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The European Union's market power

Techniques, constraints and implications for external action

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Abstract
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The European Union (EU) is known to have considerable market power, which flows from the size of the single market and its sophisticated regulatory capacity. However, relatively little is known about how, when and why the EU uses its market power and what its power projection signifies for our understanding of EU external action. This thesis explores the EU's techniques for leveraging market power, as well as the factors that drive or constrain its active use of such power. It finds that the EU's projection of market power is highly regulatory in nature, and often shaped by factors associated with the EU's internal integration in specific policy areas such as environmental sustainability and digital markets. The thesis proposes that in these areas, competing networks of EU policy entrepreneurs can leverage a variety of structural and contextual factors, such as stringent EU laws, sophisticated EU regulatory capacity, societal fear of negative externalities and highly developed international regimes, to promote their preferred uses of market power. Based on these findings, the thesis argues that EU market power has limited transferability across sectors and is unlikely to be leveraged in geopolitical games or to propel the EU to become a true geopolitical player. Nonetheless, in a context where geopoliticization enhances the friction between the EU's internal market and external market regimes, the EU can be expected to step up the use of market power to externalize European regulatory regimes in specific sectors in order to protect the integrity of the internal market and achieve international market integration on its own terms.

Keywords: Market power; European Union; regulation; geopolitical; external action

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To Alexandra, Oskar and Elinor

List of Studies

This thesis is based on the following studies, which are referred to in the text by their Roman numerals.

I. 'Regime vetting': a technique to exercise EU market power. *Journal of European Public Policy*, Vol. 29, No. 4, pp. 530–549.

II. Blacklisting and the EU as a global regulator: the institutionally predisposed norm breaker. *JCMS: Journal of Common Market Studies*, Vol.61, No 4, pp. 1007-1025.

III. Liberalism strikes back: the EU's use of market power in the context of great power struggle. *Unpublished manuscript*.

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1. Introduction

In an age of great power competition and turbulent geopolitics, size matters. No country alone can hold back the tide of climate change, find the solutions to the digital future or have a strong voice in the ever-louder cacophony of the world. But together, the European Union can. We can because we have the largest internal market in the world. We can because we are the top trading partner for 80 countries. […]. We can because EU member states will leverage their considerable, collective economic power in discussions with allies and partners – the United States, Africa, China or India.

Joint statement by the presidents of the European Commission, the European Parliament and the European Council, 31 Jan. 2020

Decades of European integration have hardly generated any of the major attributes usually associated with great international power. The European Union (EU) has no army, taxation power or major financial muscle. The great exception to this general lack of resources is that the EU has come to exercise control over access to Europe's large internal market. Since the 1958 Treaty of Rome, the EU has enjoyed exclusive competence in external customs and trade policy, possessing the sole right to determine tariffs and negotiate external trade agreements. The deepening of EU integration has subsequently expanded the EU's jurisdiction, generating external competences to negotiate international agreements and represent Europe in international organizations in ever-expanding new sectors.[1] In parallel, sector by sector, issue by issue, the EU has built the regulatory capacity needed to manage and control the market. The resources generated by EU integration – a large market, broad jurisdiction and regulatory capacity – underpin the EU's only significant hard external power – its 'market power' (Bach & Newman, 2007; Bradford, 2012, 2020, 2023; Damro, 2012, 2015; Drezner, 2008; Meunier & Nicolaïdis, 2006; Young 2015; Young & Peterson, 2013).

The importance of market power is widely recognized by scholars of EU external action, who assert that the Union's ability to leverage its internal market externally forms 'the core' of its international power (Meunier & Nicolaides, 2006). Some even state that 'it is the economic strength of the EU that provides

[1] In the ERTA ruling of 1971 the European Court of Justice introduced its famous 'implied powers doctrine', enabling the European Economic Community to negotiate and conclude external agreements in a whole range of broadly defined objectives covered by then internal EEC law.

the foundation of all its external activities' (Bretherton & Vogler, 2005). Chad Damro famously conceptualized the EU as 'Market Power Europe' (MPE), predisposed to externalize its internal regulatory rules and policies (Damro, 2012, 2015). Oft-quoted topical examples of externalization include the EU's new Climate Border Adjustment Mechanism (CBAM) and a multitude of recent EU laws on digital services and platforms (Munzur et al. 2021; Bradford, 2023). Many researchers make comparisons with the US and China, arguing that the EU's market power matches and sometimes even supersedes that of these global superpowers (Bradford, 2020, 2023; Drezner, 2008; Newman & Posner, 2017), making the EU a truly 'global regulator' (Young, 2015) or even a geopolitical player (Meunier & Nicolaïdis, 2019; Olsen, 2022; Gehrke, 2022).

Yet, as highlighted in this thesis, the literature on EU power leaves puzzling patterns unexplained as well as significant empirical gaps, not least regarding the EU's increasing use of unilateral market power techniques (see Erixon et al., 2022). For a start, the EU's active use of market power varies significantly across different sectors and tends to focus on particular policy issues, such as the protection of data privacy (Farrell & Newman, 2019b). Moreover, it is often strikingly inconsistent. For instance, it is puzzling that the EU sometimes initiates ambitious and principled techniques to leverage its market power only to end up applying these techniques almost exclusively to very small countries. With regard to empirical gaps, research on EU market power has focused mainly on assessing the external impacts of traditional policy instruments, such as trade agreements, international conventions or the soft diffusion of EU market rules, but paid relatively limited attention to the internal dynamics shaping why and when the EU actually seeks to mobilize its powers to make an external impact (Young & Peterson 2013). Furthermore, despite claims that the EU is making a geopolitical pivot, 'empirical research that systematically assesses how Europe positions itself against the context of a proclaimed geoeconomic shift in practice is missing' (Weinhardt et al., 2022: 108).

This thesis sets out to enhance understanding of the EU's use of market power by exploring three broad research questions: *why*, *when* and *how* does the EU leverage market power externally? More precisely, the thesis aims to clarify the *drivers* of EU market power, identify the *conditions* under which market power is deployed and examine the *techniques* used by the EU to leverage market power. Building on the study of these specific questions, the overarching aim of this thesis is to clarify what the EU's market power signifies for our understanding of the EU as a global actor. Given that market power is the EU's sole significant hard power, a clearer understanding of the factors that shape its use should help us to assess the prospects for and limitations on EU action on the world stage, in both the regulatory and the geopolitical sphere.

The practical and political importance of this research agenda stems from the huge stakes involved in the EU's use of market power. EU leaders commonly claim that market power can be used for a variety of purposes: to enhance growth and the prosperity of the EU's citizens; to protect consumers, workers and the environment based on stringent market regulations; and to become a strong geopolitical player. However, as argued in this thesis, the significance of EU market power can only be judged based on a clear understanding of the underlying factors that drive and constrain the EU's actions, shaping both strategy and ability to act. Often enough, political rhetoric tends to gloss over the tensions and trade-offs between alternative uses of market power. For instance, if the EU chooses to use its market power to assertively promote its regulation on, say, the use of Artificial Intelligence, animal welfare or carbon emissions, it risks generating regulatory boundaries that cut Europe off from fast-growing parts of the world, such as China and India. This risks undermining Europe's economic growth and competitiveness, which are the factors that generated EU market power in in the first place. Similarly, if the EU uses market power for geopolitical games and statecraft to enhance the EU's security, this inevitably distorts trade and generates costs, and could in the end contribute to undermining the rules-based multilateral order on which the EU was founded. In sum, the use of market power raises some of the toughest and most salient political choices facing Europe in the 21st century: can and should the EU use its clout in international markets – its sole hard power – to promote economic growth based on free trade, to ensure Europe's security or to promote its preferred market norms?

The main empirical focus of this thesis is unilateral techniques for exercising market power, in particular techniques where the market is used as a carrot or stick. Each of the three studies contained in this thesis explores a specific set of unilateral practices. The study on *regime vetting* examines a technique used by the EU in sectors such as financial services, data protection, forestry and fisheries to unilaterally calibrate market access based on a systematic assessment, or 'vetting', of third countries' regulatory performance. For instance, the EU often reserves full access to its financial services market to third countries that have financial services regimes that are 'equivalent' to the EU's. The study on *blacklisting* zooms in on a particularly coercive type of regime vetting: the EU's adoption of blacklisting schemes which sever access to the EU market for countries with poorly performing domestic regulatory regimes. For instance, in the area of corporate taxation, the EU regularly updates a list of third countries that are singled out as 'un-cooperative' if they do not respect specific criteria. The final study, *Liberalism Strikes back*, assesses a broad set of 'geopolitical' market power instruments recently developed by the EU, including the Anti-Coercion Instrument, the Artificial Intelligence Act and CBAM. The focus on unilateral practices means that the thesis does not empirically examine the use of traditional market power techniques, such as trade

agreements, or the semi-automatic diffusion of EU law through the so-called Brussels effect (Bradford, 2012, 2020). However, as argued in the thesis, the explanatory factors identified by examining the use of unilateral techniques capture the main internal drivers of and constraints on all active exercises of EU market power.

In terms of method, the main approach used in the thesis is based on examining the empirical relevance of the main theories in a number of different cases using the 'method of congruence'. This method implies that the research is strongly guided by pre-identified theories and that cases are explored based on a fairly large amount of empirical data. It also means that the research does not seek to falsify or fundamentally replace any of the broad theories on EU power, but rather to use critical or 'hard' cases to identify the relative importance of selected theories and refine and re-combine different existing propositions. In line with the method of congruence, cases are chosen not only to enhance empirical understanding of practices of great real-world importance, but also based on the *ex-ante* expectation that the cases can confirm or contradict central elements of established theories (Blatter, 2012).

The main finding of this thesis is that the EU's de facto choices regarding the external use of market power results to a large extent from internal societal and institutional factors associated with EU integration. As the EU progressively deepens and expands its singe market, its various internal regulatory regimes will generate frictions and tensions in relation to external market regimes, often because EU rules are more stringent than those of these regimes. In order to manage and reduce this friction, the EU will exercise market power to calibrate external regulatory boundaries and, at the same time, generate incentives for third countries and firms to apply the market regimes preferred by the EU.

This means that the EU's projection of market power is neither merely a semi-automatic side-effect of EU integration (Bradford, 2012), nor primarily a 'soft' or neutral functionalist exercise (cf. Lavenex, 2014). Rather, the EU uses its market power actively and strategically to achieve international market integration on its own terms. The study on *regime vetting* illustrates this active power projection by conceptualizing how this specific technique is used by the EU to improve the efficiency of its market regimes and co-opt third country regulators into respecting the EU's favoured market rules. While the EU sometimes uses regime vetting to support third countries in reaching EU standards or to validate the regulatory regimes of third countries, it also uses this technique to assert EU rules, and sometimes even coerce third countries into accepting the standard that the EU favours. The study suggests that variation in the use of regime vetting depends on specific internal and external contextual factors. For instance, the EU uses coercive regime vetting only if

there are dense international networks in support of its power projection and if the market sector is associated with fears of negative externalities from abroad, based on, for instance, regulatory arbitrage.

Exploring the boundaries of the EU's regulatory use of market power, the study on *blacklisting* finds that EU blacklisting schemes in fisheries and taxation emerged as EU policy entrepreneurs initiated external action to promote general standards of good governance. In practice, however, these schemes were applied quasi-exclusively to the smallest third countries with which the EU has little trade. The study explains this inconsistent use of market power as intrinsically linked to the EU's status as a union of states: while EU policy entrepreneurs develop grand, principled schemes for the use of market power, member states' control of the EU's active leverage of market power tends to limit the use of that power to situations where it generates a net benefit from the perspective of national governments.

The study *Liberalism strikes back* challenges the recent claim that the EU is making a geopolitical pivot in its use of market power. It finds little evidence that the EU is using its market power to pursue security-oriented economic statecraft and that the main examples of economic statecraft advanced in the literature to illustrate the 'geopolitical pivot', such as the Anti-Coercion Instrument, are in fact relatively under-developed. On the contrary, many of the EU's recent policy initiatives, such as CBAM and the Artificial Intelligence Act, serve to push back international geopoliticization by externalizing the EU's internal regimes. Rather than making a 'geopolitical pivot' by 'weaponizing' interdependence and undermining the liberal international order, the EU is assertively externalizing its market regimes to prop up and reconfigure this order.

The overall findings can be summed up in three propositions on how, why and when the EU leverages market power. Variations in the conditions for policy entrepreneurship across sectors explain *why* market power is actively leveraged in some sectors and not in others and also help to explain the EU's paradoxical use of market power in the context of great power struggle. Meanwhile, member state interests, formed based on domestic societal pressures, largely determine *when* market power is used (and not used). Finally, when it comes to *how* the EU projects market power, the thesis confirms the central importance of externalization, defined as the use of market power to promote internally endorsed market-related rules and policies (Damro, 2012).[2]

[2] Externalization has been formally defined as measures that incentivize third parties to 'adhere to a level of regulation similar to that in effect [in the domestic market] or to behave in a way that generally satisfies or conforms to [domestic] market-related policies and regulatory measures' (Damro, 2012, p. 690).

Taken together, these propositions help us to understand an increasingly important and often mis-understood area of external action. On the one hand, they imply that the EU is unlikely to make a clear geopolitical pivot in its use of market power. Internal constraints mean that the EU will not be able or willing to match other, more politically centralized polities, such as the US or China, in the use of market power for purposes of economic statecraft to pursue mainly foreign policy objectives in a context of great power struggle (cf Meunier & Nicolaïdis, 2019; Farrell & Newman, 2019a). On the other hand, the propositions imply that the EU is predisposed to mobilize its market power actively to drive its regulatory agenda in specific areas where EU elite policy entrepreneurs are able to leverage stringent internal law to externalize EU regulatory policies and regulatory capacities. This applies *a fortifiore* in the contemporary international context of great power struggle: as the friction between the EU's internal regimes and the external market environment increases, the EU is set to respond by seeking to assertively externalize its internal regulatory order. This supports the view that the EU is best considered a liberal power (Wagner, 2017), the main role of which on the world stage is tightly associated with international regime building.

Section 2 describes the state of the art in research on EU market power. Section 3 outlines the theoretical starting points used in this thesis and section 4 develops the methodological approach adopted in the three studies. Section 5 summarizes the specific findings of the three studies and the overall propositions and contributions of the thesis. The concluding section discusses the broader implications of the thesis for the study of EU external action, global governance and market power.

2. State of the art: market power in Europe and beyond

Research on the relationship between markets and power has a long pedigree, dating back to scholars such as Adam Smith and Karl Marx. In contemporary Social Sciences, the study of market power has split into different disciplines and strands, each developing its own specific perspectives and focus areas. This section aims to situate the perspective of this thesis on market power in a broad contemporary Social Sciences literature that includes economics, law and Political Science. It first describes how the Political Science perspective on market power compares to the perspectives adopted in economics and law, then analyses how research on market power has developed in the field of International Relations (IR), and how this IR debate has been picked up and reflected in efforts to understand the EU's nature as a power. It concludes by highlighting a number of contested issues and gaps in the research on EU market power that this thesis seeks to address.

2.1 Market power in Political Science, Law and Economics

The literature on market power in economics and law is significantly larger and more established than that in Political Science. However, the perspectives adopted in these disciplines differ substantially from those in Political Science. In particular, they are significantly narrower and pay limited attention to the implications of market power in international relations.

In microeconomics, market power is usually defined as a large firm's ability to influence the price of an item based on manipulating the level of supply or demand, or both. Research in this discipline tends to focus on assessing and identifying ways to curtail such manipulation, as it skews competition and distorts resource allocation (see for instance Bresnahan, 1989). Economics thus considers market power as intrinsically bad, and an anomaly judged from the baseline of perfect competition. A typical example of a research agenda in economics is efforts to identify how EU competition policy can be used to stop global internet platforms from using their dominant positions in international value chains to manipulate prices (Geradin, 2018).

Legal scholars rarely put the topic of power explicitly at the centre of the analysis. Even so, they have made significant contributions to the market power literature by studying the extension of law beyond domestic borders, a phenomenon often referred to as extraterritoriality (see for instance Colangelo, 2011). Research on extraterritoriality focuses on interpreting existing law and practices (de lege lata), or suggesting new ways to balance different legal principles (de lege ferenda) or to ensure compliance. For instance, a considerable literature is devoted to discussing the 'effects doctrine', applied by US courts to justify the (legitimate) use of extraterritoriality (Coppel, 1993). Similarly, the EU's extraterritorial practices have been conceptualized as 'territorial extension' (Scott, 2012), in an effort to identify a potentially more legitimate technique for extending domestic law externally.

The Political Science perspective on market power shares economists' starting point that a dominant position in a market generates power. However, the focus lies not on understanding the power exercised by large firms over prices, but the power exercised by states and other polities over foreign structures and actors. Market power exercised by a public polity is not necessarily bad, but can be used or abused to pursue a variety of political aims, such as to promote free trade, regulate international markets or pursue foreign policy objectives. The absence of market power on the international stage is not depicted as a perfectly functioning market but something closer to anarchy, a myriad of complex, uncoordinated and overlapping international regimes with disputable effects on international order.[3] As regards its relationship to law, Political Science perspectives consider extraterritorial jurisdiction to be one of several means through which a polity can project market power. However, rather than seeking to identify what action is justifiable under law, the study of political market power aims to describe and explain the political choices that polities make regarding the use of market power and the impacts that these choices have externally.

It follows from this comparison of economics, law and Political Science that each discipline has a distinct perspective on market power and generally does not need to communicate directly with each other to reach its research aims. Nonetheless, students of market power could benefit from being aware of the work carried out in neighbouring disciplines. In particular, the broader perspective adopted in Political Science also matters to the research agendas pursued in economics and law. For instance, the EU's ability to curtail the (economic) market power of global digital platforms critically depends on its (political) market power. Similarly, the extraterritorial practices of the US and the

[3] See for instance Alter and Meunier (2009) who raise issues regarding forum-shopping, overlapping institutions and regime complexity.

EU critically hinge on their willingness and ability to leverage their market power externally.

As this thesis adopts a Political Science perspective, it defines market power as 'a polity's ability to produce external effects based on having control over a large internal market'.[4] As is discussed below, this definition delineates a broad and rather disparate sub-field in IR that seeks to understand the significance of market power for international relations and the international order.

2.2 Market power as a source of international order

The Political Science perspective on market power emerged largely in response to the global governance turn in IR (see for instance Rosenau & Czempiel, 1992; Slaughter, 2005; Zürn 2004). Global Governance Studies seek to understand 'a shift from a Westphalian to a post-Westphalian era in which international organizations are becoming increasingly independent sites of authority' (Kreuder-Sonnen & Zangl, 2015: 568). Generally speaking, it sees the international order as constituted by a complex multitude of structures and transnational actors that generate spheres of international authority (Zürn, 2018), geared towards 'institutionalized cooperation, coordination of convergent interests, and the production of collective goods' (Barnett & Duvall, 2005: 57). Seen from the perspective of Global Governance, the EU represents a particularly developed international organization, a main element of the post-Westphalian era (see for instance Zürn, 2000).

Many scholars in IR and International Political Economics (IPE) have criticized Global Governance for neglecting the role played by politics and power. For instance, Krasner (1991) famously argued that international regime-building in sectors such as telecommunications often plays out on the pareto-frontier. In other words, international regimes are not neutral functionalist structures, but generate trade-offs and conflicts of interest, producing winners and losers. In a similar vein, Rodrik (2011) demonstrated empirically that international trade agreements are not win-win affairs, but generate winners and losers in different societal segments. To make this point more generally, Rodrik conceptualized a 'globalization trilemma', which demonstrated analytically that it is impossible to pursue deep neoliberal economic integration without undermining either democracy or national autonomy.

[4] This definition embeds the two sources of power most often mentioned in the Political Science literature on market power (see e.g. Drezner, 2008, Bach & Newman, 2007; Eberlein & Newman, 2008; Farrell & Newman, 2019a; Young, 2015). First, the market itself, which generates material incentives based on the buying and selling of products and services, as well as a variety of international value chains and market-related structures; and, second, the various institutions developed to control this market, including, for instance, regulations and regulatory capacity.

The market power literature added two central and distinctive propositions to the debate on the role played by politics and power in Global Governance. First, that significant international power is concentrated in polities with large domestic markets. Second, that polities with great market power can use this power to rig international cooperation to their advantage, or – to use Rodrik's terms – manage the tensions raised by the globalization trilemma in their favour. To the extent that they are able to shape international rules to suit their own preferences, polities with market power can safeguard their national autonomy and domestic democracy while still enjoying the fruits of deep international economic integration.

Beth Simmons (2001), in particular, broke new ground by developing a state-centric rational choice framework to explain how polities with large markets act as 'unconditional' and 'dominant' 'first movers' to shape international capital markets regimes. Once such dominant players have adopted domestic rules, she argues, they act to manage the international ramifications of their domestic rules by strategically supporting international regime-building to target various negative externalities, such as regulatory arbitrage. Daniel Drezner (2008) followed suit in a more direct challenge to the global governance literature by arguing that great market powers, primarily the US and the EU, systematically shape international regimes to fit their domestic interests. In this context, the EU is considered a state-like polity, i.e. a territorially based actor behaving 'as if' it were as a unitary actor, driving the interests of domestic societal stakeholders (Drezner 2008, building on Moravcisk, 2013). Examining a wider range of international regulatory regimes (for instance financial markets, foodstuffs and the internet), Drezner finds that when the EU and the US agree, international regimes become stable and strong; when they disagree, the regimes become fragmented and ineffective. Drezner suggests that smaller countries adapt to international regimes not so much because of the international regimes as such, but because they expect that compliance with international law will help them gain access to large markets. This poses a fundamental challenge to Global Governance Studies: to the extent that international organizations are vested with authority, this authority is not autonomous, but underpinned by large countries and their market power.

These propositions regarding the power vested in large markets opened the floodgates to a wave of research on market power, much of which took exception to the state-centric, rational-choice perspective that was central to Simmon's and Drezner's frameworks. A main critique was that this perspective could not account for variation in the use of market power across sectors and time or predict who, among the polities with market power, would be the most influential internationally. A particularly productive set of scholars developed the 'new interdependence approach' (NIA), which acknowledges that control over a large market is a great source of power, but that this power is exercised

not by a unitary and rational state, but by a variety of sub-state actors that form transnational networks with like-minded actors and exploit institutional structures to pursue their perspective (see for instance Newman 2008; Farrell & Newman, 2010; Farrell & Newman, 2014; Farrell & Newman, 19b; Posner 2009; Newman & Posner, 2018). [5]

NIA examined a number of institutionalist factors and mechanisms, often based on empirical cases drawn from the EU, which it considered 'a laboratory (unique in the number of available observations) to study how interdependencies transform politics' (Newman, 2018). A particularly central NIA proposition is that the latent power vested in a great market is activated only to the extent that there is 'regulatory capacity', an institutional factor which was defined as 'at a minimum, […] regulatory expertise, coherence, and […] statutory sanctioning authority' (Bach & Newman, 2007: 831). Having regulatory capacity means that '[r]egulators making international demands can punish resistance through penalties against foreign firms, such as reputational costs associated with condemnation, official regulatory fines, or exclusion from the domestic market.' (Bach & Newman, 2007: 832). The resulting proposition was that external power in a particular regulatory sector, such as insurance, energy, banking and telecommunications, varies not only with market size, but also with the level of internal regulatory capacity (Newman & Posner, 2015, see also Eberlein & Newman, 2008; Bach & Newman, 2010, Heims, 2019, and Quaglia, 2014). Another institutional factor conceptualized by NIA is 'jurisdictional scope'. In this vein, Kalyanpur and Newman (2019) argued that the reason why EU-based firms tend to resist complying with US extraterritorial rules more than other firms is that they consider that the EU – because of its wide jurisdictional scope – is a substitute for the US market. NIA also stresses the importance of international institutions, considering these to be main opportunity structures for transnational networks of regulators. For instance, Newman and Bach (2014) showed that the EU projects power by 'hardening' international soft law provisions, thereby shaping the global diffusion of these provisions (see also Posner & Newman, 2018 and Farrell & Newman, 2019b).

In a recent turn, responding to contemporary geo-economic competition (Aggrawal & Reddie, 2021; Roberts et at., 2019), some students of market power have shifted empirical orientation from a focus on power in the regulatory sphere to the use of market power in economic statecraft. These scholars note

[5] It should be noted that NIA scholars rarely use the term 'market power' and prefer to use terms such as 'regulatory power' (Posner & Newman, 2015). However, the view taken in this thesis is that the word 'market' best marks the field's specificity in relation to other kinds of power in international relations. After all, even NIA scholars who emphasize the importance of institutional factors such as regulatory capacity and jurisdictional scope assume that these factors draw power from the economic incentives and gravitational force of large markets.

that interdependence is not necessarily a source of rules-based order, but can be 'weaponized', through both traditional economic sanctions and modern techniques to exploit global networks in for instance telecommunications and finance (Farrell & Newman, 2019a). This turn seems to imply a theoretical shift from a mainly liberal IR perspective, which sees market power and asymmetric interdependence as key structures underpinning the liberal international order (Deudney & Ikenberry, 1999; Ikenberry, 2018), to a neorealist perspective, which sees market power as one of many means for promoting security-related aims (Baldwin 2020). Indeed, the notion that market power varies with relative levels of regulatory capacity resonates nicely with the neorealist focus on domestic capabilities as a fundamental source of power; just as it is possible to raise and mobilize an army, it is possible to mobilize market power by investing in regulatory capacity and strengthening control over firms and structures in the marketplace (Gertz & Evers, 2020).

To sum up, scholarship on market power and international order has generated three main competing strands: Global Governance, state-centrism and NIA.[6] As discussed more extensively below, these strands constitute the focal point of this thesis, which seeks to understand the relevance of the strands for understanding why, when and how the EU uses market power, in both the regulatory and the geopolitical sphere.

2.3 The debate on the EU as a power: Market Power Europe

EU market power features centrally in the long-standing debate on 'the EU as a power'. Although this debate largely mirrors the three perspectives described above, it is distinct because of its primary focus on conceptually defining the EU's identity and role as an international power.

Early attempts to understand EU power tended to assess it by using state power as a benchmark (Hill 1997). Many students of EU external action objected to this state-centric perspective, arguing that the EU is a unique kind of political entity, calling for a dedicated conceptualization of the 'nature of the beast'. Ian Manners (2002), in particular, made the influential argument that the EU is constituted by a set of constitutional norms that shape its external action, producing 'Normative Power Europe' (NPE). A huge wave of

[6] The study on Blacklisting uses slightly different terminology to refer to these same strands: normative (governance), regulatory (NIA) and liberal (state-centric). The reason for this difference is that this study seeks to communicate with the debate on the EU as a power, which, as pointed out in section 2.3, has developed specific concepts to refer to different perspectives on EU power.

conceptual innovation followed, with scholars seeking the right concepts and measuring rods to capture and assess the EU as a power (Karlsson, 2001). Epithets mainly stressed various version of soft power, including 'Ethical Power Europe' (Aggestam, 2008), 'Transformative Power Europe' (Börzel, 2010), 'Integrative Power Europe' (Koops, 2011) and 'Normal Power Europe' (Pardo, 2011).

Several of the epithets used in this debate resonated strongly with Global Governance Studies. Making this link explicit, Sandra Lavenex suggested consideration of 'the EU's international role less as that of an emerging unitary actor than as conglomerate of loosely coupled sectoral regimes expanding their prescriptive scope towards third countries in differentiated ways' (2014:885). She thereby inscribed the EU's 'internal working structures into the broader sites of global governance', and argued that the EU's 'allegedly technocratic outreach plays a pivotal role in promoting EU rules around the world' based on 'functionalist extension' (ibid:885). This had important implications for its use of market power. If the EU is comprised of loosely coupled sectoral regimes, it is ill-suited to making issue linkages, for instance, between trade and non-trade matters, and tends not to impose its laws extraterritorially.

Other researchers, however, made the case that the EU exercises considerable hard and coercive external power based on wielding its large internal market as a carrot or stick. Meunier and Nicolaides, for instance, argued that trade is at the 'core' of EU power, as it allows the Union to 'affect other countries' policies and positions through its capacity to manipulate market access' (2006: 907). Thus, the EU can gain access to external markets and 'obtain changes in the domestic policies of its trading partners, from labour standards to human rights, and more generally to shape new patterns of global governance' (2006: 908). Chad Damro (2012) went one step further by labelling the EU as 'Market Power Europe' (MPE), essentially constituted by a large market, significant regulatory institutions and a variety of stakeholders. This identity, he argued, gears the EU's external power towards 'externalization', meaning action that aims to have external parties '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 regulatory measures' (Damro, 2012: 690).

These scholars acknowledged that the EU's exercise of market power is less than straightforward and varies across sectors and issues. Meunier and Nicolaides saw the EU's power as 'conflicted', torn between different internal views on how to leverage market power and 'different guiding principles which often appear to contradict one another' (2006: 915). Damro argued that the exercise of market power is 'contested', as 'the EU's different types of economic and social regulation distribute costs and benefits differently throughout society and can result in different sets of incentives for different

types of interest groups.' Moreover, since 'the EU is a regulatory institution that is open to public consultation and influence, it serves as an arena in which various groups compete for regulation that serves their interests.' Therefore, 'MPE's strategy for externalizing regulatory standards may be determined by the relative influence of specific interest groups' (Damro 2012: 688-689).

Many scholars added to this EU-specific strand of the market power literature by studying the unique means and impacts of EU market power. Joanne Scott (2014), for instance, shows that EU law is rarely outright extraterritorial, but frequently extends beyond EU borders through what she calls 'territorial extension'. Capturing another legal means of market power, Amy Bradford coined the term the 'Brussels effect' to describe the semi-automatic external effects of EU law on international firms and third country regulatory regimes (Bradford, 2012, 2020). Becker (2022) showed that international institutions sometimes adapt to EU law to enhance the effectiveness of their regimes and avoid intra-institutional conflicts. For instance, the international organization responsible for the management of internet domain names (ICANN) adapted to the EU's data protection rules to ensure the operability and functionality of its regulatory regime.

Recently, the literature on the EU as a power has made a 'realist' turn, similar to the one noted above in the general literature on market power. A large number of publications argue that the EU is making a geopolitical pivot (see for instance Bauerle Danzman & Meunier, 2024; Couvreur et al., 2022; Gehrke 2022; Haroche, 2022; Miró, 2022; Olsen, 2022). For instance, Meunier and Nicolaides, who used to describe the EU as a conflicted trade-power (2006), now argue that it uses its power in trade 'to change the global balance of power and [uses] economic statecraft to compete', allowing the EU to acting as a 'major player in geopolitical games' (Meunier & Nicolaides, 2019: 103ff). This broadens the debate on the role played by EU market power in EU external action, from a primary focus on the regulatory sphere to general foreign policy, geopolitics and statecraft.

2.4 Contested issues and gaps

The above description of the state of the art indicates that there is broad agreement that the EU has the resources required to exercise market power (a large market, a broad jurisdiction and significant regulatory capacity), but considerable disagreement regarding its ability and inclination to use these resources actively. Specifically, the three general theoretical strands identified above generate hugely different expectations of why, when and how the EU would leverage its market power externally. The governance perspective expects the

EU to be unable and unwilling to leverage its market power directly and actively, as EU action is constituted by international norms and elite networks, which form segmented spheres of authority that are largely shielded from any specific stakeholder pressure. The state-centric perspective takes the opposite view, expecting the EU to leverage its market power to defend centrally defined national and European interests, formulated based on pressures from domestic stakeholders. The NIA, meanwhile, introduces a third, middle-way perspective, predicting a strong and active use of market power in specific sectors, depending mainly on variations in internal and external institutions, especially regulatory capacity.

Table 1 highlights the key disagreements regarding the importance of different factors for understanding the use of market power, indicating how they relate to the three research questions addressed by this thesis: why, when and how the EU leverages market power externally.

Table 1. Contested issues regarding the EU's use of market power

Contested issue	Governance	State-centrism	NIA
Main factor driving EU action (why)	EU elites promoting the EU's basic constitutive norms	National governments responding to pressures from domestic stakeholders	Networks of regulators pursuing their sector-specific regulatory aims
Main factor conditioning the use of market power (when)	Density of international law and international regimes (or spheres of authority)	Extent of convergence between nationally defined preferences	Degree of internal regulatory capacity and supporting internal and external institutional factors
Main means of market power (how)	Soft diffusion, rules- based	Hard, strategically coordinated leverage across sectors	Considerable (but uneven) leverage based on regulatory means

Seen from the perspective of this debate, MPE constitutes an effort to bridge and build on different theoretical perspectives. However, as MPE remains only a 'flexible conceptual framework' (Damro, 2015), it provides limited clarity about the exact factors and causal mechanisms that shape the EU's actions and, in the end, raises as many questions as it answers. While it borrows heavily from NIA by highlighting the importance of regulatory capacity, it also attaches great importance to competing stakeholder pressures (often associated with state-centrism) and EU law (generally associated with

governance), and remains open to including international contexts as explanatory variables. In particular, MPE pays little attention to the factors limiting and constraining the EU's use of market power. In this vein, Gehring et al. notes that it does not 'elucidate how [the EU's] market power may be employed for great power politics – and what the implications might be' (2017: 732).

Besides the theoretical questions left open by MPE, the literature suffers from empirical and methodological weaknesses. As Young (2015) pointed out, each strand in the debate on the EU as a power has tended to produce research that confirms its own expectations by examining single or closely related cases. Young notes that this has generated a state of fragmentation in the empirical knowledge on market power, and calls on researchers to use case studies from multiple sectors and apply general theories rather than propositions that are tailor-made to the EU and based on sui generis conceptualizations of core characteristics. [7]

This thesis responds to these calls by seeking to understand the EU's use of market power based on general theoretical starting points and the empirical consideration of a multitude of different cases. In other words, its overarching contribution is to move the scholarship on EU market power beyond MPE (and competing conceptualizations such as NPE), and instead test and specify the general propositions in table 1 regarding the drivers, conditions and means that shape the use of market power. By doing so, the attention shifts from the EU's unique or core characteristic as a power, to the EU's actual use of market power in its external action and the implications for the EU as an external actor.

Underpinning this overarching contribution, this thesis seeks to make a number of conceptual, theoretical and empirical contributions to the literature on EU market power. *Conceptually*, it develops typologies that build on all three theoretical strands to capture the broad variety of the EU's active leverage of market power, ranging from softer to harder means. *Theoretically*, it draws on the three strands to formulate propositions on the drivers, conditions and techniques shaping the EU's use of market power, in both the regulatory and the geopolitical sphere. *Empirically*, it examines cases not previously examined in the debate on market power covering a broad range of different issue areas, including both different regulatory sectors and geopolitical uses of market power.

[7] For instance, scholars have tended to pit NPE and MPE against each other, by interpreting them as representing two dichotomies: one arguing that the EU is driven by norms, the other that the EU is driven by interests (see e.g. Birchfield, 2017; Chen, 2023; Geeraert & Drieskens, 2017; Kang, 2020). However, Damro's original piece did not make this distinction, but remained open to the possibility that actors shaping MPE's external action could be motivated by both interests and ideational factors.

3. Theoretical starting points

This thesis draws its main theoretical assumption from the broad tradition of IR liberalism, encompassing both liberal pluralist tenets about the sources of agency and neo-institutionalist starting points regarding the central role played by institutions. This section spells out three particularly important assumptions and briefly contrasts them with alternative starting points.

First, a fundamental starting point is that large internal markets are important sources of international influence. This assumption builds on the more general tenet that power in international relations is shaped by patterns of asymmetric interdependence (Keohane & Nye, 2012:15). The fact that interdependence is asymmetric implies, in this context, that polities with a large and diverse internal market are relatively independent, which in principle gives them a relatively strong bargaining position in relation to other, more dependent polities (Drezner, 2008). In addition, beyond contexts of bargaining, asymmetric interdependence generates material incentives for external parties, both international firms and third countries, to adapt to conditions set by polities with large markets (ibid.).

Second, it is assumed that the use of market power is shaped by a variety of internal societal actors, building on the pluralist liberal tenet that 'states (or other political institutions) represent some subset of domestic society' (Moravick, 1997: 517). This assumption is widely endorsed in the IR literature, underpinning for instance Putnam's (2017) theory on Two-Level Games, as well as the large IR literature seeking to understand how variations in domestic regimes influence the external actions of states (see for instance Oneal & Russett, 2001). Potential actors seeking to promote their views and interest on the use of market power include, for instance, business actors that benefit directly from international value nets and market regulators tasked with controlling and correcting markets.

The third assumption is that market-related institutions shape the use of market power by influencing the organizational set-up, access to power and strategies of societal actors. Important *organizations* in the market sphere include, for instance, corporations, business associations, consumer groups and international regulatory regimes. These organizations, set up to enable collective

action, enshrine specific views on the use on market power, which they promote in a path dependent manner. Institutions shape *access to power* in particular by regulating which actors gain access to the venues and instruments through which market power is leveraged, thereby enabling some actors and constraining others (see e.g. Busemeyer & Thelen, 2020). Finally, institutions also influence *strategies* by functioning as opportunity structures: actors can leverage various structures – such as procedures and objectives set in law – to promote their perspectives (see e.g. Alter & Meunier, 2009; or Newman & Posner, 2018).

The main alternatives to these broad IR liberal starting points are systemic perspectives on power, and in particular the neorealist and constructivist theories that hold that the use of power on the international stage is determined by international structures and relationships. To exemplify this alternative starting point, Robert Gilpin (2016), a prominent representative of neorealist systemic theory, holds that the use of market power varies in historic pendulum movements between periods of free trade and periods of mercantilist economic statecraft. At one extent of the pendulum swing, free trade is promoted in periods when there is a powerful hegemon with unparalleled resources among its trading partners. However, as the dynamics of free trade lead to other countries catching up, the hegemon will eventually feel threatened and shift its focus from promoting free trade to instead using the remainder of its dominance to pursue neo-mercantilist policies and statecraft to ensure national security and relative strength. A constructivist version of the systematic pivot argument emphasizes shifts in language and role conceptions as key mechanisms, as changes in policy result not from an objective threat-level being reached, but rather from the construction of the counterparty as a rival (see for instance Meunier & Nicolaides 2019).

To be clear, this thesis does not aim to refute the idea that system-level factors influence the use of market power, in particular in longer time perspectives. For instance, historic changes in the state of technology can influence how market power is leveraged, as exemplified by the weaponization of modern financial and telecommunications networks (Farrell & Newman 2019a). Similarly, the understanding of the political stakes raised by markets is no doubt shaped by the construction of meaning through language, as exemplified by concepts such as 'free trade' or 'market correction'. However, for the purposes of this theses – which focuses on variations in the use of market power in a short- to medium-term perspective – these factors are assumed to be relatively stable, forming parts of the overall context in which the EU exercises market power.[8]

[8] For an analysis of the importance of temporal perspectives for explaining international power, see Drezner (2021).

4. Methods

The main methodological approach used in this thesis is based on examining the congruence of existing theories with empirical cases where the EU actively leverages its market power. This section first describes in general terms what the congruence method is and why it suits the purposes of this thesis. It then spells out the research design that follows from this methodological choice, and the material employed in the three different studies.

4.1 Congruence analysis

The essential characteristic of congruence analysis is that 'the investigator begins with a theory and then attempts to assess its ability to explain or predict the outcome in a particular case' (George and Bennet, 2005: 135). Because of its reliance on particular cases, congruence analysis is generally not strong enough to provide confirmation or falsification of general theories. Instead, it serves to specify theories so that they can be tested, and to assess the explanatory power of different theories based on plausibility probes on crucial, or tough, cases. The insights gained can then be used to draw conclusions regarding the 'relative importance of selected theories' and/or develop a more 'comprehensive explanation through a combination of the theories' (Blatter, 2012:6).

Investigators applying the congruence method are recommended to respect two analytical steps. First, theories are identified 'according to their place in the scientific discourse and the researcher's theoretical assumptions' (Blatter, 2012: 6). Importantly, the theories examined 'are not reduced to single independent variables […], but are treated as comprehensive explanatory frameworks that are specified through a set of constitutive and causal propositions' (ibid.: 7). In order to allow causal interpretation, investigators are recommended to seek to provide 'a plausible or convincing argument that the deductive theory of empirical generalization being employed is powerful and well validated' (George and Bennet: 136). In a second step, the investigator applies the identified propositions to one or more empirical cases to see whether the derived expectations are confirmed or contradicted. Cases are chosen based on an *ex-ante* expectation that they can confirm or contradict

some central or essential elements of the theories. To be able to yield significant results, the cases selected should preferably be of 'high real world relevance' and 'tough' in the sense that they can potentially generate results that are unexpected from the perspective of existing empirical understanding and/or the dominant theory (Blatter 2012: 27f). Moreover, they need to exhibit clear variation in both the explanatory factors (i.e. the social and institutional factors shaping why, when and how the EU uses market power) and the actual projection of market power. To be able to select cases optimally, the investigator needs 'significant prior knowledge about the cases' (Blatter, 2012: 8).

Both steps in the congruence method are particularly well suited for the purposes of this thesis. As regards the first step, theory selection, it is demonstrated in section 2 that the state of the art is characterized by a debate between three established strands of the literature: governance, state-centrism and NIA. The competing causal propositions generated by these three theories are so broad that it seems highly unlikely that any one of them will provide the unique explanation of the use of market power. Indeed, as noted above, researchers have largely validated the expectations of their preferred strands, often by examining single cases. The congruence method offers a way to move beyond this state of the art by specifying the propositions of the three strands into testable expectations, and seeking to establish the relative importance of the theories by examining a variety of different cases. A fact that makes this exercise particularly promising is that all three strands fundamentally build on the broad IR liberal starting points described in section 3, which means that it should, in principle, be possible to recombine elements from the strands in a theoretically consistent framework on EU market power.

Second, with regard to the choice of empirical cases, the debate between the three strands mainly focuses on a rather precise empirical issue: the EU's active leverage of market power (see table 1, section 2.4). This makes it relatively straightforward to identify cases that confirm or contradict central elements of the theories, by picking cases that demonstrate clear variations in the active leverage of market power. In terms of overall case selection, this thesis focuses on the EU's use of unilateral techniques, with a particular emphasis on techniques to project power directly in relation to third countries. These specific techniques are examined because they represent particularly clear examples of active leverage of market power compared to, for instance, the more subtle exercises of market power in the context of negotiating multilateral regimes. As further discussed in the section on empirical data (4.3), they also exhibit relatively clear variations in power projection. Finally, they are of particular real-world relevance when it comes to understanding the outer boundaries of EU power projection. As Young argues, direct power projection in relation to third countries constitutes the 'gold standard' of international influence in the regulatory sphere, as it is both relatively difficult (e.g. compared

to projecting power in relation to firms) and has high utility (e.g. compared to having the power to influence international soft law).[9]

4.2. Research design

Each of the three studies broadly respects the two steps of congruence analysis. First, they engage with one or several of the theories on market power identified in table 1, seeking to specify them sufficiently to make them empirically testable. Second, they examine empirical material in order to assess the fruitfulness of the theoretical propositions. However, each of the three papers in this thesis has a different research design depending on its aims, which include not only theory development but also empirically and conceptually oriented aims. This also means that they differ in terms of how closely they conform to the congruence method and which exact empirical case is examined.

The study on *Blacklisting* aligns most closely with the congruence method as it examines several theories and tests these on a number of cases, based on both qualitative and quantitative data. It starts by deductively deriving competing propositions from existing theories (the three described in table 1), seeking to capture a set of constitutive and causal claims on why and when the EU has recourse to this particularly coercive power projection technique. As the study seeks to establish causality, it takes care to argue that the propositions being tested are powerful, clearly validated and represent 'each other's main competitors'. It then examines the explanatory power of these propositions with regard to the establishment of two different blacklisting schemes (fisheries and corporate taxation) and the application of these schemes to third countries. Blacklisting was selected based on its potential to yield results that are unexpected from the perspective of all the theories examined.[10] In this sense, blacklisting constitutes a hard test of the EU's market power. On the basis of the empirical examination, the study argues that specific elements from all three theories are needed to explain variations in the use of blacklisting.

[9] Arguably, unilateral techniques are of particular (potential) utility in the contemporary international context, where traditional multilateral regime-building has been challenged by great power struggle (Aggarwal & Reddie, 2021; Farrell & Newman, 2019) and struggles to keep up with novel kinds of intangible services markets (Young & Peterson, 2013).

[10] The exact case selection was justified as follows: 'the EU currently only operates three blacklisting schemes: the two examined here and a third on tackling money laundering. Space constraints prevent coverage of all three, so this study focuses on the two sectors that are generally most different in terms of policy issues, type of market and EU legal competence. The case of fisheries addresses environmental sustainability and tangible products, and is an area of exclusive EU competence. Taxation, in contrast, concerns the financing of the public sector and intangible services, and is an area where the EU has no formal competences. These differences increase the likelihood that explanations that are found to apply in both cases might also apply to other areas of EU action'.

The study on *Regime vetting* applies the congruence method not to test competing theories, but to refine the propositions of general theories and gauge their plausibility. Specifically, it draws on the NIA-perspective's propositions on regulatory capacity to develop a conceptual typology for an understanding of the EU's active and unilateral leverage of market power in relation to third countries in the regulatory sphere. It then develops propositions on how variations in contextual factors (fear of negative externalities from abroad, and density of international networks) influence the use of different types of regime vetting. It illustrates and demonstrates the plausibility of the propositions by examining a variation across a range of empirical cases, from forestry and medical devices to fisheries and data protection.

Liberalism strikes back builds on the first two studies to seek to develop comprehensive and integrated propositions on the EU's use of market power in the context of great power struggle. The resulting expectations are then applied to rather broad empirical material, encompassing a range of recent cases of statecraft and externalization. In other words, the study uses congruence analysis to specify IR liberal propositions on market power and thereby demonstrate the continued relevance of IR liberal starting points in the contemporary international context. While it does not formally test this in relation to a competing theory, the findings contradict the assumption made in a large wave of recent literature – generally based on systemic perspectives on market power – that the EU is making a fundamental 'geopolitical pivot'.

4.3 Empirical data

The market power techniques examined in this thesis are enacted and implemented through unilateral decisions made formally by EU institutions. This makes it relatively straightforward to assess variation in the EU's projection of market power, simply by reading formal decisions made by EU institutions, such as legislative acts, implementing acts and policy documents. Often, the same kind of regulatory scheme or legislative clauses are applied across different sectors and in relation to a wide range of third countries, which generates clear and rather general patterns of EU power projection across sectors and targets. This means that the assessments of power projection made in this thesis have a relatively high reliability and validity. In comparison, power projection in the context of bilateral trade agreements or multilateral regulatory regimes is generally embedded in rather non-transparent dialogues, which means that research on such techniques needs to rely on data that is often relatively patchy (such as interviews and documentation of negotiation positions and outcomes) or based on strong assumptions (such as the assumption that the EU always seeks to export its own internal rules).

The types of material used in the three articles vary. *Regime vetting* categorizes different legislative clauses and regulatory schemes identified in EU legislative acts and policy documents as different types of regime vetting. This material is made accessible in an Appendix to the article, which analyses 12 specific cases of regime vetting schemes, and over 300 instances where these schemes have been applied to close to 100 third countries. Similarly, *Liberalism strikes back* categorizes different policy instruments mentioned in recent literature in terms of either statecraft or externalization. This is done based on a mix of secondary sources (articles in peer-reviewed journals) and primary sources, such as EU legislation.

Blacklisting examines the emergence of blacklisting schemes based primarily on preparatory documents published by the European Commission, complemented with secondary sources in the academic literature. Implementation of the schemes in relation to third countries is examined based on an exhaustive mapping of implementing decisions adopted by the Council of the European Union (in the case of corporate taxation) and the European Commission (in the case of fisheries). The material is made accessible in an Appendix to the article, which analyses decisions in terms of both the economic size (GDP) of the listed countries and the time periods in which countries were listed.

5. Main findings and contributions

This section first outlines the main findings of the studies, spelling out how they respond to the research questions and what they mean for the EU as an external actor. It then sums up the different conceptual, theoretical and empirical contributions, which combine to constitute this thesis' overarching contribution, to move the scholarship on EU market power beyond the debate between competing conceptual frameworks, such as MPE and NPE, intended to capture the EU's main characteristics as a power.

5.1 Regime vetting

This study defines and conceptualizes regime vetting as a distinct technique in the EU's repertoire in its capacity as a global regulator. Put simply, regime vetting means that the EU systematically assesses third countries' regulatory performance in a particular sector and, based on this assessment, either facilitates or restricts its market access in that sector. The study finds that regime vetting comes in different types involving different degrees of direct power projection; it can be coercive, assertive or supportive, or simply used to validate other countries' performance levels, with little intention on behalf of the EU to drive regulatory change. By bringing together a broad variety of practices — not previously perceived as forming a coherent technique — under one broad category and sorting them into distinct types, the study contributes to the understanding of *how* the EU leverages its internal sources of power to actively project power externally in the regulatory field.

In a second step, the article builds on the typology to develop propositions regarding the contexts in which the EU can be expected to apply different types of regime vetting. While previous research has highlighted the importance of *external* contexts in shaping policy strategies in the regulatory field (Newman & Posner 2015; Simmons 2001), the article argues that when it comes to active power projection through regime vetting, which is generally based on formalized processes enshrined in EU law, the *internal* context also contributes to shaping policy strategies. Illustrating its argument based on a wide range of empirical examples (drawn from sectors such as forestry, financial services and fisheries), the article suggests that the most powerful types

of regime vetting are accessible to EU executive powers only in an internal context where there are significant fears about negative externalities from abroad. By explaining variations in the degree of direct and active power projection across sectors, this proposition addresses the question of *when* the EU leverages its internal sources of power to actively influence third country jurisdictions.

The implication of these findings is that the EU is an active global regulator that uses a variety of sector-specific practices to leverage its market power directly in relation to third countries, in order to structure its external boundaries and manage the globalization trilemma. In a context where it cannot be taken for granted that global market regimes will be based on liberal and democratic values, the EU could see regime vetting as a key technique for enhancing democratic and rules-based authority over increasingly important market sectors that defy traditional regulatory techniques, such as digital markets. The article argues that it might then make sense to think about regime vetting as part of a particular EU foreign policy pursued sector by sector in areas where fragmented or diverse global regulatory regimes appear particularly threatening from a European standpoint.

5.2 Blacklisting

With the aim of advancing knowledge about the EU's active power projection as a global regulator, this study examines EU 'blacklisting', a technique designed specifically to leverage the threat of market restrictions to persuade third countries to change their domestic regulatory regimes in specific areas. Previous studies have found that EU blacklisting has considerable impacts on the targeted third countries in specific sectors, but stopped short of mapping blacklisting practices across different sectors or examining the factors driving and conditioning the EU's use of this technique. The study in this thesis provides an original mapping of EU blacklisting practices in two sectors (fisheries and taxation) and seeks to explain why and when this particularly coercive technique emerges in EU law and is applied to third countries.

The study finds that none of the three factors derived from the EU-as-a-power debate (EU elites promoting the rule of law; internal regulatory capacity; domestic stakeholder pressure channelled through intergovernmental structures) are sufficient to fully explain variations in EU blacklisting, which has emerged in EU law in only a couple of sectors and is applied quasi-exclusively to small countries, while large countries violating EU norms are given a mere warning. The article argues that the EU's highly ambitious but strikingly inconsistent use of blacklisting stems from its complex and composite institutional structure. First, EU elites and law combine to drive a principled external action to

promote the rule of law, which largely explains *why* blacklisting is used. Second, internal regulatory capacity provides the monitoring and control resources necessary to set up and roll out universally framed blacklisting schemes. Finally, stakeholder pressure, channelled through national structures, simultaneously enables the establishment of blacklisting schemes and constrains their use in practice to the smallest third countries, which thus explains *when* this technique is used.

The implication of this finding is that the EU is institutionally predisposed both to actively promote norms internationally and to break the norms it sets out to defend. This means that blacklisting and similarly coercive techniques to leverage EU market power have bounded 'utility' for the EU as a global regulator (Young, 2015), at least when it comes to establishing general international norms in the regulatory sphere. Indeed, it could be argued that the pattern identified regarding blacklisting marks the de facto outer limits of the EU's active power projection as a global regulator.

5.3 Liberalism Strikes back

This study sets out to question the prevailing view that geopoliticization constitutes a pivotal turning point set to undermine trade and regulatory cooperation and – by extension – the liberal international order. Drawing on liberal theory in international relations (IR), it argues that polities with great market power are likely to respond differently to geopoliticization, by using market power not only in ways that undermine the liberal international order, but also in ways that serve to support or reconfigure it. Specifically, security-oriented *statecraft* undermines interdependence by disrupting trade and, to varying extents, generating mistrust in international value chains and leading to escalating geopoliticization. *Externalization* measures, meanwhile, project internal order externally by conditioning market access (and thereby interdependence) on adherence to generally defined rules. The combination of statecraft and externalization in a polity's overall policy mix thus captures an important aspect of how market power is used to respond to great power struggle.

Rebutting the claim made by a wave of recent literature that the EU is making a clear geopolitical pivot towards statecraft, the study demonstrates empirically that a main part of the EU's response to contemporary great power struggle is to make a step-change in its externalization efforts, effectively pushing back against geopoliticization. Theoretically, IR liberalism explains this with reference to variations in underlying societal pressures. While societal factions with interests in the EU's internal market and international regulatory regimes respond to international geopoliticization by supporting a more assertive externalization of EU regulatory policies, deep-rooted resistance from national

security elites to building EU-level capabilities in areas of core state power restricts the EU's use of market power for purposes of statecraft. Variations in societal pressures could thus explain *why* the EU responds by pushing back against geopoliticization.

The implication of these findings is that the EU is best considered a liberal power (Wagner, 2017), the main role of which on the world stage is tightly associated with international regime building. Another implication is that the liberal international order may be more resilient than is often suggested, as an IR liberal perspective would expect other polities to produce similarly differentiated responses to great power struggle depending on the relative mobilization of different societal factions. The most likely overall outcome that follows on from these various responses is not a general and uniform roll-back of the liberal international order, but a reconfiguration of this order.

5.4 Summing up the contributions

The three studies combine to make a series of conceptual, theoretical and empirical contributions to the literature on EU market power. Together, these contributions make an overarching contribution by shifting the attention in the scholarly debate from the EU's unique or core characteristic as a power, to the EU's actual use of market power in its external action and the implications for the EU as an external actor.

The main *conceptual* contributions regard the techniques used by the EU to leverage its market power. Much of the previous research has been based on a dichotomy between hard/direct/ centralized and soft/diffuse/sectoral techniques, constructed by the debate between the state-centric and governance strands in the literature on market power (see in particular Lavenex, 2014; and Drezner, 2008). This dichotomy has become central also in the wave of literature on the geopoliticiziation of international markets, which suggests that the EU is fundamentally shifting its use of market power towards hard, direct and centralized techniques by pursuing a new kind of security-oriented economic statecraft that undermines the liberal international order. The conceptual innovations of this thesis instead highlight the large variety of the EU's means of leveraging market power, and thereby discerns a significant and poorly understood area between powerful and centrally coordinated foreign policy and a de-centred functionalist extension of EU policy. First, the concept of regime vetting captures a distinct and increasingly important part of the EU's power repertoire in this area, as it denotes market power techniques that are active and direct, but leverage market access in specific sectors and rely on de-centred regulatory capacity to engage with third countries. Second, the distinction made in the thesis between economic statecraft and externalization

measures helps to demonstrate that the literature on geopoliticization misinterprets the implications of the EU's response by failing to distinguish policies that undermine the liberal international order from policies that instead serve to reconfigure and underpin this order. These conceptual innovations contribute by enabling a potentially more productive and accurate examination of how the EU leverages its market power across different sectors of external action.

As its main *theoretical* contribution, the thesis specifies the drivers, conditions and techniques shaping the EU's use of market power. By assessing the explanatory power of competing theoretical strands based on the congruence method, the thesis demonstrates that the EU's use of market power can be best understood by combining elements from the main strands: governance, state-centrism and NIA. The governance perspective is found strongest when it comes to identifying the drivers of the EU's use of market power. In this vein, the thesis argues that EU elite policy entrepreneurs leverage internal and external opportunity structures, including structures of EU and international law, to promote the perspective of the network, for instance to ensure sustainable fisheries or fight unfair corporate taxation. State-centric propositions, meanwhile, are necessary to identify the main conditions shaping strong uses of market power. This is shown, in particular, by the finding that blacklisting schemes emerge in EU law and are applied to third countries only when this does not contradict the commercial interests of member states. It is also supported by the argument that the EU's relatively limited use of statecraft could be explained by resistance from member states to developing EU capabilities in areas of core state competences, such as security. The NIA perspective, finally, helps to explain how market power is used by highlighting the central role played by regulators and the regulatory capacity of the EU's externalization of sector-specific market policies. In combination, these theoretical contributions lay the basis for a nuanced understanding of the EU's market power that better accounts for the different roles played by various factors (EU elites; law; national governments; regulatory capacity) in shaping the EU's use of market power in its external action, in both the regulatory and the geopolitical spheres.

Empirically, the thesis contributes by examining the EU's use of unilateral techniques, which are under-researched compared to traditional instruments such as trade agreements and the negotiation of international conventions. The fact that these unilateral techniques are generally based on and implemented through formal EU decisions allows a detailed analysis of variations in EU market projection across different sectors and countries, including both regulatory and geopolitical uses of market power. Regime vetting examines material across a range of sectors, from forestry and medical devices to fisheries and data protection (see the appendix to the article). Blacklisting maps the

EU's blacklisting decisions and analyses them by examining the economic size of targeted countries and the time they have spent on EU blacklists (see the appendix to the article). Liberalism strikes back, finally, re-examines a wide range of recently developed policy instruments to rebut the empirical claim that the EU is making geopolitical pivot from externalization to state-craft. These empirical contributions are particularly valuable given the state of fragmentation of the empirical knowledge of market power, which results from the examination of single or closely related cases (Young, 2015).

6. Broader implications

The overarching aim of this thesis is to clarify what the EU's market power means for our understanding of the EU as a global actor, in both the regulatory and the geopolitical spheres. This section starts by summarizing the main takeaways regarding the EU as an actor and then discusses the implications of the findings of this thesis for the IR literature on global governance and market power.

6.1 The EU as an actor

Students of the EU's use of market power in its external action mainly emphasize either the EU's hard, active and strategic use of market power in centrally coordinated action, or the importance of market power for the soft diffusion of EU rules. For instance, Sandra Lavenex (2014) conceptualizes these practices in terms of Type 1 (foreign policy) and Type 2 (functionalist extension). She argues that the EU projects power mainly based on Type 2, which is challenged by those who argue that the EU is making a geopolitical pivot (towards type 1) in response to great power struggle. This thesis, however, suggests that studies on EU external action also need to consider a 'Type 3' external action, characterized by active and sometimes hard power projection based on largely sector-specific contexts and actors. The EU's use of market power ought then to be understood as a central element of the EU's evolving 'diplomacies', emerging sector by sector, issue by issue (Damro et al., 2017), with a main focus on externalization and international regime building in different regulatory areas.

A main characteristic of this type 3 external action is that it evolves in close connection to the EU's internal integration, in particular the gradual generation of internal laws, regulatory capacity and networks of policy entrepreneurs. It can therefore only be fully understood by examining the interplay between evolving EU integration in various sectors and the EU's external engagements. As demonstrated in this thesis, this tight link with EU integration does not imply that study of EU external action needs to become 'sui generis'. Instead, both EU integration and external action can be studied based on general IR liberal starting points. For instance, the policy entrepreneurship driving

EU external action can be considered from a general understanding of how policy entrepreneurs act supranationally or transnationally to drive their agenda (Newman & Posner, 2017; Shunz & Damro, 2020). Similarly, the specific action-conditions generated by a union of liberal, democratic states can be understood based on the literature on how variation in domestic regimes influences the external action of states (Wagner, 2017).

In more practical terms, type 3 external action is characterized by huge sector variability, as the state of internal EU integration variously enables and constrains EU external action. Sometimes it can be very soft, driven fairly autonomously by EU elite level policy entrepreneurs with only limited direct support from internal structures. For instance, entrepreneurs centred in and around specific Directorate Generals in the European Commission might initiate multilateral dialogues and contribute to international regimes to build legitimacy for their domestic agendas or to generate new venues where they can liaise with the like-minded to develop international soft law (Farrell & Newman, 2019b). In other areas, type 3 external action can be relatively hard, underpinned by an active use of market power, provided that the internal and external context allows it. This harder external action tends to emerge in sectors where markets are associated to a high degree with fluid factor mobility, which generally means that differences in regulatory regimes generate negative externalities. Examples include, in particular, digital services (for instance the use of AI) and matters related to environmental sustainability. In these areas, a wider repertoire of hard market power tends to become available to EU elite policy entrepreneurs, because of a variety of contextual factors identified in this thesis, such as the density of international institutions, internal regulatory capacity, fear of negative externalities and convergence of member state preferences. It follows that the EU's market power is largely non-fungible, and tied to the context in which it emerges. As is highlighted in this thesis, its utility for setting global norms is also limited by the EU's often inconsistent implementation of its principle-framed instruments.

6.2 Global governance and market power

The market power literature emerged as a challenge to Global Governance Studies and the alleged shift towards a post-Westphalian order, by arguing that any 'international authority' is in fact underpinned by large countries and their market power (Drezner, 2008). This thesis reaffirms this challenge, as it shows that the EU does indeed use its market power to underpin international regulatory regimes, in particular in areas where it is in the EU's commercial interest to do so. The EU's use of market power cannot be dissociated from Westphalia, i.e. a world split into geographically delimited states aspiring for

sovereign control over their territory, as it is based on controlling an internal market and strongly shaped by national interests.

To illustrate this reaffirmed challenge, Global Governance studies has recently minted a new concept to describe the techniques used to project international authority: Global Performance Indicators (GPI), through which global elites define what is to be considered 'normal' and represent 'good governance' (Kelley & Simmons, 2019). Morse (2019), for instance, examines an international GPI on anti-money laundering and emphasizes how it draws on the epistemic power exercised by a minuscule international secretariat (the Financial Action Task Force). However, Morse neglects to observe that the international-level GPI is mirrored and thereby underpinned by the US and EU regime vetting schemes.[11] This probably means that EU regime vetting underpins some of the most potent GPI's, framed by the global governance literature as based on international-level epistemic authority.

Nonetheless, the thesis also indicates that market power often works in combination with the factors usually associated with global governance, such as international law and transnationally organized elite networks. For instance, the study on Blacklisting shows that EU elite policy entrepreneurs first contributed to international regime building with regard to sustainable fisheries and corporate taxation, and later used the EU's blacklisting schemes to support these very same regimes. This means that it can be fruitful to examine international regime building by openly considering variations in the interaction between actors from polities with great market power and international institutions, and to consider how they can be mutually supportive in building international regimes over time (see for instance Müller et al. 2014). A possible hypothesis to explore based on the findings of this thesis is that global governance becomes more Westphalian in sectors generally associated with negative externalities, and more post-Westphalian in sectors where there are no such externalities and policy entrepreneurs from the EU and elsewhere cannot actively leverage significant market power.

[11] Urquijo (2022) argues that FATCA succeeded because the US was able to use its market size to create
a coercive mechanism and broke through the international impasse on how states should implement the regulation by negotiating with the EU's five largest economies.

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