

# Market Power Europe

While the identity of the EU may have normative and/or other characteristics, it is more importantly a relatively large single market with significant institutional capacity and competing interest groups. Given these central characteristics, the EU may be best understood as a Market Power Europe that externalises its market-related policies and regulations. This externalisation reveals an oft-overlooked way in which the EU exercises its power in the international system. Such an exercise of power, which may occur as intentional or unintentional behaviour, suggests the EU is more capable and more likely to use coercive means and tools than would be expected by other conceptualisations of the EU as a power. By scrutinising the EU's identity, official documents and sample case studies, the paper provides a more thorough understanding of what kind of power the EU is, what the EU says as a power and what the EU does as a power.

Chad Damro  
Senior Lecture of Politics and International Relations  
Co-Director, Europa Institute  
University of Edinburgh  
21 George Square  
Edinburgh EH8 9LD  
United Kingdom  
Email: Chad.Damro@ed.ac.uk

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## I. INTRODUCTION<sup>1</sup>

Since the 1970s, much scholarly attention has focused on what kind of power the EU is, what the EU says as a power, and what the EU does as a power. These ‘EU as a power’ debates have been challenging and contentious because of the unique nature of the EU as an actor in the international system. This uniqueness has led scholars to generate various competing labels for the EU as a power. For example, in his discussion of civilian power, Orbie provides a list that includes gentle power, superpower, quiet superpower and middle power (2008, 2).<sup>2</sup> Perhaps the liveliest debate in this rich literature revolves around Normative Power Europe (NPE), which attempted to move the conceptual understanding of the EU as a power beyond the dichotomy of military power and civilian power. According to NPE, “the most important factor shaping the international role of the EU is not what it does or what it says, but what it is” (Manners 2002, 252). What the EU is—a unique identity with a normative basis—makes it different from other actors in the international system. This influential formulation has led to a number of scholars agreeing that “...we may best conceive of the EU as a ‘normative power Europe’” (Manners 2002, 235).

While this is an attractive premise, NPE may overlook or downplay other important factors that contribute to what the EU is; the EU may have another identity that follows from a different basis. This paper asserts that because the EU is, at its core, a market, it may be best to conceive of the EU as a Market Power Europe (MPE). It is worth clarifying at the outset that conceptualising the EU as MPE is not intended to portray it as an exclusively neo-liberal and capitalist actor. Although MPE may seem to highlight such pro-market aspects of the EU’s identity, it also emphasises the importance of EU intervention in the market via economic and social regulations. The conceptualisation, therefore, sits comfortably with the co-existent market and social agendas of the EU. By covering both of these agendas, the conceptualisation is not intended to promote any particular normative claims about how the EU *should* act as MPE.

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<sup>2</sup> Among many others, the EU has been labelled fragmented power (Sapir 2007), realist power (Zimmermann 2007), conflicted trade power (Meunier and Nicolaïdis 2006) and transformative power (Leonard 2005).

While such an approach may be provocative, this paper develops the concept with the intent of being empirically accurate and theoretically productive. Empirically, the notion of MPE contributes to the contemporary debates over the EU as a power by focusing on the empirical context within which the EU is already often and readily recognised by other actors in the international system. The approach also incorporates the exercise of power vis-à-vis public *and* private actors and draws attention to the role of coercive measures in the exercise of power. Theoretically, the new conceptualisation reveals the most important factors and actors that account for the EU as a power and identifies avenues for generating testable hypotheses and new research. This project is, therefore, inspired by a belief that various strands of research related to the EU in international affairs have not yet fruitfully communicated with each other. While the EU as a power debates stand as a distinct contribution to our understanding of the EU in international affairs, a growing body of comparative and international political economy literature—which is used below to develop the characteristics of MPE—is typically reticent to problematise explicitly the EU as a power.

Conceptualising the EU as MPE also reflects and encourages a broader understanding of what is meant by foreign policy. While much scholarly literature still focuses on traditional security and defense policy, the EU's other policy areas have considerable external aspects and effects that are often overlooked in the study of foreign policy. Such policies (eg, foreign economic policy, foreign environmental policy) should be considered part of foreign policy proper. This study adopts Hill's definition of foreign policy: "The sum of official external relations conducted by an independent actor (usually a state) in international relations" (Hill 2003, 3). Of course, the EU is not a state, but it still fits comfortably within Hill's definition. Indeed, given the emphasis on the 'independence' required by this definition, the EU is more of a foreign policy actor in the various market-related policies associated with MPE than it is in security and defense policy, where individual member states still hold considerable authority. The conceptualisation advanced herein, therefore, provides analytical room for and encourages the exploration of various policy areas—in so far as they are linked to efforts at externalisation—that are often overlooked in traditional foreign policy analysis but still form an important part of the EU as a power in international affairs.

Conceptualising the EU as MPE requires a degree of analytical reductionism to focus on the fundamental basis of the EU's identity. The EU's identity, both historically and presently, can be understood as a market. This 'single' market provides the material existence of the EU as an MPE that externalises its market-related policies and regulations. The single market has institutional features that determine the roles of various actors and provide the EU with considerable regulatory capacity for externalising internal policies and regulations. The single market also operates as an arena in which interest contestation helps to determine the likelihood of the EU intentionally and unintentionally exercising its power in international affairs.

Recognising that at its core the EU is a market power with these three primary characteristics (material existence, institutional features, interest contestation) offers an analytical starting point for rebuilding our understanding of the EU in international affairs. Ultimately, Market Power Europe introduces empirical and theoretical advances beyond the current scholarly debates over the EU as a power and creates an opportunity for subsequent research on the fungibility of market power (ie, affect on security and defense policy) and the potential sources and export of norms.

This paper proceeds in the following manner. The next section elaborates the different bases of identity (what the EU is) upon which the conceptualisations of NPE and MPE rest. The third section develops the three characteristics of the EU's identity that provide the foundations for MPE. The fourth section discusses the variables, means and tools related to MPE as well as the role of coercion. The fifth section explores the empirical basis of MPE, focusing on EU strategies (what it says) for externalisation and identifying a sample of cases (what it does) deserving of further investigation. The final section summarises the argument and encourages further theoretical and empirical research on the EU as MPE.

## **II. BASES OF EU AS A POWER**

This paper explores a new way in which to understand the EU as a power that can and does use its market and regulatory strengths to externalise internal policies. Central to the argument is an assertion that the EU's identity provides an important basis for its power. To begin specifying the assertion, this section focuses on NPE as the most prominent scholarly contribution on the relationship between the EU's identity and its power.

### *Basis of Normative Power Europe*

The conceptualisation of NPE emerged from the debates associated with civilian power (Duchêne 1972). NPE argues that the EU has a different normative basis for its external relations than other actors. This unique normative basis or identity of the EU is the most important factor for determining the EU's role in international affairs. According to NPE, the EU's identity includes five core and four minor norms that have developed since the 1950s through a "series of declarations, treaties, policies, criteria and conditions" (Manners 2002, 242). Essentially, NPE works through ideas and opinions. By projecting these norms in various ways, the EU is able to shape the identities of non-members and change their perceptions of what is 'normal' in international relations. The various ways through which NPE projects its norms include contagion, informational diffusion, procedural diffusion, transference, overt diffusion and the cultural filter. These projection mechanisms are notable for their "relative absence of physical force in the imposition of norms" (Manners 2002, 244-245).

For NPE, the EU's identity is what the EU is—a unique actor with a unique normative basis—not what it does or says. The EU exercises its power by projecting its norms and changing the perceptions of other actors. This projection can be intentional or unintentional, but it tends to occur through persuasive efforts that can be normatively justified rather than through reliance on material incentives, coercion or physical force. This paper accepts the possibility that Manners' norms may contribute to the basis of the EU's identity. But if the EU's identity has a more prominent alternative basis—as the result of its historical development and current activity—it may be best to conceive of the EU as a different type of power that exercises its power in different ways.

### *An Alternative Basis of Power*

While normative and other bases of the EU's identity may exist, when looking at its historical development and present role in the international system, the EU seems to have an alternative basis for its identity: its large regulated market. Identifying this alternative basis helps to refocus the debate on the empirical context within which the EU is already easily and often recognised by other actors in the international system.

The EU has always been an economic experiment at market integration. Even if it may have been initiated as economic cooperation for confidence building, it has *consistently* been an economic-oriented undertaking (De Búrca 2000, 133), with varying integration forays into military and defense matters and benefiting from a security guarantee via the North Atlantic Treaty Organisation. The 1951 ECSC Treaty focused on integration of the coal and steel sectors, while the 1957 EEC Treaty broadened the experiment to market integration more broadly. Thus, the common market and the common commercial policy served as fundamental building blocks of European integration. As an economic bloc with a common external tariff, the EU's identity necessarily had an external dimension. For example, the existence of the EEC helped focus international attention on common customs unions in the 1961 GATT Dillon Round. Even during the 1970s 'Eurosclerosis', the EC was still first and foremost an experiment in economic integration, as witnessed by important ECJ decisions like *Cassis de Dijon*.

Subsequently, the 1986 Single European Act (SEA) propelled the economic integration experiment forward and helped to reaffirm and bolster this identity. According to Young, "The success of the single market programme has been such that many authors see it as a defining feature of the EU" (2006, 376). While the EU has always been a prominent economic experiment at market integration, it makes even more sense following the SEA to think of the EU's identity as a large regulated market. Indeed, the EU now considers itself an important international actor and shaper of globalisation due to the collective economic weight of its single market (Commission 2010, 2007, 2006, 2001). According to Sapir, "This way of considering the EU is new. As recently as twenty years ago, [the EU] was primarily envisaged as a regional integration experiment among a relatively small number of participating countries" (Sapir 2007, vii-viii) not necessarily an important international actor and shaper of globalisation. The EU, therefore, has evolved from being a regional economic integration experiment into the comprehensive and capable international economic power that it is today. The EU's own collective awareness of this evolution helps to underline and reinforce its identity as MPE.

Emphasising the economic nature of the EU's identity and its external implications is not entirely dissimilar from earlier conceptualisations of a capitalist superpower (Galtung 1973) or a trading state (Rosecrance 1986), which prioritised the primarily economic orientation of powerful actors. Likewise, emphasising the

economic nature of the EU's identity resembles NPE's core norm of liberty (Manners 2002, 242), which may be interpreted to include market freedom. However, unlike the previous formulations of capitalist superpower, trading state and NPE, MPE includes a prominent role for market interventions via economic and social regulation. Such market interventions act as constraints on the capitalist superpower or trading state as well as NPE's market freedom. In addition, the alternative basis for the EU's identity as MPE is built upon three important characteristics, which are introduced in the next section.

### III. THE CHARACTERISTICS OF MARKET POWER EUROPE

The alternative basis for the EU's identity as MPE is built on three interrelated and mutually-reinforcing characteristics: material existence, institutional features and interest contestation. Focusing on these characteristics advances our understanding of the EU as a power by considering the EU's position in its international environment and identifying the institutions and actors that contribute to its power. Likewise, the characteristics provide an analytical framework for theorising and empirically testing the EU's externalisation of its market-related policies and regulations.

#### *EU as Single Market*

At a base level, the European single market represents the EU's *material existence* and the most salient aspect of its presence in the international system (Allen and Smith 1990). The fundamental characteristic of the EU past and present is that it represents an effort at economic integration.

Comparative economic figures lend support to the importance of focusing on the EU's market as a basis for its identity. The EU today exists as the largest advanced industrialised market in the world. According to the Commission, the EU has become a 'key economic engine', accounting for about 30% of global GDP and 20% of global trade flows.<sup>3</sup> It is "the world's biggest trading bloc and leading destination for foreign direct investment" (Commission 2010, 7). This significant comparative economic power allows Van Rompuy to claim that the EU "has a population of half a billion men and women whom are amongst the most educated and trained in the world. Even with only 7 percent of world population we still generate

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<sup>3</sup> [http://ec.europa.eu/world/what/international\\_economic\\_issues/index\\_en.htm](http://ec.europa.eu/world/what/international_economic_issues/index_en.htm), accessed 14 July 2010.

almost 22 percent of the world's wealth. (This is compared to about 21 percent for the US, 11.5 percent for China and 4.7 percent for India.) Together, we are the first commercial power in the world, bigger than the US, China or Japan" (2010, 5).

The relative size of the EU in the global economy is, therefore, a significant factor that studies of the EU as a power should not overlook.<sup>4</sup> But how then can the EU's market size influence the externalisation of market-related policies and regulations? In terms of market size, the EU can be understood as one of the 'Great Powers' in the international system, a large single market that is capable of externalising its internal policies, in particular its regulatory standards. It exercises this power specifically through the relative size of its market. As Drezner argues, market size is important for two reasons related to the externalisation of internal regulations: 1) Market size affects the material incentives facing governments when choosing whether to coordinate regulatory standards and 2) market size affects actor perceptions over outcomes. On the issue of material incentives, "A sufficiently large internal market drastically reduces a government's incentive to switch its standards, creating a set of expectations that encourages other actors to switch their regulatory standards" (2007, 32). While this effect may occur unintentionally, it may also occur intentionally through economic coercion because market powers "can use the threat of complete or partial market closure to force recalcitrant states into switching their regulatory standards" (2007, 32). Regarding the effect on others' perceptions, market powers "by dint of their market size can alter the beliefs of other actors over the likelihood of possible outcomes. Their standards act as an attractor, causing other actors to converge to their preferences" (Drezner 2007, 32-33). Again, this effect may occur intentionally or unintentionally. The EU, therefore, by being a comparatively large market, is able to exercise its power in the international system.

### *EU as Regulatory Institution*

In addition to material existence, the conceptualisation of MPE takes into account the *institutional* features of the EU. These institutional features determine which official actors contribute to MPE and the rules under which they operate. Reflecting internal institutional developments, the EU has been referred to as a 'regulatory state' that pursues and prioritises governance through rules and

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<sup>4</sup> For general international political economy literature on the importance of market/economic power, see Newman and Posner (2010), Andrews (2006), Strange (1988).



regulations (Majone 1994, 1997). In this capacity, the EU is capable of using regulations to promote positive and negative integration. It generates a considerable amount of economic and social regulation, which can either liberalise or restrict market activity, and which can also have important external effects.

If the EU is a regulatory state, MPE must take into consideration the policymaking processes and decision-making rules for issuing regulations, which can vary depending on the market-related policies in question. When scrutinising these processes, MPE must also consider the possible roles played by different EU institutions—eg, European Commission, European Parliament, Council of Ministers and Member States, and European Court of Justice—in the regulatory process. Likewise, important roles are played by various networks of national regulators and EU-level regulatory agencies (Coen and Thatcher 2008, Keleman 2002). Given this large number of actors, the MPE conceptualisation acknowledges that the EU constitutes itself differently at different times. Analyses of MPE should, therefore, consider the ways in which variation across decision-making rules for issuing and enforcing regulations determine which of these actors contribute, at any given time, to the external dimension and efforts of the regulatory state that is the EU.

As a regulatory state, the EU is a generator of standards to which other actors may converge. As MPE, the EU's identity incorporates its various institutional qualities and also depends importantly on its institutional ability to externalise regulations. To understand the institutional ability to externalise, it is useful to look at the MPE's regulatory capacity. According to Bach and Newman, high levels of regulatory expertise, coherence and sanctioning authority are preferable for externalising regulations. *Regulatory expertise* is reflected in a “staff with sufficient training to identify areas of concern and to make policy demands on third countries. Comprehensive budgetary resources, years of experience, and a high level of professional staffing thus all demonstrate regulatory expertise” (Bach and Newman 2007, 831). *Regulatory coherence* is reflected in the extent to which “regulatory authority has been delegated to a specific regulatory body that has authority to shape and enforce market rules” (Bach and Newman 2007, 831). Without such a delegation—which may vary depending on the institutional rules in different policy areas—and when regulatory authority is dispersed, regulators' commitment to monitoring and enforcement is less credible. Under such conditions, the regulators “cannot clearly articulate the demanded [externalisation] strategy”, which gives

external actors “little incentive to adjust their domestic rules” (2007, 831-32). *Sanctioning authority* is the statutory authority to impose costs on third parties for non-compliance. Such authority is typically included in implementing legislation and again may vary across policy areas. Examples of sanctioning authority include banning market entry, imposing fines or exacting reputational costs (2007, 832), all of which may be directed at individual non-state actors (eg, firms) and imply coercion as an important part of externalisation.

Understanding the EU as a regulatory state helps to emphasise the importance of internal rules—including the decision-making rules that determine which official actors are involved—as a central characteristic of MPE. Because the EU has relatively high levels of regulatory expertise, coherence and sanctioning authority, it is capable of exercising power in the international system. The mere existence of these three institutional components of regulatory capacity may provide a foundation for unintentional externalisation, but when put into action, they clearly bolster MPE’s intentional efforts at externalisation.

#### *EU as Arena of Interest Contestation*

In addition to the preceding characteristics, an understanding of the EU as MPE takes into account the important role played by competing interest groups in the European single market. Because the EU is a regulatory institution that is open to public consultation and influence, it also serves as an arena in which various groups compete for regulation that serves their interests. This interest contestation adds a third characteristic to the EU’s identity and helps to determine the likelihood of MPE exercising power in the international system.

According to the literature on regulatory politics, regulatory outcomes can vary depending on the type of regulation being developed. One basic variation is between economic regulations, “which govern entry to and competition within particular sectors”, and social regulations, “which are aimed at addressing negative externalities (such as pollution) and information asymmetries (e.g. consumer protection)” (Young 2006, 377). A full conceptualisation of MPE should, therefore, consider both economic and social regulation.

The EU’s different types of economic and social regulations distribute costs and benefits differently throughout society and can result in different sets of incentives for different types of interest groups. The contestation among these

different interest groups helps to determine internal regulatory outcomes but also plays a role in MPE's externalisation. As with previous work on environmental and trade policy, MPE's strategy for externalising regulatory standards may be determined by the relative influence of specific interest groups (Dür 2010, Dür and DeBièvre 2007, Falkner 2007). Given the externalising nature of MPE, the role of foreign interest groups must also be incorporated into analyses of interest group contestation. This interest group contestation interacts with the institutional features noted above in so far as the EU regulatory institutions and actors become targets for interest group lobbying.

How then does interest contestation influence MPE's externalisation of market-related policies and regulations? Such contestation matters for MPE because interest groups may push for the externalisation of internal regulations. As simple observation by external actors of the internal contestation may increase the EU's unintentional MPE, when pro-externalisation interest groups begin to influence regulatory activity, it bolsters the EU's intentional MPE. The building of internal coalitions is inherently contested as groups compete with different interests vis-à-vis the internal regulation and its externalisation. This process of coalition-building is complicated further by the inclusion of foreign interest groups and private actors which may have considerably different interests vis-à-vis the externalisation of specific EU economic and social regulations.

When pro-externalisation coalitions form and become more influential than anti-externalisation coalitions, this interest-based support drives forward the EU's externalisation strategies more so (and more precisely) than its normative identity and helps to account for MPE's capability to exercise power. The contestation of coalition-building also usefully incorporates private actors into the understanding and analysis of MPE beyond that provided by NPE and other conceptualisations of the EU as a power.

The combination of these three important and interactive characteristics—relative market size, institutional features and regulatory capacity, and interest group contestation—provides the EU with the basis for its identity as MPE. Just as Manners argues that the EU has a normative basis that “predisposes it to act in a normative way” (2002, 252), so too this paper argues that the existence and interaction of these three characteristics *predisposes* the EU to act as MPE.

#### **IV. THE EXERCISE OF MARKET POWER EUROPE**

The three characteristics that determine the EU's identity and predispose it to act as MPE operate as independent variables that influence the externalisation of market-related policies and regulations. As these three independent variables increase, it can be hypothesised that so too will the dependent variable of EU externalisation increase. However, the precise relationship remains open to further theorising and empirical testing as some combinations of institutions and actors may actually reduce the likelihood of externalisation (Schelling 1960, Meunier 2005). Because these independent variables are interactive, empirical tests should also consider the extent to which the various actors and institutions can and should be analytical separated across different cases and different times.

The dependent variable of externalisation is central to MPE's exercise of power. While there is no agreement on the definition of 'externalisation', this phenomenon may be explored in two stages (DeSombre 2000). The first stage of externalisation occurs when the institutions and actors of the EU attempt to get other actors to adhere to a level of regulation similar to that in effect in the European single market or to behave in a way that generally satisfies or conforms to the EU's market-related policies and regulations.<sup>5</sup> Such externalisation can be targeted at various non-EU public and private actors, including states, international and regional organisations, and non-state actors. The second stage of externalisation requires these non-EU targets actually to adhere to said level of regulation or to behave in said way. The two-stage process, therefore, requires consideration of both attempts to externalise and actual success in doing so, analyses of which may require considerably different theoretical, empirical and methodological approaches.

The exertion of power through externalisation can be understood as primarily intentional behaviour. It is important to reiterate that the EU's efforts at externalisation are not merely happenstance; as MPE, the EU has the intention to externalise its market-related policies and regulations. While intentionality is a frequent part of externalisation, there may also be an unintentional dimension of MPE's externalisation. For example, the EU may unintentionally externalise its market-related policies and regulations simply because of the size of its internal market. A deeper consideration of the unintentional exercise of MPE, while

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<sup>5</sup> For a similar definition, see DeSombre (2000, 7).

important, is outside the scope of this study and remains for further research. Therefore, while the remainder of this study focuses on intentional behaviour, it should be noted that such an emphasis only underestimates the actual exercise of MPE.

If the EU is increasingly externalising its market-related policies and regulations, the concept of MPE must also include an understanding of the means and tools through which this power is exercised. Different labels of the EU as a power tend to identify different means and tools for the EU to exercise its power in the international system. As noted above, Normative Power Europe projects its norms through contagion, informational diffusion, procedural diffusion, transference, overt diffusion and the cultural filter. The power is exercised primarily through ideas and socialisation processes, which change the perceptions of what other actors consider normal in the international system. A core difference for MPE is that material incentives play an important role in changing the behaviour of other actors. These material incentives are linked directly to the means and tools of MPE.

Regarding means, the distinction between coercion and persuasion has become an important part of discussions surrounding the EU as a power. While both coercion and persuasion imply the intentional exercise of power, coercion is not typically considered part of the soft power that is frequently associated with NPE and other conceptualisations of the EU as a power. Although NPE does not completely exclude coercive behaviour, it downplays the likelihood and importance of this type of behaviour as a central component of the power that follows from the EU's identity (Manners 2010). This paper shares NPE's assertion that there is a relative absence of physical force in the EU's exercise of power. However, it argues that by the very nature of what it is—a relatively large market with regulatory institutions and capacity and competing interest groups—the EU is likely to exercise intentionally its power via persuasive and *often* coercive means.

Before continuing the discussion of persuasion and coercion, it is worthwhile considering what is meant by the terms. Smith provides a useful distinction: “Coercion involves threatening or inflicting ‘punishment’, as in the use of sanctions; persuasion entails cooperating with third countries to try to induce desired internal or external policy changes” (2003, 22). That said, it is difficult to differentiate between coercion and persuasion because individual actions can often include both coercive and persuasive elements. Likewise, a target may feel coerced even when the action is

intended to be persuasive. Given the problematic task of differentiating persuasion from coercion, this paper simplifies the two concepts as positive and negative conditionality (both of which are intentional) and focuses on the *tools* of MPE.<sup>6</sup> By initially focusing on the tools available, investigations of the EU’s intentions and others’ perceptions of such actions are left to subsequent research in order to pinpoint the extent to which MPE is actually using persuasive or coercive means.

Of course, the EU can exercise a variety of restrictive measures and diplomatic tools of CFSP—such as diplomatic sanctions, boycotts of sport or cultural events, arms embargoes, freezing of funds or economic resources, restrictions on admission—in addition to measures of positive and negative conditionality. These restrictive measures and diplomatic tools of CFSP are not the tools typically employed by MPE as they are typically not the tools used to externalise market-related policies and regulations. Rather, positive and negative conditionality are more clearly associated with MPE’s externalisation (Figure 1). These measures tend to fall under the former-Pillar 1 policies and, compared to the restrictive measures and diplomatic tools of CFSP, are more often directed at the externalisation of market-related policies and regulations.

**Figure 1: Positive and Negative EU Measures**

<b>Positive Measures</b>	<b>Negative Measures</b>
Conclusion of trade agreement	Embargo (ban on exports)
Conclusion of cooperation agreement	Boycott (ban on imports)
Conclusion of association agreement	Delaying conclusion of agreements
Tariff reduction	Suspending or denouncing agreements
Quota increase	Tariff increase
Granting inclusion in the GSP	Quota decrease
Providing aid	Withdrawing GSP
Extending loans	Reducing or suspending aid
	Delaying granting of successive loan tranches

Source: Smith (2003, 60).

<sup>6</sup> According to Smith, “Positive conditionality entails promising benefit(s) to a state if it fulfils the conditions; negative conditionality involves reducing, suspending, or terminating those benefits if the state in question violates the conditions” (2003, 57).

Although a useful starting point, these lists represent primarily formal governmental actions that do not tend to include EU tools directed at non-state actors, such as individual firms. Following from the idea of externalisation advanced in this paper, the EU's intentional actions are not directed exclusively at states. Externalisation also includes regulatory standards which foreign firms must follow if they wish to operate in the European single market. Failing to abide by these regulatory standards may lead to punishment (ie, coercion) via the implementing regulations of MPE's sanctioning authority. Here arises another difference from NPE and other conceptualisations of the EU as a power, which do not tend to focus on EU tools that are based largely in internal regulations and directed at non-state actors. It is through the potentially coercive externalisation of regulatory standards (via positive and negative conditionality and internal regulatory measures) on both other states *and* non-state actors—eg, international and regional organisations and private actors—that the EU exercises MPE.

## **V. THE EVIDENCE OF MARKET POWER EUROPE**

Analysing the EU as MPE immediately raises an empirical predicament: there is too much evidence supporting the conceptualisation. Given the abundance of data, this paper cannot undertake a comprehensive and systematic empirical testing of the relationships introduced above. Rather, the paper employs two ways in which to organise evidence of the EU increasing its efforts to externalise market-related policies and regulations. First, the paper investigates *what the EU says*—the extent to which the EU itself elaborates strategies for acting as MPE. By looking at the strategies presented in official documents, the analysis is again likely to reveal evidence of only intentionality and, therefore, underestimate any unintentional impact of MPE. Second, the paper investigates *what the EU does* by considering initial case study evidence from official documents and briefly exploring the EU's exercise of MPE in trade policy.

### *What the EU Says—Strategies for MPE*

Scrutinising EU documents and communications is instructive because they are the result of public consultation, in which not only the official actors of the EU have input, but also various interest groups submit comments. While not legally

binding rules, the documents investigated herein are indicative of what the EU says about the exercise of its power because they detail the broad strategies to be pursued. How the EU implements its strategies (what it does) is a separate issue.

In 2001 and 2006, the EU issued strategies that began to reflect an awareness of MPE. The 2001 contribution to establishing the EU's externalisation agenda came in the form of a working group report on 'Strengthening Europe's Contributions to World Governance' that "analyses governance beyond the EU's borders with an emphasis primarily on First Pillar themes" (2001, 3). This report presented the EU as an active advocate of global governance and international policy convergence in the market-related areas associated with MPE. In 2006, the Commission released its communication on 'Global Europe—Competing in the World', which focused heavily on the EU's external trade agenda, especially in relation to the EU's market-related policies. The document contains a section on 'opening markets abroad', which identifies priorities such as non-tariff barriers, access to resources, and new areas of growth (intellectual property, services, investment, public procurement and competition). Conforming to the logic of MPE, the document asserts that "The greater the consistency in rules and practices with our main partners, the better for EU business. We must play a leading role in sharing best practice and developing global rules and standards" (Commission 2006, 7).

In 2007, the EU more clearly indicated its role as MPE with the release of its Single Market Review entitled 'A Single Market for 21st Century Europe'. In the review, the EU argues that it is "being looked upon as the global standard-setter" (2007a, 7). The EU's strategy was based on three pillars, which reflect the general logic of MPE and point to the need to pursue externalisation of economic and social regulations: 1) expanding the competitive space for European firms, 2) expanding the regulatory space of the single market, and 3) actively ensuring that European citizens enjoy better safety, health and environmental standards, lower prices and greater choice.

The Single Market Review was accompanied by a Commission Staff Working Document on 'The External Dimension of the Single Market Review', which provides further evidence of the EU's capacity and intentional strategy to act as MPE. The document asserts that the European single market is "an asset to strengthen the position of the EU economy in the world" (2007b, 5). Regarding the EU's market size, the document notes that "the rapid expansion of the EU to 27 Member States



with a total of almost half a billion consumers has turned Europe into the world's biggest import market" (2007b, 6). This large import market clearly supports the conceptualisation of MPE, with the document clarifying ways in which its size influences other actors: "for many companies around the world, complying with EU rules has become both a prerequisite and an asset to access key markets. Many global companies that produce goods for the EU market will also apply the EU's standards elsewhere as they can assume that in many instances their products will then be accepted more easily in view of the resulting high quality" (2007b, 6). While an apparently unintentional side-effect of the large market, the EU can use this incentive as an important intentional component of its externalisation strategy.

Regarding the EU's regulatory coherence and sanctioning authority, the European single market has led to "the creation of a modern and innovative regulatory and supervisory framework in many areas... These new internal market rules are often more ambitious than those of other jurisdictions" (2007b, 5). Regarding regulatory expertise, the document asserts that the EU "has gathered much experience on how to best cope with differing regulations and draw on the best features of different regulatory traditions: this gives European regulators an edge when dealing with international standards – another advantage being the availability of the EU framework in many different languages" (2007b, 6). Finally, regarding interest contestation, the Single Market Review and the accompanying Commission Staff Working Document frequently emphasise the need for the European single market to be responsive to and create opportunities for citizens and to empower consumers and SMEs. Thus, citizens, consumers, SMEs and, of course, other larger economic actors all contest their respective interests within this 'responsive' European single market process.

The EU also identifies a number of ways forward, which reflect its objectives as MPE. For example, the document highlights the need to "expand the regulatory space" by "promoting, globally and with like-minded countries, supervisory and regulatory convergence and equivalence, in line with EU rules" (2007b, 9). Such efforts to expand the regulatory space help to increase the EU's regulatory expertise and clearly reveal the EU's desire to externalise its regulations. The EU also strongly asserts its desire to continue to play a "leading role" in international rule-making bodies by "pushing for the adoption of high quality standards and putting these in place as early movers to provide a competitive edge" (2007b, 11). Such efforts to

push standards as an early mover in order to obtain a competitive edge support the claim that MPE intentionally strives to externalise its regulations.

In 2010, the Commission issued its next significant strategy for the exercise of MPE over the next decade: ‘Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth’. Demonstrating ambitious intentionality, the strategy argues that “the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal” (2010, 21). The EU also notes the importance of exercising its power both multilaterally and bilaterally: “Acting within the WTO and bilaterally in order to secure better market access for EU business, including SMEs, and a level playing field vis-à-vis our external competitors should be a key goal” (2010, 21). A “critical objective” for the EU will be to “build strategic relationships” to promote regulatory cooperation with emerging economies, and “The structures underpinning these relationships will need to be flexible and be politically rather than technically driven” (2010, 21).

In another section, the Europe 2020 Strategy notes the integral role of various interest groups: “The impact of these challenges will differ from sector to sector, some sectors might have to ‘reinvent’ themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) and will draw up a framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe’s primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy” (2010, 15). The EU clearly intends to solicit input from a wide variety of groups interested in the implementation of its Europe 2020 strategy. The extent to which pro-externalisation coalitions emerge among these various interests will help to determine the exercise of MPE.

These official documents—especially the 2007 Single Market Review and the Europe 2020 Strategy—provide clear evidence of an EU ambition to be MPE. In addition to indicating what the EU says as MPE, the documents also demonstrate the important role of all three characteristics of the EU’s identity for its externalisation strategies.

### *What the EU Does—Initial Sample of Case Study Evidence*

While the above documents lay out broad strategies for the EU to act as MPE, specific case study evidence reveals some success at externalising both market and social agendas. These case studies, discussed to varying degrees in the official documents, help to show what the EU does as MPE. For example, the 2007 Single Market Review identifies a number of cases in which the EU has acted as a standard-setting MPE, including product safety, food safety, environmental protection, public procurement, financial regulation and accounting. According to the Commission, EU rules in carbon emissions trading, aviation safety and chemicals are being “adopted across the world” and EU competition policy has been used to challenge “cartels, anti-competitive mergers and abuses of a dominant position affecting European consumers and businesses, regardless of the nationality of the companies concerned” (2007a, 7). The adoption of the GSM standard for mobile telephony is cited as “one of the best examples of the export of European regulatory approaches, European standards and European technology” (2007b, 6).

While a great number of other cases and policy areas provide evidence of MPE, a brief look at trade policy illustrates how the EU intentionally attempts to externalise its regulations and operates as MPE. In accordance with the first characteristic of MPE’s identity, the relative size of the single market provides the EU with considerable leverage to externalise its internal regulations. Internal regulations are the result of processes within the regulatory state, interactions among the internal institutional rules and official actors that give the EU regulatory capacity as well as contestation among competing interest groups. These various actors also help to determine whether and which internal regulations the EU will attempt to externalise.

The externalisation of internal regulations can take place if, for example, the EU attempts to include standards in bilateral and multilateral trade agreements (ie, positive conditionality). Even if the EU employs the tools of positive conditionality with the intent of persuading changes in behaviour, the third parties in question may feel they have been coerced into changing their behaviour because they have no alternative: they must agree to undesirable terms in trade agreements because they need access to the large European single market; and they must abide by the EU’s relevant internal regulations or they will be subject to sanctioning under the associated implementing legislation.

Foreign regulations can also create non-tariff barriers to trade, which the EU is able to identify as a result of its regulatory expertise and information from official and non-state actors via, for example, the Trade Barriers Regulation. Depending on the pressure exerted by these actors, the EU may bring an offending foreign non-tariff barrier before the WTO's Dispute Settlement Mechanism (ie, negative conditionality). By doing so, the EU undertakes an intentional effort at externalisation—an attempt to get the target WTO member(s) to adhere to a level of regulation similar to that in effect in the EU or to behave in a way that generally satisfies or conforms to the EU's market-related policies and regulations. Bringing a foreign regulation to the WTO's Dispute Settlement Mechanism is a clear instance of the EU using coercion to adjust the behaviour of other actors in the international trading system.

While trade policy provides an instructive illustration, analyses of MPE can include all of the EU's market-related policies and regulations, as long as they include elements—whether intentional or unintentional, positive or negative—of externalisation. The purview of MPE analyses is, therefore, extensive and may cover all aspects of market regulation, including but not limited to investigations of trade policy, competition policy, monetary and financial policy, development policy, environment policy, enlargement policy, neighbourhood policy. The extent to which the EU attempts and is successful at externalising all these policies and associated regulations likely depends on the size of the EU's market, its internal institutional rules and regulatory capacity as well as the contestation of interest groups.

## **VI. CONCLUSIONS**

Because the EU is a multi-faceted actor and identity, it may seem to act at times as Normative Power Europe. But it acts more often and is more readily recognised as Market Power Europe. This paper asserts that empirical developments and theoretical advances have brought us to the point where we should conceptualise the EU as MPE, a powerful actor that actively engages in international affairs through the externalisation of its market-related policies and regulations.

Empirically, the EU has evolved from its origins as an economic integration experiment into the world's foremost economic bloc. Especially since the SEA, the EU itself has increasingly developed strategies (what it says) and undertaken efforts (what it does) to exercise its MPE through the intentional and unintentional externalisation of its market and social agendas. The conceptualisation of MPE is not

intended to serve as a full-blown explanatory theory; rather it offers an understanding of the EU that provides essential assumptions for guiding research on the EU as a power. Previous comparative and international political economy literature helps to elaborate the most important characteristics of the EU's identity. The ways in which these characteristics influence MPE deserves further theorising and empirical work on the expected relationships—within the two-stage process of attempting to externalise and being successful at doing so—among the three independent variables and dependent variable of externalisation.

Identity is an important determinant when conceptualising the EU as a power. As with NPE, the EU's identity as MPE is what it is, instead of what it does or says. However, MPE differs from NPE by arguing that the fundamental basis of the EU's identity is not its shared principles but rather its comparatively large regulated market with its attendant regulatory capacity and interest group contestation. These three primary characteristics condition the EU's choices of when, where and how to exercise MPE. They also predispose the EU to act as MPE and make it more likely to exercise power through coercion than would be predicted by NPE or other conceptualisations of EU as a power. Similarly, MPE incorporates a variety of actors (notably non-state actors) that are not consistently considered to be analytically important in other conceptualisations of EU as a power.

Ultimately, the best way to evaluate NPE versus MPE is to determine whether the EU is more likely to influence the behaviour of others through the projection of norms or the externalisation of its market-related policies and regulations. This paper offers an initial determination that the EU is more likely to influence the behaviour of others through externalisation. While the space herein is too limited for comprehensive and systematic testing of the EU's attempts and success at externalisation, the paper does offer evidence—in the form of EU strategies and sample case studies—to support the propositions of MPE. Further empirical testing beyond the EU's own assertions in the official documents used herein should help to clarify the likelihood of the EU influencing the behaviour of others through externalisation.

MPE provides an analytical starting point for understanding the EU as a power from which further scholarly investigations may be undertaken. Because the EU is an international actor with competing internal agendas, MPE does not attempt to elaborate or explain the sum of the EU's official external relations. Rather, MPE is

intentionally parsimonious and reductionist. This parsimonious reductionism refocuses the debate over the EU as a power squarely on the areas in which the EU happens to engage in the majority of its external activity: market-related policies and regulations. Focusing on these areas also overcomes the frequent and limiting preoccupation with traditional security and defense policy found in much of the scholarly literature on foreign policy. By focusing on MPE, we may not get an immediate sense of the EU's impact on the high politics of traditional security and defense policy. However, we do get a more realistic sense of the EU as a power and the ways in which it most actively and consequentially influences the international system. In addition, because power is fungible, the EU's exercise of MPE likely affects a host of other non-market policies, including its developing defense and security policy. Once MPE is acknowledged as a starting point for conceptualising what the EU is, says and does, we can begin rebuilding our understanding of the EU as a power in all of its external relations and more fruitfully engage discussions about the fungibility of that power and the potential sources and export of norms.

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