



The Internal and External Dimensions of EU Governance

03: The European Union as a Regulatory Superpower

Luuk Schmitz 

luuk.schmitz@mpifg.de

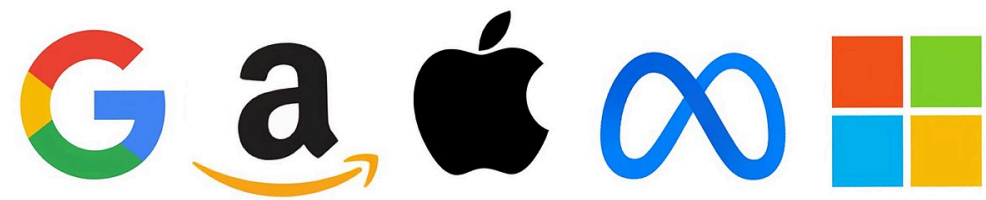
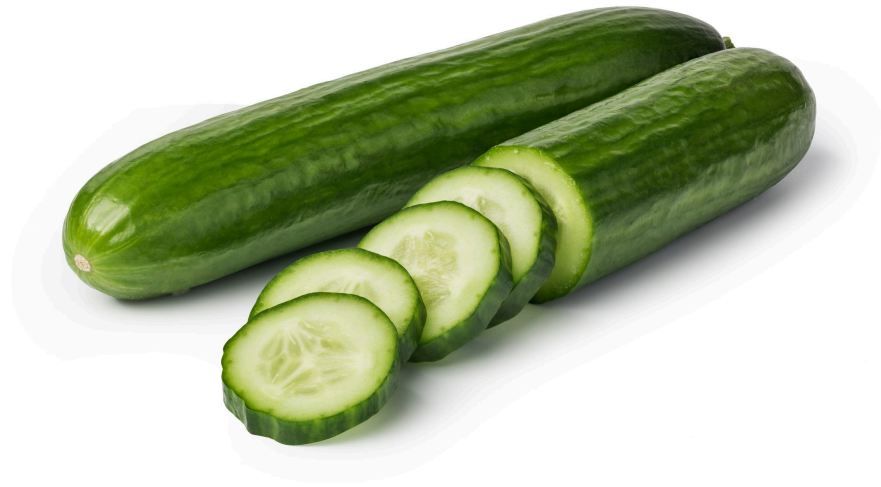
Max Planck Institute for the Study of Societies

The internal and external dimensions of EU governance (University of Dusseldorf)

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The EU ≠ superpower(?)

Internal ≠ external(?)



Agenda

1. What kind of political-institutional animal is the EU? (10:45-11:30)
2. The Brussels effect (11:30-12:30)
3. Farmers, (pitch)forks, and pesticides: The CAP (13:30-14:30)
4. The AI arms race (14:45-15:30)
5. Discussion, Q&A (15:30-16:00)

What kind of political and institutional animal is the EU?

Some basic numbers

The EU's political development - and its compound polity - are often seen as something *sui generis*: too unique to compare to anything else. Yet, if we want to understand past, present, and future of European integration, we must find ways to make sense of Europe, either through unique foundational narratives (De Vries, 2022) or by comparing it to other 'project-states' (Kelemen and McNamara, 2022; cf. Maier, 2023).

Some numbers:

Cologne (municipality)

- 1. Number of inhabitants: 1,1mn (2024)
- 2. Number of employees: 22,000¹
- 3. Annual budget: €5bn

EU

- 1. Number of inhabitants:

449mn
- 2. Number of employees (all EU institutions):

60,000²
- 3. Annual budget:

153bn (±260bn with NextGen EU)

The EU: A Unique Political Development

Neither a state nor just an international organization Striking imbalance in institutional development:

Strong: Legal authority, regulatory capacity, judicial system

Weak: Fiscal resources, administrative apparatus, coercive power

Kelemen & McNamara describe this as “highly imbalanced: it wields extensive legal authority... yet the EU’s robust legal and regulatory powers stand in stark contrast to its minimal independent fiscal capacity, its diminutive administrative apparatus, and its essentially non-existent coercive capacity”

Understanding the EU Through State-Building

State-building theory reveals two key drivers of political centralization:

1. **Security/War Logic:** “War made the state and the state made war” (Tilly)
2. **Market Logic:** Building institutions to facilitate commerce

- Historically, most complete political developments occurred when both forces present

EU’s distinctive development: Market without war

Kelemen and McNamara (2022) argue: “the EU’s unusually uneven and unstable institutional architecture is a product of the fact that Europe’s political development has been pushed forward only gradually, by processes of market integration, without the pressure of war”

The “Law State” Before the “War State”

EU resembles early phases of state formation, focused on legal integration

“As Francis Fukuyama notes regarding state-building in early modern Europe, ‘one of the peculiar features of European state-building was its heavy early dependence on law as both the motive and the process by which state institutions grew’” (Kelemen & McNamara)

But unlike historical states, EU never developed coercive capacities due to NATO protection “While the EU’s pattern of political development is a departure from many historic episodes of state-building in western Europe, it is not without parallels” in Latin America, Asia, and Africa

The EU Budget: Regulation Without Taxation

EU budget: Only ~1% of GDP (vs. US federal ~20%)

As Bradford notes: “These tight budgetary constraints restrict the Commission’s ability to pursue direct-expenditure programs... In contrast, there is no ‘regulatory budget’ to limit the amount of regulations”

“As Giandomenico Majone has noted, ‘since the [Commission] lacks an independent power to tax and spend, it could increase its competencies only by developing as an almost pure type of regulatory state’”

Creates powerful incentive for regulatory rather than fiscal governance(!)

The EU's Uneven Political Development in Global Context

European integration primarily driven by market logic, leading to:

- Strong regulatory state with weak administrative capacity
- Powerful courts with limited enforcement mechanisms

Kelemen & McNamara: “The EU does not need to be a Weberian state, nor be destined to become one, for the state-building perspective to shed new light on its processes of political development”

Crises emerge from these institutional gaps: “The economic devastation of the Eurozone crisis was in part rooted in the stunted governance architecture of the EU's Economic and Monetary Union and its single currency without a common fiscal policy”

What about 2022 and beyond?

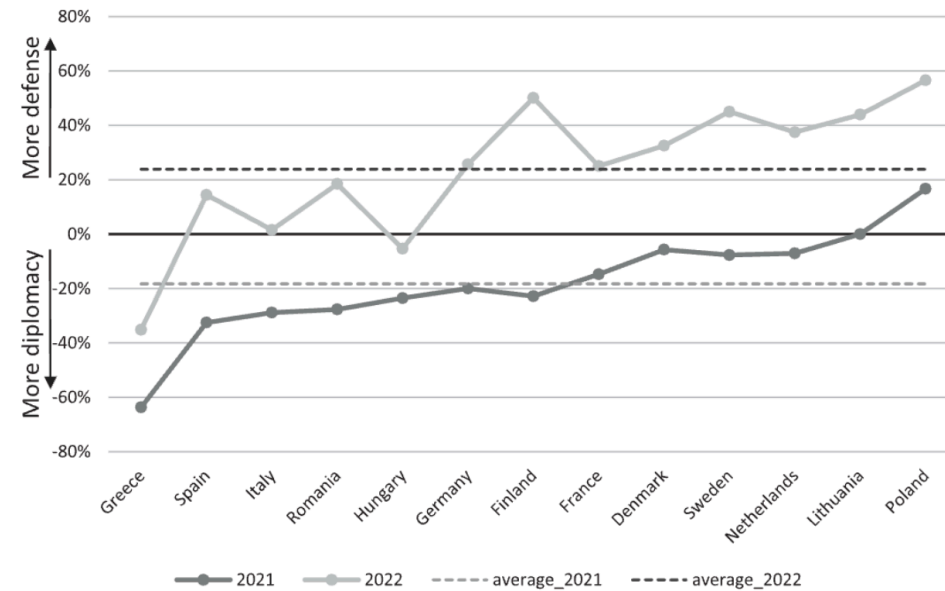


Figure 1. More defence or more diplomacy?

Notes: Survey question: Thinking about the European Union's relationship with Russia, which approach would you prefer European countries to take? Answer categories: European countries should invest more in defence and security to defend against Russian aggression; European countries should invest more in trade and diplomacy with Russia to improve relations; Neither of these; Don't know. The graph shows net-support for more defence (i.e., share of support for more defence minus share of support for more diplomacy).

Source: EUI-YouGov 2021, 2022.

Centralization requires the co-presence of two conditions:

1. postfunctional (collective security imperatives)
 2. functional (comparative advantage of central institutions in handling core state powers).
- Survey evidence on collective security imperatives is mixed
 - Functional pressures are different compared to traditional state building (constituent units are comparatively stronger)

The Brussels effect

The Brussels Effect: EU's Global Regulatory Influence



Definition: The EU's ability to unilaterally shape global markets through its regulations

Damro defines this as the EU “that exercises its power through the externalization of economic and social market-related policies and regulatory measures”

Bradford: The EU as a global regulatory hegemon ... an empire of laws and regulation

Examples: GDPR, USB-C chargers, REACH chemicals regulation, Antitrust

Both *intentional* and *unintentional* regulatory export

Three Foundations of EU Regulatory Power

Material Existence: World's largest single market

According to Bradford: “with only 7 percent of world population Europe still generates almost 22 percent of the world's wealth... Together, Europe is the first commercial power in the world”

Damro: “market size affects the material incentives facing governments when choosing whether to co-ordinate regulatory standards”

Institutional Features: Advanced regulatory capacity

Bradford: “High levels of regulatory expertise, coherence and sanctioning authority are preferable for externalizing regulatory measures”

Damro: “the EU generates a considerable amount of economic and social regulation... which can either liberalize or restrict market activity”

Interest Contestation: Competing stakeholders

Damro: “Because 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”

Market Power Europe: From Internal to External Influence

EU initially focused on internal harmonization to build single market

Bradford: “The internal market rationale was central, for example, in enacting the chemical safety regulation ‘REACH’” External influence evolved over time:

Bradford: “In its 2007 working paper ‘The External Dimension of the Single Market Review,’ the Commission acknowledges that ‘[T]he EU is emerging as a global rule maker, with the single market framework and the wider EU economic and social model increasingly serving as a reference point in third countries’”

Damro: “The Commission asserts that ‘[t]he EU has spurred the development of rules and standards in areas such as product safety, the environment, securities and corporate governance which inspire global standard setting’”

How the Brussels Effect Works

De facto Brussels Effect: Market forces lead companies to adopt EU standards globally

According to Bradford's Commission document analysis: "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"

Conditions for success (Bradford):

Market size: "A sufficiently large internal market drastically reduces a government's incentive to switch its standards" (Drezner)

Regulatory capacity: Expertise, coherence, and sanctioning authority

Strict standards (that can't be circumvented)

Inelastic targets (companies that can't easily exit the EU market)

Non-divisibility of standards (difficult to maintain different production standards)

Why Companies Comply Globally

Economic incentives:

Scale economies favor single global standard.

Damro: “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’”

Pro-regulation coalitions:

Damro: “When considering the views of the various key interest groups, harmonizing up as opposed to down also provides a fertile ground for compromise. Marrying each standard’s economic purpose to its broader societal purpose helps build coalitions among different stakeholders.”

Bradford: “This way, the regulatory density in the EU has had the effect of enabling more ambitious rule-making as the reluctant member states have been brought onboard through concessions on other policy areas”

The CAP

The Common Agricultural Policy: The Cinderella of EU policy competences

First major common policy (1962): Testing ground for EU regulatory governance

Financial significance: ~38% of EU budget (€387 billion for 2021-2027)

Dual objectives that mirror broader EU regulatory strategies:

Internal: Market organization and farmer income stability

External: Food security and environmental protection

Evolution: From production subsidies to regulatory regime with complex conditions

CAP demonstrates how EU combines market-making with market-correcting regulation

CAP as External Regulatory Force

Global impact through trade: EU is world's largest agri-food importer and exporter

Sets de facto global standards for food safety, labeling, and production methods

Market access conditional on compliance with EU regulatory requirements

“Farm to Fork” Strategy (2020): Regulatory extension as climate policy

- 50% reduction in pesticide use by 2030
- 25% of agricultural land to be organic by 2030
- Third countries must adapt to access EU market

Contentious externalization: WTO disputes with US, Brazil, Australia over EU's precautionary regulatory approach

CAP: Interest Contestation and Regulatory Politics

Complex stakeholder landscape:

- Traditional agricultural lobbies (COPA-COGECA)
- Environmental NGOs and consumer groups
- Food industry and retailers
- Member state interests (France vs. Nordics)

Regulatory coalitions:

- Unusual alliances between farmers and environmentalists to block GMOs
- Producer-consumer coalitions defending European food quality standards
- Regional coalitions defending geographical indications (e.g., Champagne, Parmesan)

Key insight: EU food and agriculture regulation exemplifies how:

- Divergent interests forge coalitions around common regulatory standards
- Internal market needs become powerful externalized regulatory forces
- EU's regulatory identity shapes global markets through access conditions

The AI Arms Race

AI Sovereignty: Competing Visions

What is AI sovereignty? Mügge defines it as “the need for control, as necessary to develop and deploy AI technologies, of computing capacity and data storage, of access to human resources and potentially proprietary knowledge to build AI applications, and of training data”

Three fundamental tensions identified by Mügge:

For whom?

Jurisdictional sovereignty: “pitting countries or jurisdictions against each other”

vs. Citizen sovereignty: “citizen empowerment vis-à-vis a powerful tech sector”

To what end?

“To boost Europe’s position in a putative AI race”

vs. “To emancipate policymaking from competitive rationales”

For whose benefit?

“Conceived in ‘Europe first’-terms”

vs. “Heeds the interests of people beyond EU boundaries”

The EU's Approach: Jurisdictional and Competitive

EU's actual position: Mügge's analysis of Commission documents reveals:

Strong jurisdictional focus: "AI sovereignty pits Europe against other major AIT powers, such as the USA and China"

Embraces competitive rationale: "AI sovereignty is a means to boost EU economic competitiveness and to secure a better European position in a global AI race"

Eurocentric benefits: "AI sovereignty discourse is normatively Euro-centric in that it effectively ignores the global ramifications of an accelerated EU push into AITs"

EU AI Act: Example of these tensions in practice

Mügge: "The Commission has argued in a similar direction: 'the European vision for 2030 is a digital society where no one is left behind'"

The Political Economy of EU AI Regulation

Regulatory coalitions matter:

Mügge: “many of the less-wealthy member states would arguably have benefited from less-stringent regulations to facilitate much needed economic growth”

“The member states eager to elevate regulatory standards in many policy areas are often wealthier countries from Northern Europe, vested with greater political leverage”

Discourse vs. reality:

Mügge: “The AI sovereignty discourse obscures the substantive political choices that become necessary once it is translated into concrete policy”

“Commission repeatedly underlines that AITs are characterised by ‘fierce global competition’, necessitating a push for ‘AI made in Europe’”

The Global Impact of EU AI Regulation

Global influence ambitions:

Mügge cites Commission statement: “It is also essential to make sure that the private sector is fully involved in setting the research and innovation agenda” “If the EU wants to exert influence, it must do so with the means available to it. Lacking traditional means of power, the EU’s greatest global influence is accomplished through the norms that it has the competence to promulgate”

Global impact on developing countries:

Mügge: “AI-powered precision farming, for example, promises to reduce pesticides, fertiliser and water consumption, making it an ideal technology to help a growing population in the developing world”

But: “the extent to which variation across decision-making rules for issuing and enforcing regulatory measures determine which actors contribute, at any given time, to the external dimension of the regulatory state”

AI Sovereignty and Democratic Control

Critical tensions remain unaddressed:

Mügge: “Making sure that ‘AI [works] for the people and [is] a force for good in society’ means letting (preferably European) companies build innovative AI applications while outlawing individual rights infringements”

“Protection of individual rights, defined top-down, looms large. But societal harms receive scant attention”

The road ahead:

Mügge: “The single market operates as an arena in which interest contestation helps to determine the likelihood of the EU intentionally and unintentionally exercising its power in international affairs”

“It would underestimate the importance of public policy to assume that it flowed naturally from technological transformations, rather than from political choices”

Brining back an old friend

Building blocks of the single market (cf. [Matthijs and Meunier, 2023](#)):

- Open and reciprocal access to world markets
- An open and competitive intra-European market, undistorted by excessive aid for domestic firms
- State aid limited to developmental purposes and crisis-based measures
- Price stability and convergence towards similar economic structures



Discussion Questions

1. Is the EU's regulatory power sustainable in an increasingly fragmented world order?
2. How does the EU balance between protecting its citizens and maintaining global competitiveness?
3. Does the EU have a democratic mandate for its global regulatory role?

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