

Market Power Europe: EU Externalisation of Market-Related Policies

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Abstract¹

In multilateral settings, the EU actively externalises its internal market-related policies and regulations. This externalisation provides clear evidence of the EU acting as a Market Power Europe and suggests an oft-overlooked way in which the EU pursues effective multilateralism. The large size of the EU's regulated single market and its significant institutional and regulatory capacity enhance the ability to externalise both economic and social regulations. 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.

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Table of Contents

Introduction	3
Two Characteristics of Market Power Europe	5
EU as Single Market	5
EU as Regulatory Institution	6
Externalisation and Market Power Europe	8
Means and Tools of MPE	9
The Empirical Predicament of Market Power Europe	11
What the EU Says—Strategies for MPE	12
What the EU does—Initial Sample of Case Study Evidence	17
Conclusions	19

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Introduction

The role of the European Union (EU) in the multilateral system and the extent to which it engages in effective multilateralism can be understood and analysed as a function of this *sui generis* actor's power. Indeed, much scholarly attention has been focused on what kind of power the EU is and what kind of power it exercises in international politics. While these debates consider the entirety of EU external relations—multilateral, bilateral, unilateral—across a variety of policy areas, this paper focuses on the EU's multilateral relations and market-related policies.

These scholarly debates have generated various competing labels for the EU as a power.² Perhaps the liveliest debates revolve around Normative Power Europe, which attempted to move the conceptualisation of the EU as a power beyond the dichotomy of military power and civilian power. According to Normative Power Europe, “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—therefore, makes it different from other actors and powers.

While Normative Power Europe posits an attractive premise, the EU may have another identity that follows from a different basis. The EU is, at its core, a market. It may, therefore, be best to conceive of the EU as a Market Power Europe (MPE). This paper argues that the EU's identity, both historically and presently, can be understood as a market. The market has served as the basis of the EU's identity since its origins as an experiment in economic integration to its position today as the world's foremost economic bloc.

The EU's large and regulated single market provides the material existence for MPE. The single market also has institutional capabilities that provide the EU with considerable regulatory capacity for externalising internal policies and regulations. These two characteristics—market size and institutional features—are interrelated

² In his discussion of civilian power, Orbie provides a useful listing of many of these labels, including gentle power, superpower, quiet superpower and middle power (2008: 2). In addition, the EU's power has been termed small (Toje 2010), ethical (Aggestam 2008), risk-averse (Laidi 2010), tranquil (Adam 2006), transformative (Leonard 2005), and realist (Zimmermann 2007).

and mutually reinforcing features of MPE. This paper, therefore, seeks to 1) understand how the EU's market and institutions interact to give it power, and 2) identify evidence that the EU tries to externalise its market-related policies and regulations multilaterally. By emphasising the size of the single market and the role of institutional factors and capabilities, the paper clarifies the extent to which the EU acts as an MPE that externalises (intentionally and unintentionally) its internal policies and regulations in multilateral settings.

If the EU is an MPE, its efforts at externalisation become an important way in which to engage in effective multilateralism. Such a conceptualisation focuses on the oft-overlooked empirical context—market-related policies and regulations—within which the EU is already often and readily recognised by other actors in the multilateral system. This approach also contributes to our understanding of the EU as a power by overcoming the frequent and limiting preoccupation with traditional security and defence policy found in much of the scholarly literature on foreign policy analysis. In addition, investigating MPE reveals a greater likelihood of the EU using coercion in its pursuit of effective multilateralism than would be predicted by Normative Power Europe or many other conceptualisations of the EU as a power.

It is worth clarifying at the outset that conceptualising the EU as an MPE is not intended to portray it as an exclusively liberal, pro-market actor. While MPE may draw attention to market-related aspects, it also highlights the importance of EU efforts to externalise market intervention, such as economic and social regulations. The conceptualisation, therefore, sits comfortably with the co-existent liberal market and social agendas of the EU.

The paper proceeds in the following manner. The next section elaborates the two characteristics of MPE addressed herein—market size and institutional features—and the ways in which they can support efforts at externalisation. The paper then discusses what is meant by 'externalisation' and the means and tools available for undertaking such an exercise of power. The fourth section investigates evidence from official documents of the EU's awareness and strategies to externalise its market-related policies and regulations in a variety of multilateral settings. The section also discusses sample case study evidence and the ways in which MPE externalises its internal policies and regulations in the multilateral trade regime. The paper concludes with a summary of the findings.

Two Characteristics of Market Power Europe

In order to understand *what the EU is*, we need to have a sense of the EU's identity. This paper argues that two important characteristics of the EU's identity—market size and institutional features—can help to explain how and why it is capable of externalising its market-related policies and regulations in multilateral settings.³ Focusing on these two particular 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 comprise and drive MPE.

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 multilateral 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 idea 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 gross domestic produce and 20% of global trade flows.⁴ It is “the world's biggest trading bloc and leading destination for foreign direct investment” (Commission 2010: 7). The new President of the European Council adds further evidence to support the EU's significant comparative economic power: 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 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” (Van Rompuy 2010: 5). The comparative position of the EU in the global economy is, therefore, a significant factor that studies of the EU as a power should not overlook.

As an MPE, the material existence of the European single market provides the EU's presence and a basis for its identity, with foundations including its market-related

³ For a lengthier treatment, which includes interest contestation as an important characteristic of MPE, see “The Conditions for Effective Multilateralism in EU Market-Related Policies,” paper presented at Political Studies Association Annual Conference, Edinburgh, UK, 29 March-1 April 2010.

⁴ European Commission, http://ec.europa.eu/world/what/international_economic_issues/index_en.htm, accessed 15 October 2010.

policies and regulations. But how then can the EU's market size influence the externalisation of these 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 size of its market. As Drezner argues, market size is important to 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 of market size 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). Similarly Bretherton and Vogler argue that the European single market "has had a magnetic effect in attracting foreign investment and in stimulating demands, from a wide range of third countries, for privileged access" (2005: 28). Again, this effect may occur intentionally or unintentionally. The EU, therefore, by being a comparatively large market, is able to exercise its power in multilateral settings.

EU as Regulatory Institution

In addition to the material existence of the European single market, MPE takes into account the institutional features of the EU. These institutional features determine which official actors are involved in externalisation efforts and the rules under which they operate. Reflecting internal institutional developments, the EU has been referred to in scholarly literature as a 'regulatory state' (Majone 1994, 1997). In this capacity, the EU is a regulator, 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. These regulations can also have important external effects in multilateral settings.

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 important roles played by different EU institutions—such as the European Commission, European Parliament, Council of Ministers and Member States, and the 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). Analyses of MPE need to consider the ways in which variation across decision-making rules for issuing and enforcing regulations determine which of these actors contribute 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 in multilateral settings. As an MPE, the EU's identity incorporates its various institutional qualities and also depends importantly on its institutional capacity to externalise its internal regulations. But to what extent does the EU have the capacity to externalise its market-related policies and regulations?

To answer this question, it is useful to look at three components of MPE's regulatory capacity, as developed by Bach and Newman. According to Bach and Newman, high levels of regulatory expertise, coherence and sanctioning authority are preferable for externalising regulations because “a complete absence of any renders a jurisdiction impotent” (2007: 831). *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” (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” (2007: 831). Without such a delegation—which may vary depending on the institutional rules at play in the particular policy area in question—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, all of which may be directed at individual non-state actors (e.g., 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 an MPE that externalises market-related policies and regulations. When the EU has relatively high levels of regulatory expertise, coherence and sanctioning authority, it is capable of exercising power in multilateral settings. The 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.

The two prominent characteristics of MPE introduced above—market size and institutional features—help to explain how the EU can intentionally and unintentionally exercise power in (but not limited to) multilateral settings. Just as Manners argues that the EU has a normative basis that “predisposes it to act in a normative way” (Manners 2002: 252), so too this paper argues that the EU’s identity as a large regulated market with significant regulatory capacity *predisposes* the EU to act as an MPE.

Externalisation and Market Power Europe

Since its origins, the EU has evolved into the world’s foremost economic bloc. Over time, the development of the EU’s market has led to external aspects as its member states have had to “hammer out a collective external position” and “adopt common policies, vis-à-vis nonparticipant third parties” (Schmitter 1969: 165). It has now matured to a point where it actively seeks to externalise its common market-related policies and regulations. Externalisation as a concept, therefore, is central to MPE’s exercise of power.

While there is no agreement on a single definition of ‘externalisation’, such efforts (i.e., exerting power) can be thought of as primarily intentional behaviour. It is important to note that the EU’s efforts at externalisation are not merely

happenstance; as an MPE, the EU has the intention to externalise its market-related policies and regulations. This intentional externalisation occurs when the EU attempts 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. Such externalisation can be targeted at various public and private actors—including states, international and regional organisations, and non-state actors—all of which operate in multilateral settings.

While intentionality is an important 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 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 in multilateral and other settings.

Means and Tools of MPE

If the EU is 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. Unlike Normative Power Europe, when the EU acts as MPE, 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 always considered part of the soft power that is frequently associated with Normative Power Europe and other conceptualisations of the EU as a power. This paper shares Normative Power Europe'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 large market with regulatory institutions and capacity—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.⁵ By initially focusing on the tools available, investigations 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.⁶ 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 associated with MPE’s externalisation (Figure 2). 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. They are, therefore, the types of tools most closely associated with MPE. While many of these tools can be exercised in unilateral and bilateral relations, they can also be exercised in various multilateral settings.

⁵ “Positive conditionality entails promising benefits to a state if it fulfils the conditions; negative conditionality involves reducing, suspending, or terminating those benefits if the state violates the conditions. Agreements, aid, loans, and dialogue are now regularly promised, provided partner countries fulfil certain political and economic conditions” (Smith 2005: 75).

⁶ For a listing of restrictive measures and diplomatic tools of CFSP, see European Commission, http://ec.europa.eu/external_relations/cfsp/sanctions/index_en.htm, accessed 15 October 2010.

Figure 2: Positive and Negative EU Conditionality Measures

Positive Measures	Negative Measures
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)

Although a useful starting point, these lists represent primarily formal governmental actions that do not tend to include EU tools exercised directly on non-state actors, such as individual firms. Following from the idea of externalisation advanced in this paper, the EU's intentional actions are not exclusively formal governmental actions directed 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 (i.e., coercion) via the implementing regulations of MPE's sanctioning authority. Here arises a key difference from Normative Power Europe 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 (possibly coercive) externalisation of regulatory standards on both other states *and* non-state actors—e.g. international and regional organisations, and private actors—that the EU acts like MPE. As will be shown in the next section, this externalisation frequently takes place in multilateral settings.

The Empirical Predicament of Market Power Europe

Analysing the EU as MPE immediately raises an empirical predicament: there is too much evidence of MPE in multilateral, bilateral and unilateral settings. While this may at first appear an analytical blessing, it also creates analytical problems for organising and assessing the data. Given the abundance of evidence, this paper focuses on externalisation in multilateral settings and organises the data in two ways. First, the paper investigates *what the EU says*—the extent to which the EU itself elaborates strategies for acting as an MPE in multilateral settings. 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 derived from the official documents and briefly exploring MPE's exercise of trade policy in multilateral settings.

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 comment. While not treaty revisions or 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 dealt with in the subsequent discussion of case studies and trade policy.

In 2001 and 2006, the EU issued strategies that began to reflect an awareness of MPE. An important effort to establish 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 "We must play a leading role in sharing best practice and developing global rules and standards. To do so effectively we must also take account of the external dimension in making our regulatory and other standards" (Commission 2006: 7). The first priority laid out in the external action agenda concerns the multilateral World Trade Organization, where the EU argues "The world needs a strong multilateral trading system. It is the most effective means of expanding and managing trade for the benefit of all and provides a unique framework for dispute settlement" (Commission 2006: 8).

In 2007, the EU 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 asserts that it has developed "a modern and innovative regulatory and supervisory framework, with the EU being looked upon as the global standard-setter" (2007a: 7). Reflecting the EU's intentionality, the review states that "A new international approach focusing on regulatory cooperation, convergence of standards and equivalence of rules is emerging" (2007a: 7). In this context, 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 in multilateral settings:

- First, expanding the competitive space for European firms beyond the physical boundaries of the single market, opening up major current or future markets through multilateral and bilateral trade liberalisation, as well as active enforcement of our market access rights.
- Second, expanding the regulatory space of the single market, by projecting our norms and values abroad and further enabling European regulations to benefit from best practices everywhere, thus making European norms the reference for global standards.
- Third, actively ensuring that European citizens fully reap the benefits of this openness, through better safety, health and environmental standards, lower prices and greater choice, to be achieved by close monitoring of markets and appropriate action, whether these relate to contesting regulatory restrictions, improving market mechanisms or encouraging a more competitive environment, at EU level or within the Member States.

(Commission 2007b: 3)

The second point is particularly interesting in that it identifies the projection of EU 'norms and values' as a way of expanding the influence of the European single market and thereby further enabling MPE to act in multilateral (and other) settings.

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 EU is emerging as a global rule maker" and that the European single market is "an asset to strengthen the position of the EU economy in the world" (2007b: 5). It also reveals the EU's reasoning for externalising its regulations, stating that the European single market is a "tool to foster high quality rules and standards" and that it "has become a powerful engine to promote EU high quality rules and values around 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. It is now the primary outlet for more than one hundred countries across the world" (2007b: 6). This very large market clearly supports the conceptualisation of the EU as an MPE that is capable of exercising power in multilateral settings. The document clarifies the ways in which the large market can influence 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). The acknowledgement of this apparently unintentional side-effect of the large market can also be understood as an important intentional (in so far as the EU consciously acts upon it) component of the EU's 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).

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. Whenever appropriate, this also implies reflecting global standards in our own policy solutions and taking the best practices of foreign regulators into account. By doing so, we will also raise the attractiveness of our rules and facilitate their spread abroad" (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. Again, MPE can pursue these efforts in various multilateral settings that deal with standard setting and regulatory issues.

Another factor that can contribute to MPE is joint research on regulatory cooperation, which is open to non-EU participants and “will benefit from more support under the 7th Framework Programme for research and development (2007-2013) than under any previous Framework Programme. Collaborative research on standards, measurements and testing will be undertaken, facilitating European exports in external markets” (2007b: 11). Again, such measures help to improve the EU’s regulatory expertise and open avenues for influence by private actors from within and outside the EU.

The EU also strongly states its desire to continue to play a “leading role” in various multilateral rule-making bodies “together with Member States (such as in World Intellectual Property Organisation, Basel Committee, International Labour Organisation (ILO) or multilateral environment agreements) or through private international standard setters like the IASB. This means pushing for the adoption of high quality standards and putting these in place as early movers to provide a competitive edge (such as on IFRS international accounting standards and Basel II implementation)” (2007b: 11). Such efforts to push standards as an early mover in order to obtain a competitive edge in multilateral settings support the claim that MPE intentionally strives to externalise its regulations.

In 2010, the Commission issued its next significant strategy for laying out the operation of MPE through 2020: ‘Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth’. A section on ‘Deploying our external policy instruments’ (Figure 3) provides further strong evidence of the EU’s identity as MPE. Various actors, tools and targets are identified as important for the externalisation of EU market-related policies and regulations. Likewise, the section also notes a number of multilateral settings and initiatives.

Figure 3: Deploying Our External Policy Instruments

Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports. All instruments of external economic policy need to be deployed to foster European growth through our participation in open and fair markets world wide. This applies to the external aspects of our various internal policies... but this holds in particular for trade and international macroeconomic policy coordination. An open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalisation that will boost growth and employment. At the same time, 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.

...As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed or emerging economies are doing to anticipate or adapt to future trends.

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. Moreover, we should focus and streamline our regulatory dialogues, particularly in new areas such as climate and green growth, where possible expanding our global reach by promoting equivalence, mutual recognition and convergence on key regulatory issues, as well as the adoption of our rules and standards...

The Commission will draw up in 2010 a trade strategy for Europe 2020 which will include:

- An emphasis on concluding on-going multilateral and bilateral trade negotiations, in particular those with the strongest economic potential, as well as on better enforcement of existing agreements, focussing on non-tariff barriers to trade;
- Trade opening initiatives for sectors of the future, such as "green" products and technologies, high-tech products and services, and on international standardization in particular in growth areas;...
- Starting in 2011 and then annually before the Spring European Council, a trade and investment barriers report identifying ways to improve market access and regulatory environment for EU companies.

The EU is a global player and takes its international responsibilities seriously. It has been developing a real partnership with developing countries to eradicate poverty, to promote growth and to fulfil the Millennium Development Goals (MDGs).

Source: Commission (2010: 21-22)

These official documents—especially the 2007 Single Market Review and the Europe 2020 Strategy—provide evidence of an EU awareness and understanding that it is an MPE. In addition to indicating what the EU says as an MPE, the documents demonstrate the important role of the EU's large single market and regulatory capacity for its externalisation strategies. While these externalisation strategies can be exercised in bilateral and unilateral settings, the documents clearly show the EU's desire to undertake such efforts in multilateral settings.

What the EU Does—Initial Sample of Case Study Evidence

While the above documents lay out broad strategies for the EU to act as an MPE, case evidence reveals further efforts to externalise both liberal market and social agendas. These case studies help to reveal what the EU does as an MPE. In particular, in its 2007 Single Market Review, the Commission identifies a number of cases in which the EU has acted as an MPE, even citing some as international regulatory success stories.

According to the Commission, the EU is the global standard-setter in a number of areas, including product safety, food safety, environmental protection, public procurement, financial regulation and accounting. EU rules in carbon emissions trading, aviation safety and chemicals are being “adopted across the world” and “EU competition policy also has a global reach, with the Commission challenging 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). All of these policy efforts can be undertaken in multilateral settings.

In the areas of food safety and tobacco control, EU policies and principles have often been adopted in the work of the Codex Alimentarius, and “EU single market legislation on tobacco products and cross-border advertising has been the key reference for the World Health Organization’s Framework Convention on Tobacco Control” (Commission 2007b: 6). On the regulation of maritime safety, the EU’s “early move towards implementation of double-hull requirements for tankers led to their adoption by the International Maritime Organisation (IMO), with the IMO contracting parties agreeing to follow the calendar adopted by the EU” (Commission 2007b: 7). With regard to financial services, the EU “switched to International Financial Reporting Standards (IFRS) in financial reporting in 2005. Since then more than 100 jurisdictions around the world have decided to require or allow them. The US, too, has taken significant steps in this direction” (Commission 2007b: 7).

In addition, a wide variety of other cases can usefully illuminate the extent to which the EU does act as an MPE and the conditions under which it attempts to externalise market-related policies and regulations. Such cases may include the EU’s regulation of chemicals, securities trading, data privacy and genetically-modified organisms. Fruitful research may also be conducted on EU efforts to promote its internal climate change policies and regulations in multilateral settings, such as the United Nations

Framework Convention on Climate Change. The EU's internal regulations related to the multilateral Kimberley Process and the import of timber may provide useful tests of trade being used as a tool of MPE.

If trade is a tool for externalisation, studies of MPE can also usefully consider the denial of trade preferences related to the multilateral Cotonou, GSP+ and various disputes within the WTO's Dispute Settlement Mechanism. Indeed, a brief look at trade policy can provide an illustration of how the EU does intentionally attempt to externalise its regulations and operate as an MPE in a deeply institutionalised multilateral setting. To do so, we must consider the extent to which the EU's large market and high regulatory capacity factor into the externalisation of regulations.

Let us begin with the single market, an essential basis for the EU's identity. According to Bretherton and Vogler, "The EU is above all an economic power, and trade provides the foundations of its actorness. Underlying this is the presence of the Single Market" (2006: 62). While trade policy may be an important element of its actorness, Bretherton and Volger's assertion suggests that the EU's presence is primarily derived from its market, which conforms to the logic of MPE regarding market size.⁷ In addition, the EU's internal regulations can be linked with the multilateral trade regime. Internal regulations are the result of interaction between internal institutional rules and various official actors that give the EU regulatory capacity. These various actors—including all those that are active parts of the regulatory state—also help to determine whether and which internal regulations the EU will attempt to externalise.

The externalisation of these regulations can take place if, for example, the EU undertakes efforts to include its standards in multilateral trade agreements (i.e., 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 if they feel 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.

Regulations can also create clear non-tariff barriers to trade, which further enhance the link between internal regulations and the multilateral trade regime. The EU can

⁷ For more on 'presence', see Allen and Smith (1990).

bring an offending foreign non-tariff barrier before the WTO's Dispute Settlement Mechanism (i.e., negative conditionality).⁸ 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 behave in a way that generally satisfies or conforms to the EU's market-related policies and regulations. Bringing a foreign regulation (non-tariff barrier) 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 multilateral trade regime.

The decision to include standards in multilateral trade agreements or to bring an offending measure to the multilateral WTO is the result of interaction between internal institutional rules and official actors that give the EU regulatory capacity. The actual externalisation of market-related policies and regulations as the result of either of these decisions may depend in large part on the attractiveness of or threat of exclusion from the large European single market.

Conclusions

Because the EU is a multi-faceted actor and identity, it may seem to act at times as a Normative Power Europe. But it may also act more often and be more readily recognised in multilateral settings as a Market Power Europe. This paper asserts that we should conceptualise the EU as an MPE, a powerful actor that actively engages in multilateral settings. While MPE is not limited to working at the multilateral level, the evidence above shows that multilateral settings are important venues for the EU's externalisation of market-related policies and regulations. Indeed, 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 liberal market and social agendas.

The EU's identity is an important determinant when conceptualising the EU as a power. As with Normative Power Europe, the EU's identity as an MPE is what the EU is, instead of what the EU does or says. However, MPE differs from Normative Power Europe by arguing that the fundamental basis of the EU's identity is not its shared principles but rather its large regulated market with its attendant institutional features and regulatory capacity. These two characteristics condition the EU's choices of when, where and how to exercise MPE. They also predispose the EU to

⁸ On the EU's use of the WTO's Dispute Settlement Mechanism, see Billiet (2006), Young (2009, 2006).

act as an MPE and make it more likely to exercise power through coercion than would be expected by Normative Power Europe or other conceptualisations of the EU as a power. MPE certainly possesses the tools of coercion, which, when exercised within multilateral rules, can increase the EU's effective multilateralism and power. In addition to such intentional exercises of power, the EU may also benefit from unintentional externalisation through, for example, the sheer size of its large regulated single market.

Ultimately, the best way to evaluate Normative Power Europe 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 this determination, the paper does offer evidence related to multilateral settings—in the form of EU strategies and a range of sample case studies—to support the propositions of MPE.

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 actor with competing internal agendas, MPE does not attempt to elaborate or explain the totality of the EU's external relations in all multilateral and other settings. 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 multilateral activity: market-related policies and regulations. By focusing on MPE, we may not get an immediate sense of the EU's impact on the high politics of traditional security and defence 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 multilateral system. 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 power, the potential impact of norms and the scope for effective multilateralism.

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