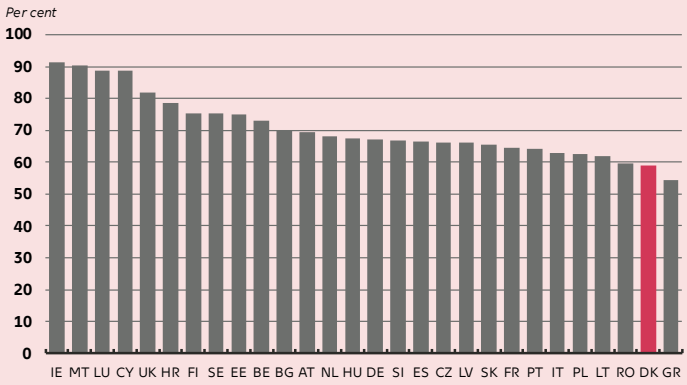


Note: The effective implicit tariffs for goods are calculated based on the estimated trade costs of goods between EU countries in 2020 and their export shares to other EU countries by sector. In the chart, the contribution from food, agriculture and pharmaceutical products is shown separately due to the high estimated costs.
Source: OECD Inter-Country Input-Output Tables and own calculations.

CHART 9

Denmark is less affected than many other EU countries by high trade barriers for trade in services within the EU

Effective trade barriers for services exports to other EU countries



Note: The effective implicit tariffs for services are calculated based on the estimated trade costs for services between EU countries in 2020 and their export shares to other EU countries by sector.
Source: OECD Inter-Country Input-Output Tables and own calculations.

However, it is important to emphasise that the high exposure in goods does not necessarily have a negative impact on Danish exports. On the contrary, it may reflect that Danish exports in these sectors are driven by large and internationally competitive companies with the capacity to manage such

[19] Danish retail and wholesale exports typically include the resale of Danish goods, such as design products, food and cosmetics, to foreign markets via physical shops, digital platforms or wholesale channels. This can also happen through franchising, licence agreements or by Danish companies producing goods sold under foreign chains' own brands (private label).

barriers.[20] For such companies, the marginal cost of trade may be lower than the sector-specific average estimated by the model. The concentration of exports in sectors with high barriers can thus also be an expression of specialisation and positions of strength.

EU internal trade barriers are higher than those in the US and Canada

It is relevant to include an international comparison to assess the magnitude of the estimated trade barriers between EU countries. The US and Canada are two obvious reference points as, like the EU, they both have a common market in which individual states and provinces have considerable autonomy, including in areas such as regulations and business legislation.[21] This makes them comparable to the EU, where member states also have national competences in a number of areas. The US and Canada also have constitutional provisions that prohibit trade barriers between states and provinces, just like the EU Treaties. However, it is important to recognise that the EU differs fundamentally from the US and Canada in that it is not a federation, which in practice can limit the ability to implement uniform regulations and rapid implementation to the same extent as in those two countries.

The US, Canada and the EU all have sizable trade frictions that cannot be explained by factors such as distance, shared language and country-specific characteristics, according to the model calculations based on the structural gravity model described in box 1. It also shows that barriers are significantly higher in the EU than in the US and Canada. In 2017, the estimated trade barriers for goods corresponded to an average tariff rate of 23 per cent in the US, 37 per cent in Canada and 45 per cent in the EU, respectively, see table 1.[22] For trade in services, the internal barriers are even higher: almost 80 per cent in Canada and almost 100 per cent in the EU.[23]

TABLE 1

Internal trade barriers in the EU are higher than those in the US and Canada

Per cent	EU 28	USA 51[1]	Canada 13
Goods	45	23	37
Services	98	-	77

[1] The average for services in the US is not calculated as there are too few service sectors in the data.

Note: The table shows output-weighted averages of trade barriers for 2017 for goods and services, respectively. Trade barriers are calculated using estimated coefficients from the gravity model, which are converted into *ad valorem equivalent* trade costs using trade elasticities corresponding to the median value of estimates from the existing literature. The data includes 28 EU countries including the UK, 50 US states and the Federal District of Washington D.C. and 13 Canadian provinces.

Source: OECD Inter-Country Input-Output Tables, US Census Bureau Commodity Flow Survey, Statistics Canada, Fontagné et al. (2022), Caliendo and Parro (2015), Ossa (2015), Broda and Weinstein (2006) and own calculations.

[20] See Hviid et al. (2025).
[21] See the US Constitution, 10th Amendment and Government of Alberta (2006). In this analysis, the term "provinces" is used as a collective term for both provinces and territories in Canada.
[22] 2017 is the latest year of data available from the US Census Bureau *(Commodity Flow Data)*. Calculated barriers in the EU were higher in 2020 (50 per cent) than in 2017 (45 per cent), which can be attributed to temporary conditions related to the Covid pandemic, including border closures, transport restrictions and supply chain disruptions.
[23] Barriers for services trade cannot be calculated for the US due to limited data.

The relatively lower barriers in Canada and the US can partly be explained by the fact that these markets have had more time to develop as integrated economic entities. The US and Canadian markets have had over 150 years to mature, while the EU single market has only existed for just over 30 years.[24]

The comparison with the US and Canada shows that internal trade frictions are not unique to the EU but are also present in other advanced economies with long-standing integration and common institutional frameworks.[25] This provides a realistic benchmark for the degree of integration in the EU. Trade barriers in the EU can probably be reduced through policy reforms and further harmonisation, but certain structural barriers, such as differences in consumer preferences and culturally driven demand, are difficult to eliminate completely. Even in a fully integrated single market where visible and invisible regulatory barriers have been removed, such conditions can still create trade frictions.

[24] Trade barriers between states and provinces were formally removed with the US Constitution's Commerce Clause (1789) and the Canadian Constitution's Section 121 (1867).
[25] Several empirical studies find significant internal barriers in the US and Canada, see, for example, Head and Mayer (2021), Alvarez et al. (2019), Andersen and van Wincoop (2003), Head and Mayer (2000) and McCallum (1995).

03
Deeper integration in the single market could increase Danish welfare

The continued fragmentation of the single market indicates unrealised economic potential in the EU. Several analyses indicate that deeper integration can improve market functioning and contribute to productivity and welfare across member states.[26] For Denmark, this would mean better access to alternative markets and value chains within the EU. Closer economic interlinkages could also increase the resilience of individual economies and strengthen the EU's overall capacity to withstand global changes.[27]

The EU single market is still evolving and reducing barriers is a time-consuming process. Integration across national institutions, legal frameworks and administrative practices is a gradual process and requires significant coordination. Moreover, it is important to note that many barriers are politically anchored and serve specific purposes, meaning that the decision to reduce them is a political matter. Nonetheless, it is relevant to shed light on the potential gains that can be achieved over time through further integration of the single market – both for the EU as a whole and specifically for Denmark.

Further integration of the single market could especially benefit small, open economies like Denmark.

A stronger single market benefits the EU and Denmark in particular

Given the importance of the single market to the Danish economy, strengthening it further is an advantage in itself. To quantify the economic benefits, scenario calculations have been carried out using a trade model developed by Baqaee and Farhi (the BF model).[28] The model is an advanced static general equilibrium model based on input-output data that describes the world economy as a network of sectors and countries connected through trade. It allows for analysis of the effects of trade policy changes on welfare and trade by taking into account direct and indirect links through global value chains.

The premise of the analysis is that high trade barriers increase costs for companies and thus lead to higher prices across borders. Conversely, reducing these barriers will lower the prices of imported goods and inputs within the EU.

Trade costs between Canadian provinces serve as a benchmark for how low internal trade barriers in the EU could potentially become, as the country's federal structure and differences between provinces in certain areas resemble conditions in the EU.[29] Calculations show that trade barriers for goods in the EU

[26] See, for example, European Commission (2025b), Draghi (2024) and Letta (2024). The Letta report estimates efficiency gains of up to EUR 700 billion by 2030 if existing rules for goods and services are applied more effectively. In May 2025, the European Commission presented a new strategy for the single market focusing on reducing fragmentation and strengthening competitiveness.
[27] See European Commission (2025a).
[28] See Branner et al. (2024) and Branner and van Deurs (2025). The model calibration for this analysis has been updated relative to Branner et al. (2024), using the Asian Development Bank Multiregional Input-Output Database from 2023 (previous data from 2019), as well as trade elasticities corresponding to the median value of estimates from the existing literature, in line with the assumptions of the structural gravity model.
[29] Canada is considered a more attainable benchmark for the EU than the US, as both the EU and Canada allow special rights or powers for individual provinces or member states. In practice, the US internal market is more integrated and characterised by greater symmetry between states. See Watts (2008) and Crowley (2004).

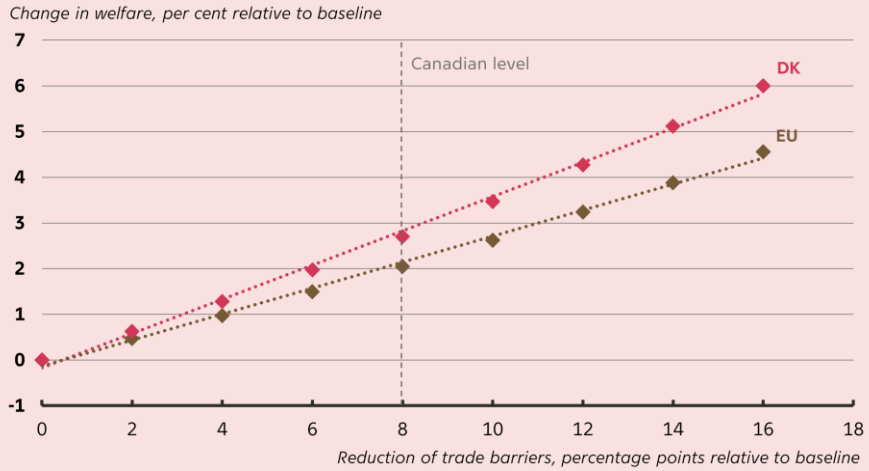
are around 8 percentage points higher than in Canada, see table 1.[30] To illustrate the impact of the degree of integration, a series of model calculations are carried out in which internal trade barriers in the EU are gradually reduced by up to 16 percentage points.[31] This provides a basis for assessing the potential gains from different degrees of further integration.

The results show that reducing trade barriers increases welfare, measured by gross national income, and that there is an approximately linear relationship between the degree of deeper integration and the rise in welfare for both Denmark and the EU as a whole, see chart 10.[32] Specifically, the model calculations indicate that a reduction in trade barriers of 1 percentage point increases welfare in Denmark by about 0.4 per cent in the long run relative to the baseline. For the EU as a whole, the effect is slightly smaller but still notable, with an increase of around 0.3 per cent. The difference reflects, in parts, Denmark's high degree of trade integration and dependence on the single market.

CHART 10

According to the model calculations, reducing trade barriers in the single market will increase welfare more in Denmark than in the EU on average

Change in welfare in long-run equilibrium from a gradual reduction of trade barriers within the EU



Note: The dots show the results of the calculations, while the dashed lines are a linear approximation based on the dots. The long-run equilibrium occurs after at least six years.
Source: Baqaee and Farhi (2024), Asian Development Bank Multiregional Input-Output Database and own calculations.

According to the model calculations, Danish welfare would increase by almost 3 per cent if internal trade barriers within the EU were reduced to a level similar to that between Canadian provinces. However, the results also show that even moderate improvements to the single market can lead to increased welfare. This

[30] Calculations are based on 2017 data.
[31] The choice of 16 percentage points is to ensure some graphical symmetry and obtain a sufficient number of data points to illustrate the correlation between the degree of integration and the increase in welfare.
[32] In this analysis, gross national income (GNI) is used as an indicator of economic welfare. Danish GNI measures the total income accruing to Danish economic players, regardless of whether it is generated in Denmark or abroad and is therefore suitable for analysing the effects on welfare in an open economy like Denmark.

emphasises the potential of initiatives that promote a better functioning single market.

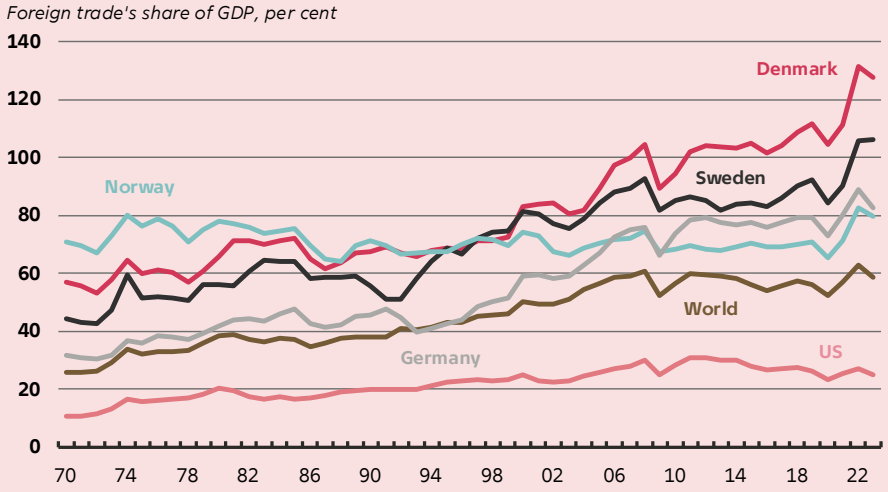
The estimated effects should be interpreted with caution, as they are based on the model calculations and do not constitute a forecast of the actual economic development. The calculations should be regarded as an indication of the expected direction and magnitude of the potential gains from lower trade barriers in the EU single market. In addition, the limitations of the model should be taken into account. It does not capture all mechanisms in the economy and does not account for certain factors, such as capital accumulation, technology and knowledge spillovers, which may influence the effects of trade changes, particularly in the long run.[33] Moreover, the model results are sensitive to the substitution and trade elasticities used.

Changes in global trade can create vulnerabilities for the Danish economy

As a small, open economy, Denmark is highly dependent on global trade. Danish foreign trade amounts for almost 130 per cent of GDP, see chart 11. This partly reflects Denmark's close integration of global value chains, with a substantial share of Danish exports consisting of goods and services that were originally imported. This structure reflects that companies have taken advantage of globalisation by specialising in parts of the value chain where they have comparative advantages.

CHART 11

The Danish economy is deeply integrated into global trade



Note: Foreign trade includes exports and imports. GDP and foreign trade are at current prices.
Source: The World Bank.

Globalisation has also supported higher productivity through efficient use of resources, economies of scale and faster diffusion of technology and innovation. Overall, globalisation has contributed to growth and welfare – globally and for Denmark.[34]

[33] For a discussion of other caveats related to the model calculations, see Branner et al. (2024) and Branner and van Deurs (2025).
[34] See Danish Chamber of Commerce (2022), DØRS (2022), Cerdeiro and Komaromi (2021) and IMF (2018).

There are growing signs that global economic integration is under pressure. In recent years, state subsidies for local production, export restrictions and tariffs have been used to an extent not seen since the 1980s. Recent US trade policy measures are part of this development, which is not driven by individual countries alone, but rather reflects a global trend.[35] The trend has prompted the International Monetary Fund, IMF, to warn that the world is entering a new reality characterised by geoeconomic fragmentation – a politically driven reversal of global economic integration.[36] This could pose challenges for small, open economies such as Denmark's.[37]

Deeper integration in the EU single market can more than offset the negative effects of US tariffs

The need to further strengthen the single market is even more relevant in a situation where global trade is marked by considerable uncertainty and new tariff measures.[38] To assess the interaction, a scenario is analysed in which the EU's single market is deepened while US tariffs on trading partners are raised.

Increased integration within the EU can not only mitigate but also offset the impact of US tariffs.

The model calculations are based on the current trade policy environment, where the US administration has introduced higher tariffs on a number of countries, including a general tariff of 15 per cent on goods from the EU.[39] In addition, the calculations account for the sector-specific tariffs on selected product groups, such as cars, steel and aluminium. Canada and China have chosen to retaliate with tariff increases of their own, while other countries have signed trade agreements that fully or partially exempt them from the new tariffs.

The total welfare effect from the model reflects two simultaneous factors: the introduction of US tariffs and further integration within the EU single market. To isolate the impact of integration, it is compared with a scenario in which EU trade barriers remain unchanged and the effect stems solely from US tariffs.

The results show that higher US tariffs alone will lead to a permanent welfare loss in both Denmark and the EU, see chart 12.[40] This is because the US is the largest trading partner outside the single market for both Denmark and the EU. Higher tariffs could reduce US demand for European goods, which may force exporters to scale back production, while others may lose competitiveness. This may cause less efficient resource allocation and lasting distortions in the value chains.

The results from the combined scenarios show that reducing trade barriers can not only mitigate the negative effects of US tariff increases, but in some cases more than offset them.[41]

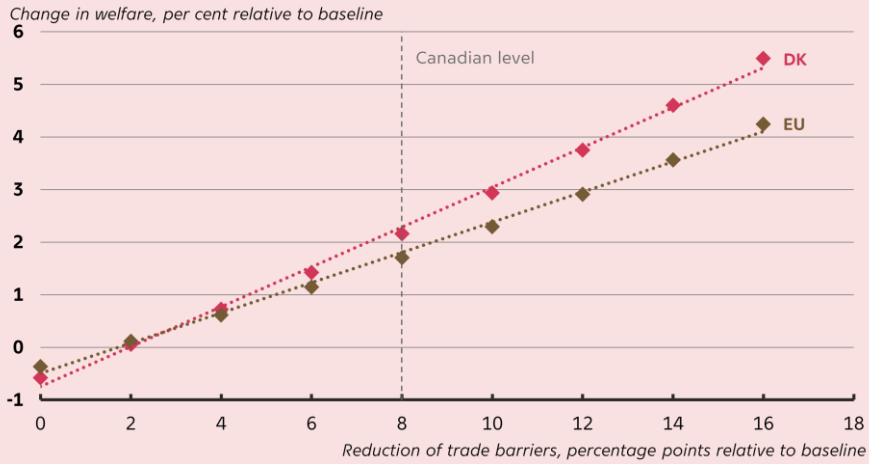
A reduction of 2 percentage points in barriers within the single market would already offset the losses for Denmark. Reducing barriers further to the Canadian level would make the combined effect for Denmark positive with a 2 per cent increase in welfare, while the EU as a whole would obtain a smaller but still significant gain, see chart 12.

[35] See Global Trade Alert, (*link*).
[36] See Georgieva (2024), Gopinath (2023) and Aiyar et al. (2023).
[37] See Branner et al. (2024).
[38] See Lagarde (2025).
[39] The model uses the tariffs in effects as of 7 August 2025, based on the official announcement of 31 July 2025, (*link*). It is assumed that China and Canada retaliate symmetrically to their country-specific tariffs. The sector-specific tariffs are not assumed to be reciprocated. In the model calculations, both goods and services are both subject to tariffs, although the actual tariffs only apply to goods. Specific product exceptions to the increased tariffs are not taken into account.
[40] The results are in line with the conclusions of previous calculations conducted prior to the implementation of specific measures. See box 4 in Danmarks Nationalbank (2025).
[41] The President of the European Central Bank (ECB), Christine Lagarde, stated that they reached the same conclusion at a hearing of the European Parliament's Committee on Economic and Monetary Affairs on 20 March 2025, (*link*).

CHART 12

Reducing trade barriers within the single market would more than offset the losses from higher US tariffs

Change in welfare in long-run equilibrium from US tariffs and a gradual reduction of trade barriers within the EU



Note: The dots show the results of the calculations, while the dashed lines are a linear approximation based on the dots. The calculations are based on tariffs in effect as of 7 August 2025, including 15 per cent on the EU, sector-specific tariffs on selected product groups as cars, steel and aluminium, and country-specific exceptions due to trade agreements. The calculations assume that both goods and services are subject to tariffs, although the actual tariffs only apply to goods, and product exemptions from tariffs are not taken into account. In addition, it is assumed that China and Canada retaliate symmetrically to their country-specific tariffs. The long-run equilibrium occurs after at least six years.

Source: Baqaee and Farhi (2024), Asian Development Bank Multiregional Input-Output Database and own calculations

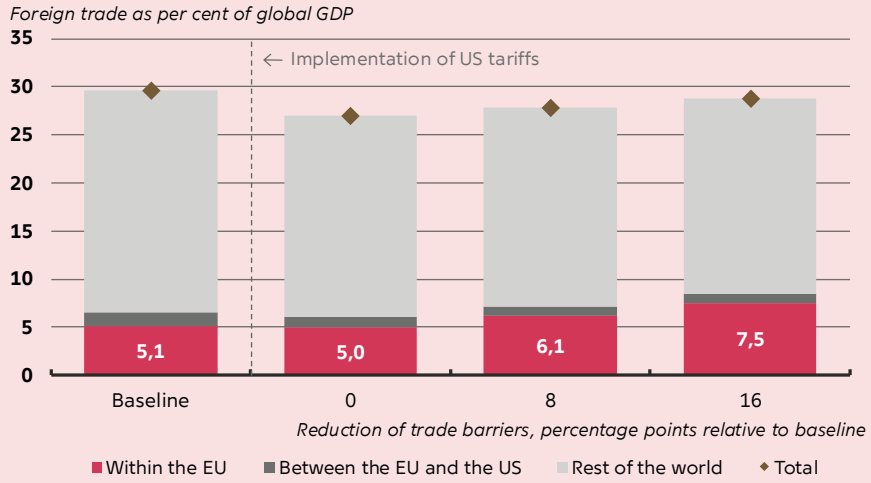
The combined effects of higher US tariffs and lower internal trade barriers in the EU would also lead to substantial shifts in global trade patterns, see chart 13. Trade between the EU and the US as a share of global GDP would decrease notably due to the introduction of US tariffs alone. In turn, reducing trade barriers within the EU would lead to a significant increase in trade within the single market. By reducing trade barriers by 8 percentage points, EU integration would more than compensate for the decline in trade with the US while further contributing to more trade within the EU.

The more internal barriers in the EU are reduced, the more trade will take place in the single market, according to the model calculations. This also means that the EU's internal trade will account for an increasing share of total global foreign trade. This reflects that the EU will function more as a single market where member states trade more with each other and act as a single player in the global economy.

CHART 13

Lower trade barriers in the single market would increase internal EU trade as a share of total world trade

Foreign trade as a share of global GDP in long-run equilibrium due to US tariffs and gradual reduction of trade barriers within the EU



Note: The calculations are based tariffs in effect as of 7 August 2025, including 15 per cent on the EU, sector-specific tariffs on selected product groups as cars, steel and aluminium, and country-specific exceptions due to trade agreements. The calculations assume that both goods and services are subject to tariffs, although the actual tariffs only apply to goods, and product exemptions from tariffs are not taken into account. In addition, it is assumed that China and Canada retaliate symmetrically to their country-specific tariffs.
The long-run equilibrium occurs after at least six years.
Source: Baqaee and Farhi (2024), Asian Development Bank Multiregional Input-Output Database and own calculations.

Deeper integration in the single market can also mitigate the negative effects of global fragmentation into trade blocs with limited mutual trade

There are signs that the global trade order is changing. Even if the current US trade policy proves to be temporary and is rolled back, it is uncertain what kind of trade tensions may arise going forward. Geopolitical considerations are already playing a growing role in trade patterns, with trade increasingly concentrated within political blocs or through connecting countries, for example, following Russia's invasion of Ukraine. Meanwhile, more countries are starting to prioritise strategic autonomy to reduce dependence on third countries in key areas such as technology, defence and security of supply.[42] It is therefore relevant to analyse a scenario with extensive geoeconomic fragmentation.

A division of the world economy into, for example, two separate trade blocs with sharply reduced trade could have substantial economic consequences. A previous analysis from Danmarks Nationalbank describes a scenario with a US-EU centred bloc and a China-Russia centred bloc, with drastically reduced trade.[43] In such a scenario, welfare in Denmark is estimated to fall permanently by up to 2.0

The more we exploit our market, the more resilient Europe is to the impact of global fragmentation and external shocks.

— Christine Lagarde, President of the European Central Bank, ECB

[42] See, for example, von der Leyen (2025).
[43] All countries in the world are assigned to one of the blocks based on their voting behaviour at UN General Assemblies from 1946 to 2015. See Branner et al. (2024) for more details.

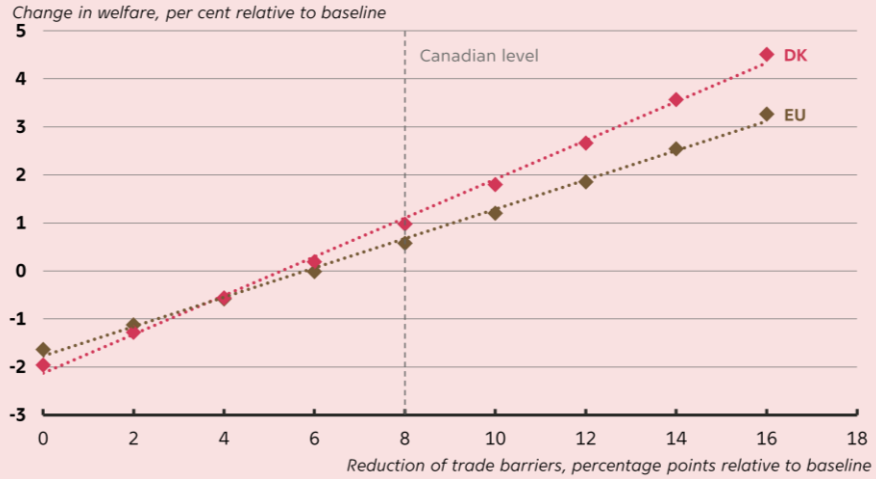
per cent, while the loss for the EU as a whole is around 1.6 per cent, see chart 14.[44]

When trade barriers within the EU are gradually reduced – in parallel with the block division – the picture changes significantly, see chart 14. Denmark moves from being among the hardest hit in the scenario without further integration to achieving a relatively larger gain than the EU average when the single market is strengthened. The combined effect of fragmentation and a stronger single market is estimated to be neutral for Denmark with a reduction in EU trade barriers of approximately 5 percentage points. If the barriers are lowered further to the Canadian level, Denmark is estimated to obtain a 1 per cent welfare gain despite the fact that a large part of the world's countries are removed as potential trading partners. This indicates that greater integration within the EU increases resilience to global disruption – even when the disruption is severe.

CHART 14

Denmark is hit relatively hard by full fragmentation but gains relatively more from EU integration

Change in welfare in long-run equilibrium from full geoeconomic fragmentation and a gradual reduction of trade barriers within the EU



Note: The dots show the results of the calculations, while the dashed lines are a linear approximation based on the dots. The calculations are based on a scenario of geoeconomic fragmentation with the countries of the world are divided into two blocks: A and B countries are placed in block A if they have voted more like the US at UN General Assemblies from 1946 to 2015. They are placed in block B if they have voted more like China. Trading can still take place within the blocs, but not between them. Long-term equilibrium occurs after at least six years.

Source: Baqaee and Farhi (2024), Asian Development Bank Multiregional Input-Output Database and own calculations.

[44] The results differ slightly from the analysis in Branner et al. (2024), as a result of the updated model calibration. See footnote 28 for further details.

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Working Papers present research work by both Danmarks Nationalbank's employees and our partners. Working Papers are primarily targeted at professionals and people with an interest in central banking research as well as economics and finance in a broader sense.

The analysis consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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