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Transforming Europe? The EU's industrial policy and geopolitical turn

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ABSTRACT

Markets require rules, made and enforced by governments, and modern market-making has therefore unfolded as an intrinsic part of state-building. While the European Union is not a state, it has not been immune to these processes. Over the last three decades it has expanded its Single European Market and created a currency while constructing European political authority and deepening its institutional capacities. The EU has done this through supranational market-making largely centred on neoliberal precepts of competition and openness. Today, however, the EU is breaking with that tradition by pursuing a visibly interventionist European industrial policy and geopolitical market strategy. I suggest a theoretical framework to illuminate how this policy turn may reconfigure the EU's political authority and build it as a polity. After briefly identifying the contours of the new European industrial and geoeconomic policy, I outline a research agenda to probe how the new market activism may reformulate societal interests and coalitions, increase the politicisation of the EU's governing institutions, raise the stakes for democratic legitimation, and project the EU as a geopolitical actor. The conclusion notes how this new market-making translates into significant policy challenges for both the EU and the international economic order.

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Capitalism's historical development has, by necessity, been deeply intertwined with the development of political authority. Markets require rules, made and enforced by governments, and modern market-making has therefore unfolded as an intrinsic part of state-building (Poggi, 1978; Skowronek, 1982; Spruyt, 1994). While the European Union is not a state, it has not been immune to these processes. Over the last three decades it has deepened its Single European Market and created a currency while constructing European political authority and expanding its institutional capacities

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(Fligstein & Stone Sweet, 2002; Kelemen & McNamara, 2022). The EU has done this through a particular type of supranational market-making largely centred on neoliberal precepts of competition and openness (Fligstein & Mara-Drita, 1996; Jabko, 2006; Rosamond, 2012). Today, however, the EU is breaking with that tradition by pursuing a set of overt, activist government interventions including a European industrial policy and geoeconomic strategy. Although the EU has a long history of structuring markets for political ends, today's highly visible activism in both domestic and global markets signifies a transformation in EU governance. What might the implications of this new type of market-making be for the EU's political authority and its development as a polity? In this article, I offer a theoretical framework and a research agenda for answering this question.

The turn towards market activism evidenced in the new European Union industrial policy and geopolitical approaches to global markets is difficult to miss even for a casual observer. From manufacturing micro-precise lenses for semi-conductors in the forests of Bavaria, to electric vehicle battery manufacturing in Croatia, to a hydrogen lab sited in Sicily, billions of euros are now being spent on EU-directed supply chain projects, upending the traditional aversion to public subsidies and joint industrial activities. The EU's market interventionism also has a major foreign policy dimension. Under its 'strategic autonomy' rubric the EU has been pursuing foreign investment screening and developing anti-coercion instruments aimed at insulating Europe from global economic vulnerabilities – all the while revising free trade rules to combat climate change.

At the heart of this market activism is a refashioned European industrial policy alongside a new geopolitical approach to international markets. I define today's EU industrial policy as the use of public powers to actively shape markets for the interests and values of a bounded political community, in ways that overtly represent the government's interventionist role. EU industrial policy is complemented by new European geopolitical policies that seek to actively shape complex global supply chains across key strategic areas in manufacturing, raw materials, and innovative technologies. The specific tools of today's EU's market interventions align with those traditionally used at the national level, namely subsidies, administrative coordination, and regulatory policies alongside trade and investment tools. Yet the applications of money, expertise, and law unfolding in today's EU market-making are specific to our global, post-industrial and digital economy, and to the EU's unique supranational status.

Drawing on the long history of capitalist development and state-building, I argue that this new form of activist market-making is likely to reconfigure the EU's political authority in important ways. While the last three decades of largely neoliberal market governance also relied on EU authority to shape markets, that governance was politically framed as neutral and legitimised

under the umbrella of market efficiency, both inside the European single market and externally in the EU's global trade and investment policies. Today's EU industrial policy, in contrast, makes politically explicit the distributional choices over the sectors and activities being privileged, activating a new set of coalitional politics. Additionally, as the new industrial policy calls on upgraded EU administrative powers and new fiscal expenditures, moving beyond the regulatory basis of neoliberal market-making, it introduces a different set of politicisation pressures on the EU's institutions. The EU's new trade and investment policies likewise bring to the forefront political choices about the green transition and geopolitical policymaking, instead of relying on a more universalist ideology of comparative advantage. All of these factors mark the twenty-first century activist turn as a distinct type of market-making in the EU context—even as it has echoes in previous periods, such as the very early post-war European Steel and Coal Community when industrial policy was harnessed to securing peace in Europe.

The potential political consequences of the transformation of EU market governance have not yet been grappled with by scholars, although recent work has effectively probed the sources of policy changes (Bauerle Danzman & Meunier, 2023; Haroche, 2023; Mertens *et al.*, 2021; Schmitz & Seidl, 2022; Schneider, 2023). I offer a research agenda that identifies the ways in which the new market activism may play out and shape the EU's political development, drawing on a theoretical framework rooted in the history of market-making and polity-building, particularly the rise of the modern state. I focus on four consequential dimensions of polity-building at work in the new industrial policy and geopolitical transformation: the reformulation of societal coalitions and interests around EU policies; a deepened politicisation of EU institutions; new challenges to the EU's democratic legitimation, and the reconfiguration of the EU as a geopolitical actor. While it is far from clear whether the political and institutional capacity of the EU will expand to match this new industrial policy moment, disaggregating the dynamics into these different streams will provide a roadmap for scholars and policymakers to evaluate the potential transformations underway – while suggesting the very real challenges to EU success in this new policy realm.

The article proceeds as follows. First, I draw on the literature on comparative political development around market-making and polity-building as a theoretical framework for understanding the political implications of the EU's turn towards industrial policy and geopolitics. I then briefly sketch out the empirical outlines of the EU's market activism to establish the nature and scope of the new European market-making under way. I specify a series of key political dynamics implicated in this market-making that are likely to shape the EU as a polity, and lay out a research agenda for capturing their potential impacts on the EU's trajectory. The conclusion briefly considers key policy challenges for the EU and the international economic order.

Market-making and polity-building

My argument about the implications of the new European industrial policy and geopolitical posture begins with a simple assertion: markets are always and everywhere political constructions (Fligstein, 2002; Polanyi, 1944; Vogel, 2018). Political institutions, in all their legal, administrative, symbolic, and coercive power provide the critical infrastructure to make markets function, and the development of markets in turn profoundly shapes the subsequent political configurations of those institutions. The causal reciprocity in the need for 'authoritative rules to guide the interactions between economic actors' across a range of areas has fundamentally driven political development regardless of the form it takes (Fligstein & Stone Sweet, 2002, p. 1207). It is unsurprising that political scientists, economic historians, and sociologists have empirically demonstrated in their scholarship the relationship between market-making, that is, the creation and ongoing governance of markets, and polity-building, or the construction of political authority (Dobbin, 1994; Longstreth *et al.*, 1992; North, 1991). Although the European Union is not a state, my contention here is that the EU has been subject to similar sets of dynamics as those highlighted in the literature on comparative political development and state-building, and drawing on this history and theory provides new sets of insights around the EU's trajectory not readily available when it is considered as a *sui generis* case (Kelemen & McNamara, 2022)

The basic governance rules and institutions required for markets to function include, at the very least, rules about property rights (who owns what), rules of exchange (to enable complex markets to grow), governance structures (that determine and organise competition), the management of distributional costs of capitalism (to make it sustainable politically), and institutions of social solidarity (to navigate the contestation over those costs) (Fligstein, 2002, p. 36; McNamara, 2023). These rules and institutions, which vary widely in their specifics depending on the political context, provide crucial frameworks that set actors' expectations and shared understandings, allowing for collective action while establishing categories and classifications that make sense of these markets and actors' roles are within them (Fourcade & Healy, 2016). The transformation of markets over time, such as the rise of the digital economy, is likewise rooted on a set of politically generated market rules, be it creating new types of financial instruments or shedding traditional labour relations (Iversen & Soskice, 2019).

Despite similarities in the functional pressures at work, however, there is a very wide diversity in forms of market-making and political authority construction that has occurred. These processes have played out in different ways depending on the time and place, with the causal steps and timing highly contingent on the particular setting (Acharya & Lee, 2018; Evans,

1995). Historically in Europe, this is evident in the trajectory from the Italian city-states to the Hanseatic League to the modern state, as well as in the varieties of capitalism that have unfolded in the contemporary era (Baccaro *et al.*, 2022; Dobbin, 1994; Hall & Soskice, 2001; Poggi, 1978; Spruyt, 1994).

Generally speaking, the polity-building over time in response to actors interests' in capturing the gains from expanding markets have included the centralisation and scaling up of political authority over territory, the accrual of legal authority over rules and regulation at the centre of the polity, the development of administrative capacity to execute tasks around standardisation of measures, and the provision of public goods and expertise in market governance (North, 1991; Spruyt, 1994; Strayer, 1970). Although the development of markets were far from the only factor pushing forward political development and the rise of the modern state (Grzymała-Busse, 2023; Tilly, 1975), it was a key motivator for the centralisation of power, and the terms of market integration were highly consequential for the character of the polity that developed. To invert a famous axiom from Tilly, in this view, markets made the state, and the state made markets.

While only a few have situated the EU's market governance in terms of this history of polity-building (Fligstein & Mara-Drita, 1996; Fligstein & Stone Sweet, 2002), EU scholars have illuminated in a variety of other ways the connection between market dynamics and political authority in the European case (Caporaso & Tarrow, 2009; Scharpf, 1999; Streeck & Schmittter, 1991). In particular, van Apeldoorn has noted how European integration is 'bound up' in the restructuring of the European socioeconomic order, well capturing the ways that market dynamics are both shaped by and constitutive of the EU as an emergent polity (van Apeldoorn, 1998, p. 13). His account uses the terms 'market-making' and 'market-creating' to mean only those markets structured in neoliberal ways, with 'market-correcting', 'market-intervening' and 'market-directing' capturing various configurations of the state-market relationship (van Apeldoorn & de Graaff, 2022). Here, I instead use the more general term market-making, in alignment with the comparative political development and state-building literatures, to highlight that politics are always and everywhere part of that process, even as the specific type of market created (be it neoliberal or interventionist) varies. As Polanyi famously put it, even 'laissez-faire was planned', or in Frank Dobbin's more pungent characterising, 'A market is not what you get when you take away state institutions. You only get a free market by regulating the hell out of things' (Dobbin, 2008, p. 95; Polanyi, 1944).

The EU's market-making trajectory

Applying this theoretical framework to the construction of Europe's market points to the ways in which the EU's supranational version of market-

making has likewise been both profoundly structured by politics while itself contributing to the building of EU political authority and the expansion of its governance capacities. Over the past three or more decades, the politics of the EU's market-making have been largely centred on neoliberal precepts of competition and openness, where an idealised version of the market has been promoted as best at allocating resources, credit, and production activity in EU. Scholars have detailed the ways in which European political development has been legitimated by 'universalist' principals of 'apolitical' market efficiency as structuring markets and outcomes (Fligstein & Mara-Drita, 1996; Jabko, 2006; McNamara, 1998; Rosamond, 2012). The EU's legal framework of state aid and competition policy has been central to this economic governance, with rules around mergers and subsidies that privileged a neoliberal version of market competition, albeit with important exceptions (Bulfone, 2020). This version of market-making was largely executed through regulatory actions, technocratic expertise, and negative integration strategies, with the EU built as a largely technocratic entity without electoral representation, taxing and spending, or coercive powers, but with a very strong set of common judicial institutions (Majone, 1997).

EU political actors put the rhetoric and practices of competition at the heart of the European project of the 1980s onwards, deepening the single market, outlawing national subsidies and pursuing vigorous anti-trust actions, while focusing on particular policies that might make Europe more competitive in global markets (Buch-Hansen & Wigger, 2010; Büthe, 2007; Sandholtz & Zysman, 1989). Politically expedient, these neoliberal policies could be framed as universally welfare-enhancing and transnational, not driven by a particular set of national interests. There was always contestation and exceptions to neoliberal market opening in the European project (Caporaso & Tarrow, 2009; Warlouzet, 2022). But the overall rhetoric and practice of much of the EU's high-profile policymaking closely adhered to market-opening principles, and the logic of competition was a potent political resource for the deepening of the European project.

Over the past decade, however, a convergence of factors has driven new market activism in the EU (Interview 1, 4, 8, 9, 13). These policy transformations can be traced to the long term fall-out from the global financial crisis, Europe's commitment to the digital and green economic transitions, a changing geopolitical landscape with China's rise and the US no longer seen as a reliable partner, and finally, the shocks of the global COVID pandemic and Russia's invasion of Ukraine (Clift & Woll, 2012; McNamara & Newman, 2020; Mertens *et al.*, 2021; Meunier & Nicolaidis, 2019; Schmitz & Seidl, 2022).

These factors have contributed to the highly visible set of policies around a 'European Industrial Strategy' and a new geopolitical approach to world markets, with policy language and terminology never used previously in EU

policy discourse (Di Carlo & Schmitz, 2023; European Commission, 2020, 2021b). This rhetoric is matched by a series of new initiatives that mark a turn towards a more forceful set of EU market interventions, as will be outlined below. In addition to being a break from neoliberal policies, they contrast with the early post-war European emphasis on national-level industrial policy, grudgingly allowed by the European Commission and EU treaty law. While there was no mention of European industrial policy in EU founding documents (Lawton, 1999, p. 12), specific sectors were singled out for EU support, as with the EU's Common Agricultural Policy, the Airbus multinational EU manufacturing consortium, EU-generated cooperation around science and technology innovation, and some defense industry alliances (Morth, 2000; Sandholtz, 1992). While these were important interventions in European markets (Bulfone, 2020), they were not part of an integrated, centrally coordinated industrial policy like today, but rather an ad hoc assemblage of tools (Lawton, 1999).

Mapping the EU's new market interventions

To make the case that there is a significant shift in EU market-making, I provide a brief overview of the emerging set of industrial and geopolitical policies at the European level. Mapping the EU's market interventions, we can broadly classify them in terms of the goals of the policies themselves, and in terms of the array of policy tools being used.

Policy goals of the EU's market activism

The new world of European market-making can be understood most generally in terms of the pursuit of certain common *values and aspirational goals* such as environmental sustainability, and policies geared more narrowly towards *economic competition and security*, such as policies to upgrade the competitiveness of EU firms, policies to insulate EU markets for resilience against supply chain vulnerabilities, and policies using to markets to project power globally. The intentions and the policies produced by these buckets of activities are of course deeply intertwined. While they sometimes work in tandem with each other, for example the pursuit of decarbonisation pushing forward European competitiveness in alternative energy, they can also be in tension with each other, as when the goal of transitioning to renewables compromises the security goal of reducing reliance on Chinese products such as solar panels. But it is a useful as a heuristic device to separate them into these two sets of policy goals.

The first general category, market intervention for aspirational goals, is most evident in the European Green Deal and the drive to decarbonise the EU economy, and in the efforts towards EU digital sovereignty. These goals

are aspirational in seeking a better future for the common political community of the EU and the world generally (Finnemore & Jurkovich, 2020). The commitment to a European Green Deal is the driver for the largest proportion of industrial policy activities in Europe, informing three of the EU's six strategic areas (hydrogen, batteries, raw materials) and constituting the largest proportion of the NextGen EU funding programme adopted in the wake of the pandemic (Nahm *et al.*, 2022; Oberthür & von Homeyer, 2023). The proposed Net-Zero Industry Act of 2023 is a key part of the European Green Deal, offering a range of new supports for strategic technologies and industries for the green transition (Dimitrisina, 2023). Another key aspirational driver is the goal of constraining tech platforms and actively shaping the digital economy towards European digital governance and democratic norms, most prominently through the recent Digital Markets Act and the Digital Services Act (Cini & Czulno, 2022; Heidebrecht, 2023; Obendiek, 2023).

The second set of EU goals centre on economic competition and security, even as they intersect with the more aspirational intentions (Interview 2, 4, 8). While the search for economic competitiveness is longstanding in the EU's history, today's EU is pushing forward initiatives like the Important Projects of Common European Interest and the Critical Raw Materials Act, meant to insulate Europe from globalisation's vulnerabilities, rather than focusing only on market-opening as with the 1980s Single European Act (Sandholtz & Zysman, 1989). Security concerns are also central to the EU's recent moves to construct itself as a geopolitical actor whose power rests in large part on its economic might, and who can and should use that power to achieve its internal goals and project its interests globally (Guzzini, 2012, 2017; Meunier & Nicolaidis, 2019). This set of motivations is well captured by the EU's own 'strategic autonomy' policy label, a phrase initially developed in the early 2010s around strengthening EU defense and security capacities and then evolving to focus on global markets, technology, and diplomacy (Michel, 2020; Miró, 2022; Schmitz & Seidl, 2022).

EU policy tools reshaping markets

The shift in the goals of market-making by the EU has meant the adoption of a new set of interventionist policy tools and mechanisms. Overall, the EU policy tools can be divided into those that are more internally or domestically oriented, and those that are primarily externally oriented towards global markets – but as with the goals, there is substantial intertwining and overlap between the two categories. The tools all involve some combination of EU money, expertise, and regulatory power to do their work, similarly to the working of national industrial policy.

The *internally-oriented* industrial policy tools and mechanisms that the EU has developed include fiscal innovations, new coordination activities directed by the European Commission, and regulatory changes and reinterpretations of EU law. The biggest fiscal innovation is the ending of the taboo against mutualised debt in the EU, as the Next Generation EU programme, passed in July 2020, overturned the norms barring common European debt issuance in the EU, raising 360 billion euros in loans and 390 billion euros in grants, and tightly linking spending to the strategic interests identified by the European Commission in the new European industrial policy arena (Schramm *et al.*, 2022). Early analyses show very high spending on decarbonisation programmes across most EU member states with the NextGen EU funds (Darvas *et al.*, 2022). A second major example of expanded fiscal interventions is found in the European Investment Bank and its partnership with national development banks, raising bonds on international capital markets and becoming the world's largest lender for green financing (Mertens *et al.*, 2021). A new European Sovereignty Fund to answer the subsidy spending in the US's Inflation Reduction Act (IRA) has been proposed, part of the long list of policy innovations to raise money for the new industrial policy agenda, but remains highly contested by more frugally-minded European states (Lynch, 2022). Because the EU does not have the taxing and spending capacities of the modern state, it is highly constrained in its ability to move forward in financing industrial policy. Yet in keeping with the thesis of the ways in which market-making shapes the construction of political authority, important taboos around EU fiscal policy are being broken and new funding mechanisms being put into place at the EU level.

The second major policy tool the EU has developed is the Important Projects of Common European Interest (IPCEI) initiative, which supports major cross-border innovation and infrastructure projects in strategic areas. The IPCEIs are a touchstone for the fiscal, coordination, and regulatory innovations of the EU's new industrial policy. This policy initiative constitutes a significant shift in EU market-making, as it gives the European Commission a pivotal role, in partnership with national governments, in the development of European-wide markets and supply chains in areas viewed as key to the EU's collective future: raw materials; batteries; active pharmaceutical ingredients; hydrogen; semiconductors; and cloud and edge technologies (European Commission, 2021b).

The IPCEI's policy capacity around complex supply chains and innovative industrial clusters rests on a wholesale reinterpretation and application of EU state-aid rules, not without criticism (Poitiers & Weil, 2022). For three decades, the EU sought to eliminate national subsidies to industries in the pursuit of the goal of levelling the playing field for EU firms and removing any market 'distortions'. The powerful EU Directorate General for Competition was established to use EU anti-trust investigations and fines to reduce

state aid, outlaw mergers seen as dampening competition, and police regulations and practices that privileged local actors. While various forms of market activism and state aid continued (Bulfone, 2020; Thatcher, 2014), today's IPCEIs are novel in their explicit, integrated, and politically visible character. To make this turn, the European Commission excavated language about state aid exceptions in EU Treaty Art. 107, 3 (b), which allows for 'aid to promote the execution of an important project of common European interest ...' (Evroux, 2022). The political message is that 'sizeable technological or financial risks' mean the EU should break with its past approach and actively work to shape markets in areas with important impacts on European society (Evroux, 2022, p. 2).

Other internally-facing policy tools being developed include the EU's Chips Act, an effort to expand the European-based semiconductor industry (Bertuzzi, 2022; Li, 2022). A European Critical Raw Materials Act further extends the series of programmes working to reshape the EU's economy in line with the goals of strategic autonomy and supply chain resilience (Breton, 2022; von der Leyen, 2022). A host of other proposals, including the REPower EU programme to accelerate the decoupling from Russian energy, are also going forward. These internally oriented policy packages all use some combination of EU money, expertise, and legal powers to move forward the aspirational and security and competition goals of today's European industrial policy.

A second big category of EU market interventions are *externally-oriented tools* that use trade and investment mechanisms to pursue the EU's strategic goals in a departure from previous decades of EU liberal engagement in global markets (Haroche, 2023). Similar to the turn in the domestic realm, the EU is moving to structure its integration into the global economy so as to secure aspirational goals around climate and the digital transformation, to insulate itself from the vulnerabilities of transnational supply chains, and to use Europe's predominant position in global markets to protect and project European interests and values abroad. The EU's policy moves do not constitute a wholesale withdrawal from globalisation—instead they involve a scrutiny of the ways in which Europe is integrated into global markets, taken through a lens of the interests of the EU that go beyond economic efficiency or corporate gain.

This calculated globalisation is evident in a new willingness to deviate from prior free trade commitments under the WTO treaty system, as with the EU's proposed Carbon Border Adjustment Mechanism (CBAM). CBAM will place a tariff on 'dirty' imports of steel and other goods such as cement, fertilisers, aluminium, and electricity and hydrogen produced in ways that exceed the carbon footprint allowed under the EU's green economy standards (European Commission, 2022). CBAM will primarily

impact Chinese imports, which currently are priced much lower than EU products, an example of what critics call ‘climate dumping’ (Skibell, 2022).

Geopoliticisation is also evident in new bilateral trade and investment treaties that are being drawn up to insulate and make more resilient the EU’s supply chains. The Directorate General for Trade is now crafting EU trade policy in terms of strategic opening to countries viewed as likely to be reliable trade partners and allies rather than having comparative advantage being the sole criteria for economic relationships (Schmitz & Seidl, 2023) (Interview 5, 8). There is a significant clash of views in the European Commission over the degree to which the EU should emphasise openness as part of strategic autonomy, with DG Trade pushing for more openness, the Directorate General for the Internal Market pushing for more strategic use of world markets, and DG Competition caught in between with multiple forces at work (Interview 2, 4, 5, 8). However, there is little doubt that the trajectory of the EU is towards a much more tempered version of global trade that puts climate and other shared European interests and values first.

A final development in the realm of changing EU approaches to global markets is found in the proposal for a European Anti-Coercion Instrument (Hackenbroich, 2020). Originally developed in response to fears regarding the US President Trump administration’s anti-EU agenda, it has been fast-tracked because of the exploitation of EU energy vulnerabilities by Russia, and the perception of economic intimidation by China. The Anti-Coercion Instrument officially states a rationale for imposing tariffs, putting restrictions on services such as foreign banking and intellectual property-governed trade, and denying foreign direct investment access to the EU’s single market if economic intimidation adverse to the interests and values of the EU is found to be occurring (European Commission, 2021c). The head of DG Trade, Valdis Dombrovskis, has noted the need for these tools as trade becomes ‘increasingly being weaponized’, a frame that is now used across various parts of the EU’s market-making policy institutions (Interview 2) (European Commission, 2021a). As with the more internally-oriented industrial policy moves, this explicit politicisation of trade and investment has also garnered criticism from advocates of free trade (Busch, 2022).

In sum, the goals and instruments of this new EU industrial policy and foreign economic policymaking move far beyond the market opening ideology of the last three decades into visible, active shaping of the EU’s engagement with domestic and global markets. Simply put, a new era of market-making is shaping a new era of political authority construction in the EU. A research agenda for investigating this transformation is outlined below.

Building a European polity through market interventions?

The literature on comparative political development and state-building suggests at least four key dimensions for how the EU's industrial policy and geopolitical turn may reshape EU's politics. The overlapping arenas where market-building may interact with polity-building are: (1) reformulating coalitions and interests, (2) deepening the politicisation of governing institutions, (3) challenging democratic legitimation, and (4) geopolitics and foreign policy. Below, I suggest how we are likely to see causal pressures playing out in each area to politically restructure the EU. In turn, the ways in which these dynamics unfold will importantly shape the path of the EU's ability to execute and sustain this new market activism.

Post-neoliberal coalitional politics

The new policy goals and tools of the EU's market activism, outlined above, are transforming the coalitional landscape of the EU. Tracing out these post-neoliberal politics is an essential first step for scholars. The literature on comparative political development has documented how demands from societal actors has been a key motivator historically for increased state capacity and authority over markets, as 'actors generate a continuous stream of demands for new rules and for the adaptation of existing rules to new and changing circumstances' (Fligstein & Stone Sweet, 2002, p. 1207). How exactly have the various crises of the last decade have translated through society to put pressure for change in European economic governance policies and capacities? Are pressures from firms and societal actors happening at the national level, or are we seeing a move towards more explicit lobbying by societal interests for action at the EU level (Schramm, 2023)? Who is winning out in terms of the difference and power dynamics across member-states themselves (Bora & Schramm, 2023)? Studying in detail these dynamics would allow us to better understand the ways the EU's new market-making may be pushing forward political development in the EU, or the degree to which deeper integration may be limited by the EU's own institutional limitations and political divergences.

One particularly promising line of research would investigate the emerging domestic political alignment between the progressive left, pursuing aspirational goals around climate, and those on the traditional national security right, who seek to reduce dependence on China and protect EU 'sovereign' interests (Charrier & Heumann, 2022). Both groups are seeking to restructure markets towards resiliency in line with their central political goals, but they do so from very different political places. The role of political actors concerned with the rise of anti-system or populist voters are a third set of societal interests who may also be involved in this coalitional realignment (Hopkin, 2020).

Recent scholarship has begun to investigate the workings of such reconfigured post-neoliberal coalitional politics, for example by empirically documenting the shift of EU trade policy. Schmitz and Seidl have demonstrated how the concept of strategic autonomy has acted as a powerful magnet to create broad political coalitions in support of this change, spanning both national security actors and progressive actors on the left (Schmitz & Seidl, 2023). Reconfigured coalitional politics are also playing out in the EU's digital policy initiatives such as the Digital Markets Act, where market activism is being demanded not by business actors but by societal stakeholders and public authorities motivated by the idea of digital sovereignty (Heidebrecht, 2023). Research is needed to dig into the variety of ways these new coalitions are coming together in key elements of the EU's market activist turn discussed above, including the Important Projects of Common European Interest programmes, and in the EU's Net Zero Industry Act, and how it compares to similar dynamics at work in the US and other countries.

Finally, a further line of research should examine how external pressures are driving EU coalitional dynamics. Most importantly, the US's Inflation Reduction Act (IRA) is provoking calls on the part of European firms and other actors for the EU to upgrade European fiscal capacities and change treaty law to match America's aggressive subsidies and targeted business support, contrasting with the EU's neoliberal response to international pressures in the 1980s (Albrecht, 2023; Sandholtz & Zysman, 1989). Such a European-level response is viewed by some as key to overcoming fears that only the richest states will be able to match US subsidies, generating core-periphery cleavages across the EU and fears over the ultimate stability of the Single Market project.

Deepening politicisation of institutions

The comparative political development and state-building literature suggests that historically, the expansion of state intervention in the economy has gone hand-in-hand with increased administrative capacity at the centre, although it has always occurred in piecemeal, layered, and non-linear ways (Sheingate, 2014). The EU's turn towards government intervention in domestic and global markets raises a host of questions about the potential evolution of European institutions, getting to the heart of the implications this new market-making for the construction of political authority in the EU. In what ways is the political commitment to a new version of EU industrial and geopolitical policy forcing an expansion of administrative capacity and expertise at the EU level? How might the expansion beyond regulatory activity, to a new set of fiscal and administrative powers, transform the EU? Can the governance structure of the EU achieve the aspirational, security and economic competition policy goals, or is there a limit to the EU's capacity to adapt?

One specific set of research puzzles in this area involves the outcome of contestation within the European Commission over this new market interventionism. The long history of state-building suggests that dynamics within and across various bureaucratic units can be decisive in shaping the path of policymaking (Carpenter, 2002). Likewise, in EU studies, neofunctionalism has pointed to the key role that policymakers within supranational institutions play in shaping policies, something demonstrated across a host of empirical areas (Haas, 2004).

Today's new post-neoliberal market activism is pitting the Commission's different departmental practices and ideologies against each other, and the ultimate shape of the EU as a polity will likely depend on who wins. Key examples include the clash between the free-market commitments of Margrethe Vestager's DG Competition versus the interventionist emphasis of Thierry Breton's DG Internal Market, and the longstanding free-trade embrace of the DG Trade versus the decarbonisation prioritisations of DG Climate (Interview 2, 4, 8). The outcome of this bureaucratic infighting will also depend on Commission President Ursula von der Leyen's leadership of this transformation, interacting with national governments. Important differences in member state cultures around market intervention are also generating new cleavages in Brussels. Most notable is the prominence of French *dirigiste* approaches to the economy within the Commission, signalling the success of the French vision across a range of policy areas (Bora & Schramm, 2023; Hoeffler & Mérand, 2022). Complex sets of pressures and viewpoints within the career and political staffs in Brussels are at work, and scholarly work investigating this is needed to move beyond existing journalistic accounts (Stolton, 2023).

A final focus for scholarship involves the ways in which the adoption of these new 'core state powers' is further contributing to the ongoing transformation of the European Union institutions to overt politicisation after decades of a 'permissive consensus' and technocratic delegation (Bressanelli *et al.*, 2020; de Wilde *et al.*, 2016; Genschel & Jachtenfuchs, 2014; Hooghe & Marks, 2009). Emerging research on the recent moves towards EU taxation capacity and European authority over security and defence, including the recently proposed European Defense Fund, makes clear the 'conscious strategy of politicisation, which went through alliances with interest groups, member state governments and parliamentarians' that political actors in the EU are pursuing (Hoeffler & Mérand, 2022, p. 12). This is occurring alongside the recent pledge for an expressly 'political' Commission (under President Juncker) and now, a 'geopolitical' one (under President van der Leyen) despite a long history of technocracy (Haroche, 2023; Peterson, 2017). A rich set of empirical and theoretical questions around the ongoing politicisation of EU institutions therefore remain to be explored.

Democratic legitimization of market activism?

Building on these questions about the expansion of EU powers, research is needed to probe how the evolution in market-making with a European industrial policy might be challenging the EU's fundamental political legitimacy. Instead of a universal approach that embraces neoliberalism's invisible hand of the market, today's industrial policy makes the EU's political authority a very visible hand reaching into markets with European-level fiscal, administrative, and regulatory tools. This raises a set of puzzles around the ways in which a 'community of fate' among Europeans can substitute for the national political identity and national democratic processes that legitimise industrial policy within states (Rosamond, 2012). How will the increased politicisation that comes with picking winners and losers in industrial policy and geopoliticised trade and investment strategies challenge the EU's legitimacy? Here, the uneasy fit of industrial policy and geopolitical market-making to the existing structure of the European polity is front and centre, raising several lines of potential research that echo similar dynamics at work around in national settings (Evans, 1995; Wade, 2014).

One line of research might centre on the limits of the current EU in terms of democratic representation and common political identity, all of which create a series of tensions for the EU and its citizens as political capacity continues to deepen and expand (Follesdal & Hix, 2006; McNamara & Musgrave, 2020). The process of defining what exactly European interests and values at this moment seems to largely be occurring within the European Commission, and thus relatively insulated from the public it serves, raising questions around the potentially tenuous democratic legitimacy of this process. While the US Congress played a central role in moving forward the IRA, Infrastructure Act, and Chips Act, all championed by the democratically elected President Biden, the lack of true electoral politics at the EU level means the European Parliament has only had a consultative and de-fanged oversight role necessary for democratic decision-making (European Parliament, 2022).

Climate activists have already registered their complaints about the lack of transparency and limited societal input around the specific policies of the EU's Green Deal in the NextGen EU programme (Client Earth, 2020). Other observers claim that decisions are being made in the policy arena of Important Projects of Common European Interest that may backfire because of the lack of democratic input into the process (Poitiers & Weil, 2022). In contrast to the market liberalisation ethos of the Single European Act and the 'level playing field' mantra driving the EU's competition policy, the IPCEI involves a much more complex set of political logics and expertise.

In terms of the social logics at work, research is also needed to probe whether and how a broader cultural legitimacy is being constructed for the EU's new role. A robust line of research established the importance of the

idea of ‘the market’ as a trope that could serve as an ambiguous but powerful culturally legitimating frame for public support for the Single European Market and the euro (Jabko, 2006; McNamara, 1998). The EU’s imagined community has historically been built on a banal authority that navigates national identities and privileges by carefully choosing words, images, and practices so as to make the EU’s role seem unremarkable (McNamara, 2015). In contrast, today’s assertive set of symbols and practices (e.g., even the official terminology of European industrial policy and European Sovereignty) can be read as directly and unambiguously mimicking national powers (McNamara, 2022). Can the EU’s existing cultural infrastructure bear the weight of legitimating this new type of political authority? Are a new set of cultural frames, symbols, and practices gaining purchase across the EU so as to naturalise the EU’s transformation into an activist, post-neoliberal market-maker? Some preliminary research has begun to dissect how a new cultural infrastructure is being built, as ‘the EU explicitly turns to the passions and emotions of its citizens’, in its climate activism, a far cry from the past basis for EU legitimation (Gengnagel & Zimmermann, 2022). But the question of whether a new imagined community of Europeans might arise in tandem with a successful set of industrial policy and geopolitical interventions remains uncertain.

Geopolitics in a changing global economic order

A final line of research centres on what the EU’s new geopolitical approach to foreign economic policy might mean for the EU as a polity. How might the much more strategic engagement with world markets, oriented around goals beyond economic efficiency, reshape the EU as a geopolitical actor? While the EU is not moving to shut down globalisation, it is actively and visibly shaping its foreign economic policies in line with putative European interests around security, sustainability, and resilience, thus moving beyond the neoliberal market opening of the last decades. At least two lines of research are critical to investigate given this transformation.

First, the outcome of contestation around the EU’s posture towards China is critical to the path of market-making and polity-building in Europe. The EU’s industrial policy and geopolitical transformation has been driven in part by shifting views of China as an economic partner to potential adversary (Interview 1, 2, 4, 5, 8). In this, and because of uncertainty over the US’s commitment to the transatlantic alliance, the EU has begun to embrace a weaponized interdependence approach to globalisation (Farrell & Newman, 2019). Scholars of EU trade and investment policy have usefully been parsing through the dynamics at work (Meunier, 2017; Meunier & Nicolaidis, 2019). However, the question of what, exactly, the EU’s posture should be towards China is a work in progress. If the more adversarial, muscular

approach outlined by Commission President Ursula von der Leyen in her March 2023 speech wins out, that will construct the EU as a more geopolitical actor in the international system (McNamara, 2015, p. 135–160; von der Leyen, 2023). If, however, the interests of German exporters and others reliant on Chinese markets temper the aggressiveness of the EU's posture, the transformative impetus of this moment on the EU will be lessened. The question of whether the US can be trusted as a geopolitical partner remains an open one to many in the EU, and thus China is not the only external factor shaping the potential construction of the EU as a geopolitical actor (Bauerle Danzman & Meunier, 2023).

Second, the new geopolitical approach raises the question of a potential erosion of the EU's long-standing projection of itself as a normative power that uses persuasion and institutions, rather than being centred on national hard power and strategic interests (Manners, 2002). With the rise of strategic autonomy as the guiding frame for the EU's external face, research should consider the ways in which this projects a different Europe into the international system. A recent edited volume provides a useful overview of the ways in which geoeconomics is becoming a central part of international politics, and the key role that the EU, even though it is a non-state actor, is playing in this transformation away from the liberal international order (Babić *et al.*, 2022). Further work on the rise of a sovereign EU, tracing its sources, and investigating what the construction of the EU's new political authority might mean in terms of the geopolitical landscape going forward, perhaps by challenging the state-centric version of international politics, are all research tasks that remain to be tackled.

Conclusion

The rise of industrial policy and geopolitics in today's European Union is likely to be highly consequential for the EU's trajectory of political development. Over the past three decades, the EU has relied largely on a particular type of market-making, the liberalisation of the Single Market and an ideology of competition and removing market distortions. The policy goals and tools adopted by the EU around its new industrial and geoeconomic policy constitute an important shift towards a more visible set of market-structuring practices. This new activist policy demands an explicit reckoning of the collective interests of the European community of fate being governed, while engaging with an array of new political logics. Scholarly research is needed to probe how the new market-making might be reshaping European societal interests and coalitions, challenging EU institutions and capacities, creating tensions around the democratic legitimacy of the EU, and constructing Europe as a geopolitical actor. The history and theory of comparative political development and state-building is a useful lens to probe how the EU's market-

making and polity-building intertwine, and suggests a rich research agenda for studying the potential transformative dynamics constructing the EU's political authority.

As well as being of academic interest, the policies being enacted and the tools wielded by the EU today have important policy implications. Both the material success of the policies, and European citizens' views of the ways decisions are being made and money spent, are critical to the EU's long-run sustainability as a polity. An obvious question is whether the EU is prioritising the correct strategic sectors in its pursuit of sustainability, security, and supply chain resilience. Critics have charged that the major cross-border innovation and infrastructure initiatives of the Important Projects of Common European Interest are generating large subsidies without transparent, well-defined criteria. Might a lack of adequate EU governance over the new industrial policies doom them to failure, while undermining the larger single market and the EU itself (Poitiers & Weil, 2022)?

Another set of key questions lies in the EU's capacities to execute industrial policy, as it is not a traditional state with national levers of governance and control. The very limited fiscal capacity of the EU may potentially doom Europe's efforts, particularly in terms of matching the Biden administration's industrial policy and green transition financing. A potentially poisonous arms race around subsidies within the EU itself may be occurring if the Commission cannot overcome intra-European tensions and provide adequate European level interventions (Fleming *et al.*, 2023). Likewise, decisions around where to locate new manufacturing sites are politically and socially fraught, as the wealthier EU states have skilled workforces at the ready, but there is an undisputed need to address the economic stagnation in other regions by siting plants there. Much as with the IRA in the US, the EU's aspirational climate goals and security and economic interests must grapple with the reality of pork-barrel politics in the execution of place-based industrial policy (Muro *et al.*, 2022). These tensions point to the ways in which the unfolding of the new market activism, if not carried out in a way that is both successful in material terms and is viewed as politically legitimate by European citizens, would potentially unravel the EU as a polity, rather than deepening it.

At the international level, the new era of industrial policy also presents challenges to capturing the benefits of globalisation while overcoming its shortcomings. Much of twentieth century industrial policy sought to limit globalisation, with protectionism around infant industries and import-substitution policies. The EU's industrial policy and its open strategic autonomy posture appear to be less about decoupling from the global economy than about careful strategic engagement with it. The concept of friend-shoring, or structuring critical supply chains around trustworthy allies, embodies this, as do EU's complaints that the US has gone too far towards protectionism with IRA's local content laws (Nelson, 2023). The EU's efforts to restructure

globalisation through the EU's Carbon Border Adjustment Mechanism as a way to end the 'carbon dumping' of Chinese steel may provide an alternative model for addressing the existential threat of climate change without dismantling globalisation (Skibell, 2022). A critical question will be whether the US and the EU can form an effective alliance, instead of working at cross purposes with each other, to achieve an inclusive, secure, and sustainable global economy.

Most fundamentally, the link between market-making and polity-building underlines the necessity of ensuring that democratic values, economic inclusion, and sustainability all inform the EU's industrial and geoeconomic policies going forward, even as Europe's ongoing limitations as a polity may make this challenging. While the exact contours of the ways in which the EU's new market-making will reconstruct the EU's political authority are not yet clear, the long history of capitalism and political development suggests that today's new European market activism will certainly be consequential for the EU's future as a polity.

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Appendix

Interviews

I conducted 13 in-person interviews in Washington, DC and Brussels, Belgium. Interviews were recorded with prior verbal permission obtained on condition of guaranteeing the anonymity of the interviewee. Interview subjects were chosen for their direct knowledge and involvement in industrial policy and/or trade and investment policy. Each interview was semi-structured and guided by a questionnaire. The interviews lasted between 45 and 90 min. [Table A1](#) gives an overview of the interviews conducted.

Table A1. Interviews.

Interview	Description	Date of interview
Interview 1	Diplomat, EEAS, Washington DC	May 2022
Interview 2	Senior policy official, DG COMP, Brussels	October 2022
Interview 3	Policy official, DG GROW, Brussels	October 2022
Interview 4	Two senior policy officials, DG GROW, Brussels	October 2022
Interview 5	Senior policy official, DG TRADE, Brussels	October 2022
Interview 6	EU digital economy policy advisor, Brussels	October 2022
Interview 7	Senior EU think tank official, Brussels	October 2022
Interview 8	Policy advisor, DG TRADE, Brussels	October 2022
Interview 9	Senior policy official, DG CLIMA, Brussels	October 2022
Interview 10	Journalist and entrepreneur, Brussels	October 2022
Interview 11	Head of unit, multinational firm, Brussels	October 2022
Interview 12	Senior US trade official, Washington, DC	March 2023
Interview 13	Senior US think tank official, Washington, DC	March 2023