

Strengthening the European Economic Area

A geopolitical necessity

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Imprint

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As at: November 2026

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Geopolitical tensions and the economic decoupling of the US and China are hitting Germany and the EU hard as open economies. The EU is rightly responding with an economic security strategy that aims to expand partnerships worldwide while reducing strategic dependencies in a targeted manner. For Europe to hold its own as a sovereign actor in a power-based global trading order, the EU should make it a high priority to tie its neighbouring countries to the Union as closely as possible. To this end, Europe needs a new geo-economic neighbourhood policy. Tiered and reliable integration formats are needed around the EU single market. At the same time, the single market must be strengthened through comprehensive reforms in order to remove the remaining barriers to trade in goods and services.

In 2025, foreign trade with the EU's neighbourhood amounted to more than two trillion euros – more than trade with the US and China combined. This holds significant potential, for example for nearshoring and de-risking by German companies. Germany and the EU should therefore do more to promote the closest possible institutional relations with the neighbourhood in order to strengthen the resilience, sovereignty and attractiveness of the European single market, prevent trade conflicts and limit regulatory divergence.

The focus here is on the neighbouring countries in the European Economic Area (EEA), the UK, Switzerland, the candidate countries, the Mediterranean countries, the microstates and the Arctic. To this end, the EU must assert European economic interests with a united front and push ahead with more flexible formats, for example with regard to partial access to the single market. The European Economic Area and the European Political Community offer useful starting points for this. For German business, the EU's neighbouring countries are of great importance for diversifying supply chains, as supplier and sales markets, and as locations for innovation and investment. Involving the EU's neighbourhood in the green transformation, European energy infrastructure, the security and defence industry and digital sovereignty, as well as engaging these countries as partners for Global Gateway, the Industrial Accelerator Act, REsourcEU and membership of the World Trade Organization, is also of great interest to internationally active German businesses. What is crucial is that the EU strengthens the competitiveness of the single market in order to remain attractive as an economic partner for its neighbouring countries.

In detail

Strengthening the EU single market

In times of geopolitical tension, the EU single market – the home market for 26 million companies – must be strengthened in order to contribute to the Union's competitiveness in the long term. The focus that the European Commission placed in its 2025 Single Market Strategy on removing what it considers to be the ten most harmful barriers in the EU single market, the so-called 'Terrible Ten', is therefore welcome in principle.[1] After all, German business still reports disproportionate obstacles to the free movement of goods, services and capital, as well as in connection with the freedom of establishment.[2] The One Europe, One Market Roadmap of the Commission, the European Parliament and the Council shows that the Union has recognised how urgently the EU single market needs reform.[3] Decisive progress in integrating the single market is to be made as early as 2026 – for example by reducing the fragmentation in the movement of goods that has resulted from divergent packaging, labelling and waste rules. Completion of the single market for services, in particular, is still progressing slowly – despite its untapped potential.[4] To strengthen the single market, barriers that limit the growth potential of trade in services must be removed for companies operating across borders in a targeted, sector-specific manner. Coordinating support from the EU would be helpful here in order to harmonise heterogeneous national rules more closely or to apply already harmonised law more consistently. At the same time, the EU should avoid introducing restrictive regulations or undermining national protective mechanisms in the services sector that were introduced for overriding reasons in the public interest, including consumer protection and quality assurance. It is important to note that the single market can only thrive if it is consistent with an open market economy with free competition. This is incompatible with a politicisation of the market, which, however, is increasingly evident in competition and public procurement law. Market design, price controls, uniform prices and the associated official control and intervention run counter to free competition. Without the protection of competition, the single market itself is at risk.

European Economic Area (EEA)

The EEA is the closest institutional link between neighbouring states and the EU. Through the EEA, Norway, Iceland and Liechtenstein have participated in the EU single market since 1994, so that there is free movement of goods (except for agricultural and fishery products), persons, capital and services. These close relations must be strengthened, not least with regard to energy supply and research cooperation. In view of the changed geopolitical environment, Norway is of particular importance as a close partner in the areas of security, defence, critical infrastructure and the Arctic. Negotiations on improved market access for agricultural and fishery products and on the protection of geographical indications deserve support. In addition, geopolitical changes in the EEA states have created new momentum with regard to possible EU accession. German business expressly supports such aspirations in the EEA states. While current EEA members could join the EU, the EEA is an option for neighbouring states that seek closer economic relations with the EU but for which EU accession is not currently possible.

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1 https://single-market-economy.ec.europa.eu/publications/single-market-our-european-home-market-uncertain-world_en

2 DIHK survey on single market barriers https://www.dihk.de/resource/blob/115606/0fa0f8cfe1b492f0d16e7ddd2ab8feee/eu-dihk-binnenmarktumfrage-2024-data.pdf

3 https://data.consilium.europa.eu/doc/document/ST-8473-2026-INIT/en/pdf

4 European Court of Auditors, Single market for services: https://www.eca.europa.eu/de/publications/SR-2026-13

United Kingdom

Brexit remains an economic lose-lose situation for both sides of the Channel. The United Kingdom's (UK) withdrawal from the EU has also made its close trade relations with Germany more difficult: having previously been Germany's fifth most important trading partner for goods, the UK has now slipped to ninth place. Ten years after the Brexit referendum, the United Kingdom and the EU should therefore deepen their cooperation through the closest possible institutional relations in all relevant areas[5]. As long as the UK's return to the EU is not in sight, the EU and the UK should deepen their cooperation through the closest possible institutional relations in all relevant areas. German business would welcome British moves towards a customs union or accession to the European Economic Area.[6] Prime Minister Burnham recently put these options up for discussion. The negotiations on the UK joining the EU's internal electricity market, on a common sanitary and phytosanitary area and on linking the two emissions trading systems should be concluded swiftly. In addition, negotiations on an economic security agreement and on the UK rejoining the Pan-Euro-Mediterranean free trade zone (PEM) should be explored. Dynamic legal alignment in relevant areas of the single market as well as simplifications for business travel and the recognition of professional qualifications should likewise be advanced. The next EU-UK summit in 2026 provides a good opportunity to do so.

Switzerland

German business is keen to see the swift ratification of the EU-Switzerland package of agreements signed on 2 March 2026, which provides, among other things, for Switzerland rejoining Erasmus+ and joining the internal electricity market and the space agency. Furthermore, German business would welcome moves by Switzerland towards a customs union or accession to the European Economic Area. After all, the EU is Switzerland's most important trading partner, and Switzerland in turn is the EU's fourth largest. Closer institutional cooperation between the EU and Switzerland must therefore be advanced against the backdrop of the continuous development of the single market. Beyond the package of agreements, the EU-Switzerland trade agreement of 1972 should finally be modernised – including with regard to services. In addition, the easing of the flanking measures should be stepped up, for example by abolishing the advance notice period for the posting of workers, and an economic security agreement should be concluded. The Agreement on the Free Movement of Persons (AFMP) between the European Union (EU) and Switzerland has, in principle, made living and working conditions in Switzerland easier for EU citizens and has been supplemented by the mutual recognition of professional diplomas, the right to acquire real estate and the coordination of social security systems. Further institutional agreements between the EU and Switzerland should provide legal certainty through binding dispute settlement and include dynamic alignment with EU rules, so that mutual recognition can be ensured in all relevant economic sectors. Germany in particular could make an important contribution to better connecting Switzerland with the rest of Europe by stepping up its commitment to expanding the Rhine rail corridor.

[5] DIHK discussion paper 2026 https://www.dihk.de/resource/blob/177770/584d910d1a20fed9802cdc46a7016a1f/uk-eu-position-2026-data.pdf

[6] Parts of the business community are in favour of the EU actively working towards the UK rejoining the EU.

Türkiye

As an industrial location for German companies, Türkiye – despite its volatile currency situation – is a relative winner of the nearshoring trend. As long as Türkiye's accession to the EU is not in sight, the modernisation of the EU-Türkiye Customs Union (in force since 1996) is, in the view of most businesses, long overdue. The functioning of the customs union is persistently impaired by a large number of bilateral trade disputes and customs problems, for example in the area of proofs of origin. New bilateral trade agreements concluded by the EU and by Türkiye that are not negotiated jointly create imbalances in market access. At the same time, German companies are also increasingly using Türkiye as a low-cost production location in order to supply processed products to the single market free of customs duties and CBAM charges. Some voices are therefore calling for the customs union to be converted into a trade agreement in order to curb opportunities for circumvention. A modernisation of the customs union should include a binding dispute settlement mechanism that provides companies with legal certainty for trade and investment. Improved market access is of particular interest to German business in the areas of services and public procurement. The EU and Türkiye should coordinate their trade policies more closely, including with regard to economic security (export controls, sanctions, investment screening, supply chain resilience) and subsidy measures. In addition, the negotiations should reduce non-tariff barriers to trade and export restrictions and strengthen the protection of intellectual property. Against this background, Türkiye's role as an important trading partner and as a competing business location should be taken into account in the development of the Industrial Accelerator Act. Finally, the mobility of skilled workers should be facilitated and Türkiye should join the WTO's alternative dispute settlement mechanism, the MPIA.

EU accession countries

The EU is currently negotiating EU accession with Albania, North Macedonia, Moldova, Montenegro, Ukraine and Serbia. Bosnia and Herzegovina and Georgia have candidate status, and Kosovo has the status of a potential candidate. Accession negotiations with Türkiye are currently suspended. In principle, as many states as possible should be brought closer to the European single market, with quality taking precedence over speed. Business should be closely involved in decision-making during the accession negotiations so that both offensive and defensive interests are fully taken into account. In order to strengthen economic relations already now with candidate countries that are not yet able to join the EU, greater focus should be placed on the European Economic Area (EEA) and the European Political Community. A gradual accession process could also offer candidate countries the prospect of partial access to the single market and EU programmes at an early stage, once they have adopted EU law and subject to extensive monitoring. The Growth Plan for the Western Balkans should be advanced in this spirit. Efficient, digitalised and smooth entry procedures at the external borders are in the interest of German business. In view of geo-economic challenges, the candidate countries need to align their external economic policies with the EU's external economic policy orientation. This applies in particular with regard to economic security. From a business perspective, full compliance with all the Copenhagen criteria – in particular the rule of law – is essential to guarantee legal certainty for trade and investment. At the same time, comprehensive reforms of EU policies, EU institutions and the EU budget are needed within the EU before further enlargement steps, so that an enlarged EU remains economically stable and politically capable of acting. The EU should also support Serbia, Bosnia and Herzegovina and Kosovo in becoming WTO members. The candidate countries should also be supported by including them in Global Gateway. For several months, there has been a debate in Canada about joining the EU. European Commission President von der Leyen has also held out the prospect of 'associate membership'. Even though Canadian EU membership is not in sight given the country's geographical location and close ties with the US, both sides should pursue the closest possible institutional ties in all economically relevant areas.

Southern Neighbourhood

The EU should strengthen its trade relations in the Mediterranean region. The modernisation of the EU's agreements with Morocco, Tunisia and Algeria is particularly important in this respect. Bilateral market access should be expanded with regard to customs duties, but also for services and public procurement. Algeria's accession to the WTO should be supported. By fully reinstating the Cooperation Agreement with Syria, the EU can accompany the country's economic opening. In many countries in the region, German companies are faced with ever new barriers to trade. These should be removed swiftly at bilateral level in each case. The development of a common platform for the use of electronic proofs of origin and electronic means of administrative cooperation (e-PoC initiative) should be pushed forward.

Microstates and the Arctic

Andorra, Monaco and San Marino are closely linked to the single market through bilateral agreements. In 2024, negotiations on an Association Agreement between the EU and Andorra and San Marino were concluded. It provides for the participation of both countries in a homogeneous extended single market on a level playing field and in compliance with the same rules. Removing obstacles to the free movement of persons, goods and services with these countries deserves support. At the same time, the EU's financial market stability must be kept in view. All parties should ratify the agreement, and Monaco should accede to it as soon as all the necessary conditions have been met. Andorra's accession to the WTO should be supported. Greenland has been associated with the EU as an overseas territory since leaving the then European Communities in 1985 and agreed a strategic raw materials partnership with the EU in 2023. The EU has had a trade agreement with the Faroe Islands since 1997. Trade relations with both territories in this geostrategically important region should be strengthened, particularly in the raw materials and energy sectors. The implementation of the EU Arctic Strategy and the EU's accession to the Arctic Council are also important in this regard. In view of the geopolitical changes, German business supports efforts in Greenland and the Faroe Islands to establish closer economic relations with the EU.

Background

German foreign trade with European neighbouring countries, 2025
in € billion; rank = the country's ranking among Germany's trading partners worldwide

Country/region	Exports	Rank	Imports	Rank	Volume	Rank
European neighbouring countries	**233.7**	-	**179.9**	-	**413.6**	-
Switzerland	73.8	9	55.5	8	129.4	8
United Kingdom	79.9	8	38.5	12	118.4	9
Türkiye	29.4	14	25.5	15	54.9	14
Norway	10.8	29	26.6	14	37.3	20
Ukraine	9.3	33	3.1	51	12.4	39
Serbia	4.8	48	5.4	37	10.1	42
Israel	5.6	44	3.1	50	8.7	47
Morocco	3.9	50	3.5	46	7.4	50
Egypt	4.4	49	1.6	62	6.0	54
Libya	0.8	80	5.2	40	6.0	55
Tunisia	2.1	59	3.3	47	5.4	57
North Macedonia	1.3	69	3.2	48	4.5	59
Algeria	2.1	58	1.4	66	3.5	64
Bosnia and Herzegovina	1.3	66	1.4	65	2.7	70
Iceland	0.91	76	0.87	77	1.78	76
Liechtenstein	0.75	82	0.87	78	1.62	78
Moldova	0.59	84	0.27	96	0.86	94
Albania	0.46	91	0.24	97	0.70	99
Lebanon	0.54	86	0.07	124	0.60	103
Kosovo	0.45	92	0.11	115	0.56	108
Montenegro	0.24	108	0.03	142	0.26	122
Syrian Arab Republic	0.06	149	0.06	126	0.12	142
San Marino	0.10	127	0.02	145	0.12	144
Faroe Islands	0.05	153	0.06	129	0.11	148
Andorra	0.08	134	0.00	169	0.09	152
Greenland	0.01	179	0.04	136	0.05	163
World	1563.8	-	1362.2		2925.9	-
EU27	873.2	-	700.2		1573.4	-
USA	147.1	1	94.4	3	241.4	2
China	81.3	6	171.1	1	252.4	1

Source: Federal Statistical Office (Destatis), DIHK

German direct investment stock in European neighbouring countries

Region	Direct investment stock in € billion	Number of firms	Number of employees in thousands
European neighbouring countries	**261**	**5,522**	**1,076**
United Kingdom	153	2,318	418
Switzerland	61	1,554	145
Türkiye	13	506	178
Norway	12	311	30
Israel	6.5	117	14
Serbia	3.6	146	63
Lebanon	1.9	9	1
Egypt	1.8	95	32
Ukraine	1.7	150	61
Morocco	1.6	98	33
Liechtenstein	1.4	15	3
Algeria	0.66	28	4
North Macedonia	0.52	32	19
Tunisia	0.51	47	53
Bosnia and Herzegovina	0.43	61	9
Moldova	0.20	15	11
Albania	0.17	15	2
Kosovo	0.17		
Libya	0.16	5	0
World	2,228	44,994	8,583
EU27	1,020	20,862	3,471
USA	529	6,173	1,042
China	127	2,589	813

Source: Deutsche Bundesbank, stocks as at 31 December 2023; data as of April 2025

Who we are:

The German Chamber of Commerce and Industry (DIHK) is the umbrella organisation of the 79 Chambers of Commerce and Industry (IHKs) in Germany. Their shared objective is to ensure the best possible conditions for successful business.

At the federal and European levels, the DIHK advocates for the interests of the entire business community vis-à-vis policymakers, government agencies, and the public. This is because several million businesses in trade, industry, and services are statutory members of a Chamber of Industry and Commerce (IHK) - ranging from newsstand owners to DAX-listed corporations. Thus, the DIHK and the IHKs serve as a platform for the diverse concerns of businesses. We consolidate these concerns through a formal, legally established process to represent the overall interests of the business community, thereby contributing to the economic policy decision-making process.

Our positions are based on the DIHK's economic and European policy positions and its adopted position papers, taking into account the comments received by the DIHK from the IHKs and their member companies up until the submission of the statement.

In addition to its national role, the DIHK coordinates a global network of more than 150 German Chambers of Commerce Abroad (AHKs), delegations and representative offices in over 90 countries, supporting German businesses worldwide.