Power transitions and the rise of the regulatory state: 
Global market governance in flux

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Abstract
This special issue examines the consequences of the ongoing power transition in the world economy for global regulatory regimes, especially the variation in rising powers’ transition from rule-takers to rule-makers in global markets. This introductory article presents the analytical framework for better understanding those consequences, the Power Transition Theory of Global Economic Governance (PTT-GEG), which extends the scope of traditional power transition theory to conflict and cooperation in the international political economy and global regulatory governance. PTT-GEG emphasizes variation in the institutional strength of the regulatory state as the key conduit through which the growing market size of the emergent economies gives their governments leverage in global regulatory regimes. Whether or not a particular rising power, for a particular regulatory issue, invests its resources in building a strong regulatory state, however, is a political choice, requiring an analysis of the interplay of domestic and international politics that fuels or inhibits the creation of regulatory capacity and capability. PTT-GEG further emphasizes variation in the extent to which rising powers’ substantive, policy-specific preferences diverge from the established powers’ preferences as enshrined in the regulatory status quo. Divergence should not be assumed as given. Distinct combinations of these two variables yield, for each regulatory regime, distinct theoretical expectations about how the power transition in the world economy will affect global economic governance, helping us identify the conditions under which rule-takers will become regime-transforming rule-makers, regime-undermining rule-breakers, resentful rule-fakers, or regime-strengthening rule-promoters, as well as the conditions under which they remain weakly regime-supporting rule-takers.

Keywords: comparative political economy, emerging power, global governance, power transition, regulation, regulatory state.

1. Introduction

We are in the midst of a power transition in the world economy with possibly profound implications for the governance of global markets (see, e.g. Stephen & Zürn 2019). For more than two centuries, either Europeans or Americans, or both together, have been the global regulators, largely determining the rules for international commerce, even as commerce became increasingly global. Today, the predominance of the EU and the United States in global markets is called into question by the rise of emerging powers, above all Brazil, India and, especially, China (BIC). Twenty years ago, these three countries, while of course already very large, were still mostly poor...
and generally considered technological followers – and therefore no more than rule-takers in the governance of the global economy. In the meantime, they have escaped the persistently poor macroeconomic performance and weak growth, which was always economically puzzling (Lucas 1990) but for a long time seemed to permanently entrap many countries in the developing world. Today, Brazil, India, and China, even with only “middle income” per capita incomes, are among the 10 largest economies. They are poised to play an even greater role in the governance of global markets in the years to come – all the more so given that the reliability of U.S. commitment is much less certain after ex-President Trump effectively abdicated global leadership, and given that the EU’s market power has been weakened by Brexit. In addition, middle powers such as Mexico, South Korea, and Turkey have increased their market share, especially within their respective regions.1

Are these rising powers a threat to the international order? Whereas the more strictly economic aspects of this power transition in the world economy have received much attention, the political aspects are less well understood. The rise of these “emerging countries” has gone hand-in-hand with their increasing integration into the world economy (and in many industries a move up the “global value chain”; see Gereffi & Sturgeon 2013), thus giving them an increasing stake in the rules for global markets. Yet, we know relatively little about whether the increases in BIC’s share of global markets fundamentally challenges the regulatory predominance of the EU and the United States, under what conditions this might occur, and with what consequences for the international order. What will be the effect of such major shifts in the world economy for global economic governance?

The papers in this special issue analyze those consequences for specific countries and specific regulatory issues, based on the assumption that the regulatory preeminence of Europe and the United States has been based not just on economic predominance, but on the political choice to create conducive political institutions, especially the regulatory state. The regulatory state entails, inter alia, horizontal decentralization and diversification of regulatory policymaking to meet the demands of ever more transnational economic relationships (Levi-Faur 2011, 2013). It also is necessary for translating economic power into international influence (Farrell & Newman 2014).

The variation in the institutional strength of the regulatory state – across countries, regulatory issue areas, and over time – is a key component of the Power Transition Theory of Global Economic Governance (PTT-GEG), which we develop in section 2 to explain the behavior of rising powers vis-a-vis global regulatory regimes. Here, we start from a sympathetic critique of power transition theory (PTT) as originally developed by Organski (1958b). We thus take as our point of departure the key insight of the PTT literature that major shifts in the distribution of resources among countries that regularly interact with each other pose risks for the established rules governing political and economic relations and more generally threaten the prevailing international order. Such risks should be particularly high when the transition entails the rise of entirely new players into the ranks of those who are able to disrupt (and who are therefore needed to maintain) the international order. At the same time, critics of structural realism have long pointed out that the mere existence or possession of power resources will only under the most exceptional circumstances determine what a country does with those resources and what the larger consequences are (e.g. Keohane 1986; Baldwin 1993; see also already Wolfers 1962, pp. 13–15). Similarly, we should not simply assume that an increase in power resources by itself determines how a rising power will use them. Domestic politics usually drives institutional and policy choices, including foreign economic policy, at least as much as international factors (Milner 1988; Simmons 1994). We therefore modify PTT to address such critiques. Specifically, we emphasize variation in the institutional strength of the regulatory state – conceptualized as a function of regulatory “capability” (Cafaggi & Pistor 2015) and “capacity” (Bach & Newman 2007). We propose that the strength of the regulatory state is the key conduit through which the growing economic resources of the emerging economies may give their governments leverage in global regulatory governance if, for a particular regulatory issue, they make the political choice to invest in building such capacity and capability.2 And, rather than assume that rising powers’ substantive policy preferences necessarily and uniformly conflict with the regulatory status quo, we emphasize variation in the extent to which rising and established powers’ preferences diverge.

PTT-GEG emphasizes regulatory capacity and capability on the one hand and preference alignment/divergence on the other as the key determinants of the consequences of the recent power transition in the global economy (along with the reaction of the established powers). This focus of theory in turn raises the question of where
those institutions of the regulatory state and where those preferences come from. We turn to these questions in section 3, examining the domestic and the international drivers of regulatory state formation and substantive preferences regarding the content of regulations. The papers in this special issue provide an in-depth evaluation of the sectorally differentiated domestic and international political-economic context in which economic regulation unfolds. Taking up Dubash and Morgan’s (2012, p. 275) call in this journal to “turn to politics” when analyzing “The Rise of the Regulatory State in the South,” the contributors to this special issue emphasize elite preferences, interest groups and domestic regulatory structures as well as transgovernmental ties and transnational advocacy networks. And they evaluate the convergence or divergence between the evolving domestic regulatory preferences and the established powers’ preferences, as enshrined in existing international regulatory regimes. Finally, they analyze established powers’ incentives to accommodate demands for change if preferences differ, thereby specifying the conditions under which power transitions lead to the transformation of regulatory regimes.

Our special issue and the analytical framework presented in this introduction seek to contribute to several, often multidisciplinary literatures. For the literature on the governance of global markets, we develop a set of hypotheses about the consequences of major changes in the distribution of economic power resources – hypotheses derived from PTT and the IPE/CPE literature on the regulatory state. This allows us to specify the conditions under which such changes will lead to conflict and/or breakdown in the global order – and the conditions under which such changes might result in substantially strengthened global regimes or barely perceptible change.

With their sectoral focus, the articles in the special issue furthermore contribute to specific regulatory politics literatures, for example, on the governance of intellectual property, labor mobility, market competition (antitrust), public procurement, and trade finance. We also expand the analysis of regulatory policy transfer and policy diffusion (e.g. Marsh & Sharman 2009; Lavenex 2014; Maggetti & Gilardi 2016; Lavenex et al. 2017) to the case of emerging economies.

In addition, our theoretical framework and the empirical analyses in this special issue contribute to several broader literatures. We contribute to the literature on power transitions through a constructive critique of the theory and an extension of the scope of this analytical perspective by developing PTT-GEG. Importantly, the variation in initial conditions across the different regulatory governance issues (as well as across countries and over time) affords us the kind of analytical leverage that has escaped traditional empirical analyses of PTT due to their singular focus on military security. Relatedly, we make PTT useful for understanding conflict and cooperation more generally, as our modified PTT framework can explain five quite distinct ideal-typical possible outcomes of the ongoing power transition in the world economy.

We also contribute more generally to the literature on emergent economies and rising powers (e.g. Armijo & Roberts 2014; Harris 2014; Stephen 2017; Kruck & Zangl 2020). Here, we move beyond the dichotomies, for which Mahrenbach (2018) has rightly criticized much of the literature on emerging powers. We reject, in particular, the assumption that rising powers are necessarily “dissatisfied” with all the rules governing the world economy – and the related assumption that it should be possible to classify a given rising power, across all issue areas, as being revisionist or status quo-oriented. Instead, we turn both preference divergence and the institutional strength of the state into issue-specific variables. PTT-GEG thus offers a framework for moving beyond simply treating the BRICS (Brazil, Russia, India, China, and South Africa) countries (or even just BIC) monolithically, without going to the other extreme of assuming that China is sui generis or the sole concern for global order.3 We will draw out some key policy implications of this aspect of the PTT-GEG framework in the conclusion.

Moreover, the PTT-GEG framework contributes to the “new interdependence approach” (Farrell & Newman 2014) by highlighting the interplay between domestic regulatory structures and international cooperation venues. Specifically, we examine how domestic institutional politics – including “judicial norms, regulatory oversight, the organization of the executive” (Farrell & Newman 2014, p. 339) – enable and sustain (or constrain) the development of regulatory capacity and capability. And we draw attention to the ways in which these domestic changes, together with the constellation of state preferences, affect international power relations and the (in)stability of the international order.

Finally, by providing issue-specific accounts of the institutional development of – and challenges to – the regulatory state across different types of developing countries (the BIC and three middle powers), this special issue
as a whole also contributes to the literature on institutional legacies and institutional development (Fioretos et al. 2015; Mahoney & Thelen 2015; Rixen et al. 2016; see also Büthe & Mattli 2011), for example, by allowing for novel comparisons across regulatory issue areas.

2. The consequences of power transitions for regulatory regimes: Explaining conflict and cooperation in global economic governance

2.1. Power transitions and their consequences

The implications of the recent and ongoing shift in economic power for the international order are hotly debated but poorly understood. Scholars in the Realist tradition of international relations (IR) often expect a linear relationship between economic power and international influence (Drezner 2007; Xuetong 2011). Historical institutionalist scholarship across a wide range of issues and countries, however, suggests that the smooth, quasi-automatic adjustments of global governance institutions, implied by such arguments, are unlikely and should not be simply assumed. How might we think more systematically about this power transition in the global economy and its consequences for global economic governance?

Organski—who already in the late 1950s predicted that the full integration of an industrialized China into the world economy would upset the international order as much or more than the Soviet Union’s rise to superpower status in the early 20th century—was the first to explicitly theorize “power transitions” and their effect on the international order.4 Organski defines an international “order” as a stable “pattern of behavior” based on “rules of trade, diplomacy, and war” (Organski 1958b, p. 316).5 And he defines a “power transition” as a major and “abrupt” shift in the “distribution of power among nations,” where a country’s power is understood to be largely a function of its population, the degree of industrialization (as the key determinant of the population’s productive capacity), and the effectiveness and efficiency of political institutions (Organski 1958b, p. 300f; see also Organski 1958a, 1968).6 The theory is thus based on a (relative) resources concept of power (see Organski 1958b, p. 305), with high assumed fungibility across issue areas.7

Importantly, Organski does not assume power resources to be static. Instead, PTT emphasizes that industrialization can result in increases in an emergent country’s power resources. Such increases are endogenous insofar as countries can launch this process and drive it forward on their own initiative.8

The often rapid increases in the emergent country’s relative power almost inevitably results in conflict, according to PTT. The main reason is that rising powers are expected to seek “a new place for themselves in international society, a place to which they feel their growing power entitles them” (Organski 1958b, p. 328). This necessarily creates a conflict of interest vis-à-vis the established powers, given that the existing order is assumed to institutionalize the established powers’ privileged position. Resolving it would therefore require pro-active accommodation and in that sense cooperation (Milner 1992, pp. 468–470) – which, however, PTT considers highly unlikely.

Part of the problem may be attributed to the rising powers: In an under-theorized and rather anthropomorphic passage, Organski attributes to rising powers impatience and hubris due to a tendency to overestimate the increase in their own power (Organski 1958b, p. 335f). Gilpin in his closely related version of hegemonic stability theory (Gilpin 1981, 1988) goes even further in expecting conflictual behavior from the rising powers, as discussed below.

The most important reason, however, why conflict is very likely, according to PTT, is the unwillingness of the leading established power(s) to accommodate the rising power, given that the established power(s) feel threatened by the emergence of a new great power – symbolically, politically, and economically. Politically and symbolically, leading powers’ privilege is assumed to be institutionally entrenched, allowing them to benefit from refusing or at least delaying “anything more than a small part” (Organski 1958b, p. 328) of the change needed to bring political voice opportunities and influence in line with the new (post-transition) international distribution own power.9

Notwithstanding the fundamental conflict of interest, which in PTT often appears inevitable, Organski repeatedly notes that it is possible that the previously preeminent power(s) may accommodate a rising major power, allowing the latter to “shar[e] in the leadership of the … international order and in the benefits that flow from it” (Organski 1958b, p. 327). It even is possible that such a “challenger” becomes the new “dominant” power in such a way that the existing order fundamentally prevails (Organski 1958b, pp. 323ff, 332f).10 Such confirmatory
accommodation, however, is considered very unlikely, especially when a major power has “recently risen in power thanks to industrialization” (Organski 1958b, p. 323). Under any but the most unusual circumstances, a major shift in the global distribution of wealth and power is expected to lead to escalating conflicts of interest – to the point that “one could almost say that the rise of such a challenger guarantees a major war” (Organski 1958b, p. 323).

Accordingly, PTT has heretofore mostly been read narrowly as a contribution to the literature on the causes of war, resulting in a wealth of research focused on one key implication, namely that preponderance rather than balance of power reduces the likelihood of militarized conflict. Numerous studies find strong empirical support for the preponderance proposition, though some studies have questioned whether the pattern really holds or is attributable to the factors emphasized by the theory.

We seek to extend the scope of PTT beyond explaining militarized conflict. Specifically, we propose a modified PTT for the analysis of global economic governance, which advances Organski’s larger ambition to understand more generally the consequences of power transitions for international conflict and cooperation (see also Efrid et al. 2003).

### 2.2. The power transition theory of global economic governance

In developing this PTT-GEG, we advance three constructive criticisms of the theory to better understand the conditions under which a power transition in the world economy will lead to conflict or breakdown in the global order or, instead, cooperation and accommodation. Our resulting PTT-GEG, thus constitutes a modified version of PTT with potentially broad applicability.

#### 2.2.1. From power resources to potent regulatory capacity and capability

Traditional PTT expects newly emerging economic powers to be necessarily a threat to the international order, because it equates an increase in productivity, economic output (gross domestic product) or market size with growing power, readily usable to pursue various political goals, which it assumes to necessarily diverge from the goals pursued by the established powers (see section 2.2.3 below). For global economic governance, this implies that a power transition in the world economy should lead to a rapid and pervasive rise in what Morse and Keohane (2014) have called “contested multilateralism” through either “regime shifting” (Hefter 2004) or “competitive regime creation” or the fragmentation of regime complexes (Raustiala & Victor 2004; see also Jupille et al. 2013).

When it comes to governing markets through inter- or transnational regulatory regimes, the assumption of automaticity also finds some support in the observation that large domestic markets afford governments “go-it-alone power” (Gruber 2000), that is, the capacity to resist external influence and to forego cooperation. Yet, when externalities are absent or small, go-it-alone-power is of little consequence. Many countries’ nonimplementation of the international food safety standards developed by the Codex Alimentarius Commission, for instance, was of little consequence for the global regulatory regime until those countries started to (re)export food and agricultural products (Büthe 2009; Büthe & Harris 2011).

An emergent economy’s (threat of) going it alone undermines the existing regulatory regime if (and only if) a country’s rejection of a global regulatory regime has negative externalities for others due to, for example, high interdependence or network effects (Simmons 2001; Singer 2007; see also Grewal 2008; Zangl et al. 2016, p. 176). As Lake (1983) points out, an emergent power can threaten stability even if it does not seek to develop a competing set of rules. Destabilization can also flow from norm-deviant or rule-violating behavior (which may occur quietly, even when it is systematic) by countries that are sufficiently large that such behavior undermines the international economic order. These countries would then not just be free riders of the international order but “spoilers.” Today, Brazil, India, and China, definitively have the potential to be such spoilers for the global economic system; “middle powers” might also have the potential to be spoilers, at least on a regional level (Cho & Büthe 2021).

To go beyond spoiler potential and understand actually influence in global market governance, a country’s market size, to be sure, is critically important because it provides economic leverage to get others to abide by its rules. It may even allow the country to govern economic activities not directly connected to production or consumption in the jurisdiction itself (Vogel 1995; Drezner 2007; see also Putnam 2016). But to be able to use this
spoiler potential to its benefit, an emergent economy also needs to be able to recognize its interests, articulate regulatory policies that advance those interests, and implement those policies, none of which follows automatically from their economic weight. To exercise influence in global regulatory governance, emerging powers (and any other countries with the potential to wield such influence) need, we submit, the institutions of the regulatory state.17

Critical to our thinking about regulatory state formation in the emerging powers is the distinction between regulatory capacity and regulatory capability:

Regulatory capacity. Affecting the behavior of economic actors beyond one’s own jurisdiction requires, at a minimum, the ability to implement and enforce a set of rules, including the ability to uphold international rules for the issue area in question. Building on the literature on “state capacity,” Bach and Newman (2007, pp. 830–832) have proposed the term “regulatory capacity” for having “regulatory expertise, coherence, and … statutory sanctioning authority” (p. 831) to implement and enforce (i.e. ensure compliance with) any given set of regulatory rules. They argue and show that such regulatory capacity can vary substantially. Analyses of transatlantic regulatory politics, as well as EU regulatory outreach vis-à-vis other countries, document that capacity-based influence can occur even in the absence of overwhelming market power (see, e.g. Bach & Newman 2010a, 2010b; Damro 2012; Lavenex et al. 2017; Peterson & Young 2014).

Regulatory capacity is in large part a function of bureaucratic politics and the ability to devote expertise and resources to the pursuit of a given set of regulatory goals. It matters domestically and in pertinent international venues (Shambaugh 2011; Lavenex 2014; Mertha 2010) – and for public just as for private regulatory institutions (Mattli & Büthe 2003; Büthe & Mattli 2011), upon which governments might rely to complement and enhance their own regulatory capacity (Abbott et al. 2012).

Regulatory capability. As important as regulatory capacity may be, having the skills and resources to implement and comply with regulatory rules is not enough for an emergent economy to advance its own interests in global market governance. We follow Cafaggi and Pistor who introduce the notion of “regulatory capabilities” to capture the ability to recognize one’s interests and articulate regulations that advance those interests: “In contrast [to regulatory capacity], the emphasis of regulatory capabilities is not on skills to ensure compliance with regulatory standards set by others, but on the ability to choose among different regimes and to develop alternatives” (Cafaggi & Pistor 2015, p. 102).18 Regulatory capability is critically important normatively, because it allows for meaningful self-determination, as well as analytically, because it is the prerequisite for recognizing genuinely divergent interests (if so). The substantive rules enshrined in global regulatory regimes by the established powers are generally “market-conforming” regulation (Murillo 2009) – possibly with a few exceptions tailored to particularly powerful interests in the domestic political economy of the EU and the United States, but generally market-conforming. If rising powers are to develop and pursue a different set of rules for governing their markets – including protectionist regulations or regulations intended to generated targeted rents – they need regulatory capability. Regulatory capability is also required for an emergent economy’s spoiler potential to become actionable.

Jointly, regulatory capacity and capability determine the institutional strength of the regulatory state, as portrayed in Figure 1. The figure reflects the relationship between these three concepts in the shape of three indifference curves, where all combinations of capacity and capability on a given indifference curve are indicative of the same level of institutional strength, whereas an outward shift onto a higher indifference curve is indicative of greater institutional strength.19

2.2.2. The disaggregated regulatory state

Traditional PTT and other IR-Realist approaches tend to treat the state as a unitary actor and power resources as highly fungible. Building on earlier conceptual critiques in the literature on the concept of power, such as Baldwin (1971), as well as Keohane and Nye’s (2001 (1977)) notion of complex interdependence, we reject the assumption of a unitary state and high fungibility of power resources. We posit instead the need for differentiated and disaggregated conceptualizations and analyses of the state and power transitions. Specifically, hypotheses and empirical analyses of power in global economic governance, which is a function of what we call the institutional
Regulatory governance is deeply entrenched in domestic administrative systems. Effective and efficient regulation requires a high degree of issue-specific expertise and frequently implies delegation of executive functions to specialized administrative bodies that act with a considerable level of independence from central government in the production of common knowledge, rules, and standards (see, e.g. Abbott & Snidal 2009). Many regulatory agencies in the developing world were first established during the 1990s as part of privatization and liberalization efforts linked to the Washington Consensus (Dubash & Morgan 2012). To allow them to focus on rule-making, rule-monitoring, and enforcement vis-à-vis domestic market players necessitated domestic reforms that empowered the agencies, granting them at least de jure relative autonomy from political control. This empowerment of regulatory agencies in charge of functional policy areas that are somewhat detached or independent from the political arena has been highlighted first in the literature on the U.S. regulatory state, but similar developments have in the meantime taken place in numerous countries, though the underlying political processes might have differed. The horizontal decentralization of political power is, moreover, embedded in a broader process of “decentering”, or disaggregating the state whereby “the regulatory state is delegating regulation upward and downward while increasingly separating – both organizationally and conceptually – the regulatory functions from the policymaking and the service-provisions functions” (Levi-Faur 2013, p. 36). These developments deeply affect the way emerging states steer their economies domestically as they transition away from developmentalist economies (Wade 1992) to economies governed by the regulatory state, in which rule-making authority shifts from the government to the state. Common trends have thus been accompanied by structural differentiation. The development of effective regulatory institutions, moreover, is costly and bound to be politically contentious (in ways discussed in greater detail in section 3 below), leading us to expect significant differences across issue areas.

Domestic processes of regulatory devolution are mirrored in and reinforced by the international architecture of global economic governance. Functional needs for coordination across jurisdictions have led to the establishment of links between domestic regulatory authorities, institutionalized to varying degrees in highly specialized transgovernmental networks (Keohane and Nye 2001(1977); Slaughter 1997, 2004). This reflects the shift of trade cooperation from “at the border” measures, such as tariffs and quotas, to “behind the border” regulatory issues, such as competition policy, intellectual property rules, public procurement, and services, where domestic legislation and administrative/juridical structures play an eminent role (Dür & Elsig 2015; Hoekman et al. 2002 p. 413ff). Formal intergovernmental cooperation regarding these issues requires agreement among governments.
at the highest levels, but most such cooperation is carried out transgovernmentally via the direct interaction of specialized regulators at the national or sub-national level (Slaughter 1997, 2004). “Power” in these specialized bodies takes different shapes than in intergovernmental negotiations and function-specific expertise and administrative capacity and capability frequently outweigh geopolitical factors (Raustiala 2002; Mattli & Büthe 2003; Lavenex 2014). In these processes, transgovernmental actors, epistemic communities and transnational advocacy coalitions frequently play an important role (Farrell & Newman 2014).

In sum, the creation of regulatory capacity and capability occurs neither automatically nor necessarily uniformly across issue areas. The resulting institutional strength of the regulatory state may therefore be expected to vary greatly by issue area. This implies for the analysis of the consequences of power transitions in the world economy that the ability of emerging economies to influence global regulatory governance may differ not just across countries and over time but also by issue area and thus require analyses that allow for such differentiation. The general argument developed here therefore requires issue-specific operationalization and attention to the different political stakes implied by demands for changes to particular regulatory regimes.

2.2.3. Preference alignment/divergence as a variable
Organski assumes that “all dominant nations attempt to appear disinterested in any benefits for themselves, but in fact, the dominant nation always benefits disproportionately” (Organski 1958b, p. 327). He also assumes that the leading countries maintain their influence in part by passing on some of the benefits to their followers/supporters (Organski 1958b, p. 327). Oneal and Bussmann (2007) have challenged the latter assumption by showing that leading powers do not tightly “control” the distribution of private goods and thus cannot easily “engineer satisfaction” among their followers. But at least for global economic governance, we surely can assume that the established powers as rule-makers benefit from the rules they themselves propose, and that they would prefer not to share with the “newcomers … the source of all [the established powers] privileges: [being in a position to make] the rule[s] of international society” (Organski 1958b, p. 238).

Assuming that the established global economic order serves the interests of the established powers does not, however, require us to also assume that the rules that govern the existing international order are necessarily detrimental to the interests of the rising powers (see also Lebow & Valentino 2009, p. 394f). Organski himself, in fact, seems to recognize as much when he differentiates between “satisfied” and “dissatisfied” countries (Organski 1958b, pp. 326–333), and when he writes that conflict should be expected (only, or at least above all) when “a powerful nation is dissatisfied with the status quo and is powerful enough to attempt to change things in the face of opposition from those who control the existing international order” (Organski 1958b, p. 325, emphasis added). Organski’s distinction, however, is under-theorized and rarely gets discussed as a source of difference among emergent powers.22

Gilpin (1988) goes further in making the claim that rising powers will necessarily be dissatisfied – in the sense of seeking governing principles that are inherent incompatible with the principles enshrined in global governance.23 The proximate reasons for the increasing power of a political unit in the international system may be some combination of demographic, technological, geographic, economic, or environmental factors, but the “major determinant” of an increase in relative power so substantial that it might allow the rising power to challenge the hegemonic position of the established power(s) and/or would prompt the latter to feel threatened, is “the differing character of their domestic [political-economic] regimes” (Gilpin 1988, p. 599). It is this difference, Gilpin suggests in his reading of Thukydides, that prompts truly transformative innovations in social and economic organization, military technology, and so on that differential growth rates lead to a “transformation” of the very “basis of power” and thus what we would recognize as a power transition (Gilpin 1988, p. 603). Gilpin thus provides a theoretical account underpinning his expectation that any true power transition entails a fundamental conflict of interest with little room for compromise and a high probability of escalation.24

Notwithstanding Organski’s apparent greater ambivalence about whether we should assume rising powers to be dissatisfied revisionists, the PTT literature, even when it explicitly builds on Organski, has tended to simply assume that emergent powers necessarily have divergent and conflicting interests. This assumption is occasionally based on one of Organski’s rare blunt statements about the matter: “A rapid rise in power … produces dissatisfaction in itself” (Organski 1958b, p. 328). More frequently, it is explained by the difficulty of operationalizing dissatisfaction or alignment (de Soysa et al. 1997; Lebow & Valentino 2009, p. 391).
We depart from the PTT tradition’s tendency to equate power transitions with conflicting interests. Rather than treating divergence as given, we explicitly make the divergence in preferences between a rising power and the established power(s) a continuous variable – and (in section 3, below) discuss domestic and international drivers of such divergence. In the empirical papers in this special issue, the process of preference formation (and contestation) is then analyzed in greater detail and separately for each emergent economy and for each regulatory regime: competition policy (for China: Wang 2021; Mexico and Turkey: Aydin 2021; South Korea: Cho & Büthe 2021), public procurement (for China and Brazil: Krizic 2021), labor mobility (for China and India: Lavenex & Jurje 2021), trade liberalization (for China: Eckhardt & Wang 2021), trade (export) finance (for China: Hopewell 2021), and intellectual property rights (for Brazil and India: Serrano & Burri 2021).

2.2.4. The consequences of power transitions: Putting it all together

Power transitions in the world economy therefore need not necessarily lead to conflict or destabilization of the existing regulatory regime(s). Even when a rising power builds the regulatory state that gives it the option to use its market size’s spoiler potential to contest the international order in a particular issue area, conflict is a political choice. The discussion above suggests that our theoretical expectations regarding the consequences of the ongoing power transition in the world economy for global economic governance must be differentiated by regulatory issue, as well as by country and over time. Our main argument about these consequences can be summarized as follows:

When the institutional strength of a rising power’s regulatory state (in a given issue area) is low, the country will remain a rule taker, though we still differentiate between two possibilities, depending on the extent of preference divergence:

Rule-taker. When an emergent economy’s preferences are well-aligned with the preferences of the established powers, but the emergent economy lacks regulatory capability and capacity, then it will remain a passive rule-taker. Such a rule taker is supportive in principle but unable to provide meaningfully regime-strengthening support. For the regime as a whole, it may be considered weakly supportive.

Rule-faker. When an emergent economy’s preferences diverge from the preferences of the established powers, but the emergent economy lacks regulatory capability and capacity, then it will adopt and implement global rules resentfully and often only superficially. The government might adopt “sham” domestic policy changes that avoid meaningful compliance with the global rules without openly questioning them (see, e.g. Walter 2008) – or even measures that undermine the local effectiveness of the pertinent global rules without, however, being able to challenge the global regime as such.

As the institutional strength of the emerging power’s regulatory state increases (again in an issue-area-specific sense), a slightly more complex set of outcomes becomes possible, depicted in the right column of Figure 2.

Regime-strengthening rule-promoter. When an emergent economy develops preferences that are well-aligned with the regulatory status quo, then it should be in its interest to promote the existing rules (and new rules in the same spirit), both domestically and abroad. This makes the previously passively rule-taking emergent power a rule-promoter, strengthening the international regulatory order through what Kastner et al. (2019) usefully call “second-order cooperation” (pp. 13–21) without substantively changing that order.25

Regime-disrupting/undermining rule breaker/spoiler. When emergent economies develop preferences that significantly diverge from the regulatory status quo as developed by the established powers, but the established powers reject their demands for substantive changes to the regime governing a given aspect of global markets (i.e. do not accommodate the divergent preferences), emergent powers may partially or fully withdraw (or refuse to joint in the first place) the established governance regime or even try to establish an alternative, competing regime (Morse & Keohane 2014).26 A previously rule-taking (or possibly rule-faking) emergent economy thus becomes a rule breaker and spoiler once it has built a strong regulatory state. The consequences for the established regime will depend on the extent to which nonparticipation of the emergent economy disrupts the international regulatory order, but both theory and history suggest that spoilers can devastatingly undermine a global regime.

Regime-transforming rule-maker. Transformations in global regulatory governance occur when emerging economies develop preferences that significantly diverge from the status quo defined by the preferences of the
established powers yet succeed in getting the other members of the global regulatory regime to accept and accommodate those differences. In this transformative process, the previously rule-taking emergent power thus becomes a global rule-maker in a changed, but now more broad-based international order into which they are genuinely integrated.

Figure 2 depicts the five possible outcomes, at the level of the issue area, hypothesized as a function of the institutional strength of the regulatory state (defined by the extent of regulatory capacity and capability) and divergence of substantive preferences. The response to the power transition by the established powers is not depicted as a full-fledged third dimension because it is hypothesized to become only consequential if preferences substantially diverge and the emergent economy’s regulatory state is strong. Also, note that the five outcomes specified here are ideal types with which observed outcomes can be more or less fully congruent, given that the two dimensions are continuous. The five ideal types, however, may be thought of in a set-theoretic way rather than as continuous: There is, for instance, no real half-way position between being a rule-promoter and being a spoiler. At a particular point in time and for a particular regulatory issue, a country’s actions are either regime-strengthening or regime-undermining; they may be more or less strengthening or undermining, but a genuine middle ground is not available.

3. Explaining regulatory state formation and preference alignment

3.1. Domestic and international drivers of regulatory state formation

The structures of the regulatory state at the domestic level are the key political-institutional pillars on which the institutions of contemporary global economic governance have been built and on which European and American regulatory dominance within those institutions has been based (e.g. Farrell & Newman 2014; Lavenex 2014). We therefore have posited that emerging economies’ possible transition from rule-takers to rule-makers, -breakers, -promoters, or -fakers is substantially a function of their ability to develop the domestic institutions of the regulatory state.27

But what explains the variation in regulatory state formation, including variation within the same country across issue areas? Developing a full-fledged theory of regulatory state formation – which would yield a specific account of why a particular country has developed greater or lesser capacity and capability for the regulation of certain aspects of the market economy compared to others – is beyond the scope of this special issue. Instead, we briefly explore in this section the key domestic and international drivers of regulatory state formation, about
which we can ex ante offer insights that should hold generally. The country- and issue-specific analyses in the empirical articles will go further in examining regulatory state formation in specific contexts.

The development of regulatory institutions in developing countries is – like so much else in Western or Northern scholarship about the global South – often attributed to external influence. Not without some justification in this case: In the absence of already highly developed regulatory capability (to the point of being able to undertake original and differentiated institutional design and innovation), policymakers often mimic policies and institutions that seem to have been successful elsewhere. Such emulation may be the result of a rational learning process (Gilardi 2010) but especially in developing countries emulation might also occur because global structures and discourses legitimate certain institutional arrangements over alternatives (Finnemore 1992; Spruyt 1994).

While such an adoption of “foreign” institutional models is voluntary, it tends to reflect intellectual hegemony at the time (Cox 1983; Lukes 2004), rather than careful assessments of the suitability of the arrangements for the adopting country (which, again, would require high regulatory capability ex ante). Importantly, given our concern here with understanding the resulting institutional strength of the regulatory state, the foreign institutional arrangements thus imported could in principle exhibit (and therefore result in) any particular level of regulatory capacity or capability, subject to two caveats: (i) Regulatory capacity requires a number of characteristics, such as a certain level of staffing and budgetary resources, that might more easily be hard-wired into the institutional structure and thus exported than some of the key requirements for high regulatory capability, such as the analytical and leadership skills of the regulator’s senior staff. (ii) As Pistor (2002, p. 107f) notes about “legal transplants,” setting up institutions that do not fit the local context and might not even be fully understood by the local stakeholders can start a dynamic whereby the imported institution not only fails to perform as expected, it also undermines the functioning of other institutions for the governance of markets, with which it interacts.

At times, the adoption of foreign models is not even nominally voluntary. Dubash and Morgan show that developing countries frequently come under pressure, from other states and international financial institutions, “to adopt institutional innovations” (Dubash & Morgan 2012, p. 261), and that such pressure played a major role in the introduction of independent regulatory agencies in the electricity, telecommunications, or financial regulation sectors in Asia and Latin America (see also Dubash 2013). While the characteristics of these institutions surely depend in part upon the motivations of the particular foreign governments and international organizations advocating for them, we would expect the institutions thus adopted generally to exhibit increased regulatory capacity, so as to enable the developing country’s regulatory agency to enforce foreign or international rules, rather than increased regulatory capability, which might lead them to develop divergent rules.

While international factors surely often matter, the institutional strength of a newly formed regulatory state should be at least partly a function of domestic politics and, in particular, of the – variable – support and opposition, which the process of regulatory state formation elicits from domestic economic and societal interests. To put it another way: We expect regulatory state formation to be always contested, because creating or changing institutions for the governance of markets inherently has distributional implications. When new regulatory agencies are introduced through mimicry or in response to external pressure without real domestic support, we would expect such institutions to remain “empty shells” (Dubash & Morgan 2012, p. 267), as suggested for state formation generally by Jackson and Rosberg (1982): formal bodies that contribute to the appearance that the country is a compliant rule-taker but have little substantive effect. When there is no domestic support for significant investments into the new regulatory institution, the resulting regulatory body has little chance of developing regulatory capacity and even less capability; we would expect it to be domestically ineffective and with no chance to exercise meaningful influence in international and transgovernmental settings.

Emerging economies stand out among developing countries in that they are characterized by rapid growth and the development of competitive industries whose success is often predicated upon participation in international markets. Such industries are widely considered a hallmark of these large, high-growth economies and often a source of national pride, as well as critical to domestic growth, a sound balance of payments, etc. We would expect these industries to spur domestic demand and support for regulatory state formation in two possible ways. Demand and support for regulatory state formation could be the result of a bottom-up process, with firms and/or labor in internationally competitive industries calling for sophisticated regulatory institutions to enable and foster market exchange (Akerlof 1970; Carpenter 2010; Vogel 2008), help them retain market access (Starobin & Weinthal 2010), or remain at the competitive edge (Balleisen 2015, pp. xxii–xxxiii; Stiglitz 2010, pp. 15–25). The
prominence of such industries also could spur regulatory state formation as part of a long-term development strategy guided by far-sighted, reformist bureaucrats within the state apparatus and the government (Evans & Rauch 1999). For example, in China, high-end electronics (Huawei, ZTE, Lenovo), internet retail and finance (Tencent, Alibaba) or renewables (Sany, BYD) create such domestic demand for a legal framework associated with the characteristics of the regulatory state (Serrano 2016); government-funded research institutes under the Council of Scientific and Industrial Research (CSIR) in India, and the Brazilian Agricultural Research Corporation (EMBRAPA) do likewise (Muzaka & Serrano 2020). The introduction of rules for public procurement or intellectual property or the introduction of competition policy, thus can have strong support domestically, due to internal changes and evolving political preferences. And since effective pursuit of these broader goals of regulatory policymaking requires developing novel approaches for each country’s specific needs, or at least adapting existing standards and rules (rather than simply adopting foreign regulations wholesale), this indigenous support for the regulatory state should include strong support for building not just regulatory capacity but indeed regulatory capability.

Domestic forces in support of building regulatory capacity and capability, moreover, can be strengthened by external support (Lavenex & Schimmelfennig 2009), making a strong regulatory state more likely. Technical assistance and conditionality in trade agreements, for instance, can strengthen regulatory capacity. Newly created but domestically politically weak regulatory agencies can, for instance, gain greater legitimacy and independence through recognition by transgovernmental networks of regulators in the same issue area, as well as technical assistance and support from their foreign counterparts (see Lavenex 2014; Aydin & Büthe 2016; Kovacic & Lopez-Galdos 2016; and Wang 2021, in this issue). Transgovernmental networks have come to supplement or sometimes even substitute classic multilateralism in policy areas ranging from finance (Posner 2009; Bach & Newman 2010a, 2010b, 2014) to competition policy (Djelic & Kleiner 2006; Coppola 2011; Botta 2013), environmental (Raustiala 2002; Andonova 2004) or energy cooperation (Maggio 2014) and, on a more operational basis, security policy (Mérando et al. 2011). Transgovernmentalism is particularly pronounced in “behind the border” trade issues as these issues touch upon complex domestic policy regimes and require ongoing regulatory coordination. By offering training modules, providing information, identifying best practices, and promoting regulatory templates, transgovernmental networks considerably contribute to capacity building. Conditionality in multilateral and bilateral (trade) agreements, linking market access or other trade concessions to maintaining independent competition authorities or strengthening patent offices, can similarly be mobilized by reformist elites to weaken opposition to regulatory state formation. Stronger enforcement mechanisms for international agreements, moreover, should enhance the effectiveness of such “lock-in” strategies: The general political logic applies all the more so for formal agreements that contain legally binding provisions. By enhancing the credibility of commitments made by reformist elites and creating opportunities (such as enhanced market access and foreign aid), these agreements can help mobilize winners and compensate losers, changing the supporters/opponents ratio and allowing for domestic reform (Baccini & Urpelainen 2016; Büthe & Milner 2008; 2014; see also Bradford & Büthe 2015; Eckhardt & Wang 2021, in this issue).

At the same time, the transition towards the regulatory state and preference alignment is anything but uncontroversial, especially in countries that are characterized by a strong legacy of developmentalism and state intervention into the economy (Wade 1992; Woo-Cumings 1999; Pearson 2005). Specifically, large emerging countries are characterized by the coexistence of high-productivity-growth sectors with large sectors that are stagnant or even exhibit negative productivity. In this context, even a seemingly technocratic devolution of authority is by no means apolitical. This makes large emerging economies particularly interesting to study as arenas for contestation, over (economic) interests, (political/regulatory) ideas, and bureaucratic institutions. Tradeoffs and distributional conflicts exist in many policy fields, with significant social implications. For example, in the pharmaceutical sector there is a tradeoff between intellectual property rights and the cost of medicines, at least if strict enforcement of pharmaceutical patents limits the production of cheaper generic versions (Serrano & Burri 2021, in this issue). Similarly, the implementation of competition policy (Wang 2021, in this issue) and international government procurement rules (Krizic 2021, in this issue) create adjustment costs, including possibly increased unemployment, for example, due to the restructuring of state-owned enterprises. All of this leads us to expect that building regulatory capacity and capability will be met with domestic opposition – even when it has substantial domestic support. The number, identity, and political potency of the opponents, however, should
differ across the various regulatory issues covered in this special issue. The net effect thus should vary across issue areas, as well as across countries.

3.2. Domestic and international drivers of preference divergence

In the liberal tradition of IR theory (Milner 1988; Moravcsik 1997), we assume that preferences over policies, including foreign economic policy, are first and foremost a function of domestic interests and institutions, for which international politics and institutions provide the strategic context and possibly a hard constraint. Substantive preferences regarding specific regulatory measures, however, are likely to be highly context-dependent and might evolve over time. A general theory of regulatory preference alignment or divergence is therefore beyond the scope of this article.\textsuperscript{28} We offer, however, a few general thoughts and a proposition about preference formation and alignment/divergence in the realm of global regulatory governance.

A central question for the literature on global governance is to what extent institutionalized interactions can endogenously change preferences. With regard to the newly emergent economies, this question has hitherto been discussed most intensively with regard to China. Institutionalist scholarship suggests that higher levels of institutionalization will facilitate accommodation, because shared membership in international organizations leads to convergence of preferences (Bace & Bondanella 2007; Cao 2009). Johnston (2008) finds evidence of this pattern for China, though his findings should not be simply assumed to apply to all rising powers, nor to all policy areas equally. In fact, rising powers might resist global governance institutions on the suspicion that they are biased against their interests, which can prompt resistance to the socialization mechanisms that would otherwise lead to preference convergence (Johnston 2003). Highlighting the links between domestic structures and international interests, John Ikenberry (2011) has argued that China’s economic as well as political interests are in maintaining and even strengthening the highly institutionalized “liberal world order” that has enabled its phenomenal economic success and allowed it to become much stronger without evoking serious attempts to counterbalance. China should therefore be expected mostly to seek greater influence within global governance institutions, attempting to incrementally change the rules propagated by global regimes when those rules are contrary to its interests (in the sense of what we have called rule-making). At least in global economic affairs, which are the focus of this special issue, China is thus expected to avoid undermining or categorically challenging existing regimes in the role of a “rule-breaker” or spoiler (e.g. Chin & Thakur 2010). Armijo and Roberts have similarly argued regarding the BRICS in general that their experience in global governance (even though in practice this has until recently often meant: experience with global governance – in the sense of from-the-outside-looking-in or as a marginalized participant) has led them to seek “evolution, not revolution” (Armijo & Roberts 2014, p. 520).\textsuperscript{29} While the rise of populism in Europe and the United States could upend this “grand bargain” (Mastanduno 2014) by prompting the established powers to turn away from multilateralism, and the nationalist turn in the United States under Donald Trump’s presidency has certainly strained not just relations with China but more generally called into question U.S. leadership of multilateral institutions, so far China and other emerging economies have generally supported, or at least acquiesced to, the institutions for governing the global economy, albeit with considerable variation.

The key mode of interaction between international regulatory governance and the domestic drivers of regulatory preferences that might lead to increasing alignment is socialization. While socialization can occur in formal multilateral settings, peer-to-peer technocratic cooperation within horizontal networks, that is, transgovernmentalism, is particularly amenable to such more co-optive forms of influence (Lavenex 2014; see also Checkel 2005; c.f. Kelley 2004). The capacity-building opportunities provided by transgovernmental networks and the recurring interaction among their members socialize newcomers into a professional community (Freyburg 2015). These networks also diffuse practices and knowledge and thereby not only sustain and strengthen peer regulators in newly acceding countries but also may be expected to sustain the development of regulatory capability and, frequently, contribute to preference convergence, relatively independently from central governments. Where such networks are strong and active, we would over time expect increasing preference alignment (i.e. decreasing preference divergence) and thus an inward shift along the vertical dimension of Figure 2. Conversely, the more, thanks to regulatory capability, a rising power perceives its differing interests as requiring
divergent policies – without that such tendencies are counteracted by socialization – the more will preferences diverge.

Any analysis that emphasizes preferences as a key explanatory variable must address the issue of operationalizing preferences, which is one of the most challenging aspects of political analysis (see Lake and Powell 1999). For the rising powers, the articles in this special issue take a two-pronged approach: To the extent possible, the authors first derive those preferences deductively from the particular circumstances in which a given country finds itself regarding a given issue. For instance, both Kristen Hopewell’s and Ivo Krizic’s analyses of China’s preferences for maximum domestic policy autonomy regarding the domestic beneficiaries of its export finance and public procurement regimes, respectively, are derived from the macro-economic importance of these policies and from their symbolic-political value for the Chinese government’s commitment to a developmentalist approach to economic policymaking, as well as the greatly increased ability of the Chinese state to “afford” such autonomy. In recognition, however, of the complexities of the domestic political process of preference formation, for which this project does not provide a general model, each article traces the process of preference formation empirically and allows deductive expectations to be modified by what various actors and ultimately the countries governments’ statements and actions reveal about their preferences. For established powers, we generally make the simplifying assumption that their ex ante preferences are enshrined in the rules that define the existing international regime (for a given issue), though the empirical analyses are attentive to the possibility that established powers’ substantive preferences might have changed, possibly in response to the rise of the new economic powers.

4. Emergent economies and the international order: The papers in this special issue

The rise of emergent economies can strengthen, transform, or disrupt international regulatory regimes – or simply have no effect on them. The consequences of power transitions for the international order depend, we have argued, on the extent to which an emergent power develops regulatory capacity and capability; the degree to which the emergent economy’s regulatory policy preferences diverge from the preferences of the established powers; and (if regulatory strength and preference divergence are high) on the established powers’ ability or willingness to accommodate the rising regulators. The consequences of the recent and ongoing power transition in the world economy may therefore vary greatly by issue area – as well as across countries and over time. Accordingly, the papers in this special issue examine the variation in consequences for global regulatory regimes across several major regulatory issues and for the three major emergent economies of Brazil, India and China, as well as three new(er) “middle powers:” Mexico, South Korea, and Turkey.

The issue- and country-specific in-depth analyses are preceded by a broader statistical analysis by Simon Evenett (2021, this issue), which examines key premises of the PTT-GEG. He offers well-taken caveats regarding the challenges of empirical measurement across countries and time, then draws on the Global Trade Alert, Evenett’s original, exceptionally comprehensive database of trade-inhibiting and trade liberalizing measures undertaken by governments since the beginning of the great recession of 2008. This database allows him to conduct multidimensional analyses of the extent to which the BRICS governments have violated international market governance rules, especially the ostensibly widely agreed nondiscrimination norm. It also allows him to compare the BRICS’ conduct with the resort to such discrimination against foreign commercial interests by the European Union and the United States. His analysis shows that, while Western countries have led the departure from key economic norms, the BRICS have emulated Western discriminatory responses to the crisis, albeit to a varying extent. Importantly, he shows that available metrics of greater institutional strength of the regulatory state are correlated with higher levels of norm-deviant behavior – supporting our starting assumption that building a stronger regulatory state increases a country’s spoiler potential. In addition, he shows that the extent of a given country’s norm-deviant behavior varies considerably by issue area – confirming that the consequences of the power transition in the world economy may vary and require theoretical explanations and empirical analyses that are sensitive to issue-specific differences.

We expect a regime-supporting outcome, where a rule-taker becomes a rule-promoter, whenever the policy preferences of an emergent country with regulatory capacity/capability align with (i.e. exhibit low divergence from) the preferences pursued by the established powers in international venues. This outcome, where the emerging country becomes a rule-promoter and participates in the creation and diffusion of new economic rules
consistent with the established principles of the international regulatory regime, is the outcome that most strengthens the existing international order.

Our special issue contains several examples of such regime-supporting outcomes, starting with the analyses of competition law and policy in Brazil and China by Lei Wang, in South Korea by Moohyung Cho and Tim Büthe, and in Turkey and Mexico by Umut Aydin. Starting from the puzzling divergence between Brazil’s strong integration in transgovernmental networks in the field of competition policy and China’s marginal participation, Wang (2021, this issue) examines the interplay of domestic and international factors that have shaped Brazil’s and China’s development of regulatory institutions and preferences regarding the regulation of market competition. He argues that due to the different domestic politics surrounding competition law and policy, the national competition agencies (NCAs) of Brazil have become deeply embedded in transgovernmental networks, whereas the NCAs of China have established more tentative bilateral-only relationships with their foreign counterparts. As his detailed analysis of Brazil and China shows, this has resulted, for Brazil, in closely aligned policy preferences and high regulatory capacity and capability (especially after the 2011/2012 institutional reforms that merged the three Brazilian competition authorities into a single unified agency), allowing the Brazilian regulators to act increasingly as rule-promoters. China, by contrast, has developed comparatively greater preference divergence (while still agreeing with the established powers on the fundamental principles of competition law and policy) and slightly weaker capacity and capability. Their international influence has therefore remained limited, leaving China – in this regulatory realm – mostly a rule-taker.

Aydin (2021, this issue) as well as Cho and Büthe (2021, this issue) examine generally in what sense middle powers might be expected to be distinctive with regard to regulatory state formation and with regard to the consequences of their regulatory state formation for global regulatory governance. Then, they analyze the specific consequence for the countries’ position vis-à-vis the global competition regime. They argue that middle powers’ limited political and economic clout makes it difficult for them (even with substantial regulatory capacity and capability) to transform or disrupt existing regimes, though these analyses examine no instance of diverging preferences, so we do not directly test this proposition. Rather, integration into (and socialization through) transgovernmental networks have transformed the middle powers examined here into regulatory states with well-aligned preferences, for which the PTT-EGG framework expects that they invest some of their newly acquired capacity and capability to further diffuse the rules and norms generated by the established powers in their own regions, in a process of secondary diffusion.

Cho and Büthe (2021) examine, in the realm of competition law and policy, the domestic and international drivers of regulatory capacity and capability and of policy preferences of South Korea as one of the middle powers that “emerged” already in the course of the 1980s. They find that South Korea, which until the passage of its competition law in 1980 simply was a nonparticipant in this international regulatory regime, by the early 1990s developed substantial regulatory capabilities and capacity (which have continued to grow since). And they find that South Korean preferences in this realm have for at least two decades now been closely aligned with the preferences of the United States and the EU as the traditionally dominant powers in the realm of competition law and policy. Their concluding analysis of South Korean antitrust enforcement cooperation agreements, of the Korean Fair Trade Commission (KFTC)’s technical assistance programs for new competition agencies in East Asia (and beyond), the KFTC’s work with the OECD through the OECD/Korea Policy Centre’s Competition Program, and of the KFTC’s role in international institutions governing competition law and policy provides strong support for the hypothesis that, even among middle powers, the combination of a strong regulatory state and preference alignment results in a shift from rule-makers to rule-promoters.

Aydin (2021) focuses on two newer middle powers, Mexico and Turkey, which we should expect to be particularly well positioned to become rule-promoters and have a supportive impact on the existing regulatory order at the regional level and beyond. Aydin analyzes for both countries the domestic and international politics of their regulatory state formation, which has made their transition into rule-promoters possible, as well as their integration into the world economy and transgovernmental networks, which she shows to have been important drivers of the convergence of their preferences, in line with what we would expect for rule-promoters.

Krizic’s (2021) study of public procurement introduces an additional distinction, suggesting that in a single regulatory issue area, a country can have preferences that are closely aligned with the international “soft law” rules while having more divergent preferences with regard to the “hard law” regime in the same issue area. This
distinction is pertinent for the regulation of public procurement, where a soft law regime focuses on the “transparency” of procurement procedures, with the aim of reducing corruption and increasing efficiency. It has come to be complemented by a hard law “nondiscrimination” regime, which aims to ensure unimpeded access for foreign bidders to public procurement via the plurilateral WTO Government Procurement Agreement (GPA). Krizic shows that Brazil, India, and China have become regime-supporting rule-promoters insofar as they have fostered transparent regulatory frameworks at home and lent their support to the international soft law institutions. By contrast, with regard to the nondiscrimination hard law regime, Brazil, India, and China have remained mostly detached, and due to their size and the strength of their regulatory state have thus become regime-disrupting spoilers, resisting attempts by the established powers to incorporate them into the GPA. Krizic suggests that we find such differentiated outcomes vis-à-vis the international order because many emerging countries – rather than having fully embraced the neoliberal vision of the regulatory state – still follow a “regulatory-developmental” state model, combining a rule-based environment with the targeted promotion of their domestic economy.

Eckhardt and Wang’s analysis of China’s gradual adoption of trade-liberalization provides another example of a regime-promoting outcome. Besides locking-in economic reform through the WTO, China has, Eckhardt and Wang (2021) argue, engaged in an ambitious strategy of signing preferential trade agreements (PTAs) to support a gradual but wide economic reform agenda. These ambitions require, in the eyes of the Chinese leadership, inter alia more trade liberalization in goods and services, as well as tougher Intellectual Property Rights (IPR) rules. For this reason, China has – at least formally – gone beyond its WTO commitments and included a wide range of behind the border issues in its PTAs – similar to what the United States and the European Union have done.

We expect regime-transforming outcomes when emerging economies with regulatory capacity and capability form policy preferences that diverge from the status quo and succeed in having the other regime members accommodate them. This is the outcome where an emerging country shifts from being a rule-taker to truly being a rule-maker. Two articles in this special issue examine this possible outcome. Lavenex and Jurje (2021, this issue) focus on a particularly sensitive field of global economic integration: labor mobility. Their contribution starts with the observation that, while established economies have traditionally opposed international commitments on economic migration, developing countries including the big emerging economies have long lobbied for more openings in this field. A window of opportunity was opened in the 1990s with the inclusion of the temporary mobility of natural persons in the General Agreement on Trade in Services (so-called “mode 4” mobility, see Lavenex 2006). Facing Western countries’ opposition to accommodate their demands for further openings at WTO level, China and India shifted to bilateral venues, where they have started transforming the international agenda through preferential trade agreements (PTAs). In line with our argument about domestic regulatory transition, however, only China has been able to combine economic demand and political support for labor mobility with regulatory capacity and capability, thus effectively widening the scope of the GATS mode four regime in its PTAs. India, by contrast, remains in this issue area what we have called a “rule-faker”: unable to influence the global rules in accordance with its preferences, it resentfully follows, as little as possible, the rules set by others.

Serrano and Burri (2021, this issue) provide the other example of regime-transformation in their analysis of India and Brazil and the global rules governing pharmaceutical patents. The authors find that the mobilization of economic interest groups and the development of legal and institutional expertise allowed both countries to build a certain degree of regulatory capacity and capability, amplified by the support of transnational epistemic communities of legal scholars, and networks of advocacy organizations. This allowed India and Brazil to develop domestic legislation, which increased their policy-space. However, in Brazil, following a tumultuous process, the left-wing government that oversaw these international and domestic efforts was ousted from power leading to a policy-shift. The Brazilian case shows that party preferences may be relevant in shaping the position an emerging power takes vis-à-vis an existing regime. Yet, as the article also shows, it is exactly this regulatory devolution and stability that is required if countries want to establish themselves as rule-makers in international governance. Higher regulatory capacity and capability enabled India, with its ex ante strongly divergent preferences, to transform the existing regime. Rule-making has taken an unexpected path as India’s domestic legislation spread to other (developing) countries via South–South policy-diffusion and not through multilateral organizations.

Kristen Hopewell’s analysis of China as a regime-undermining rule-breaker and spoiler in the global trade finance regime (Hopewell 2021, this issue) complements these numerous instances where the power transition in the world economy has either transformed or even strengthened the previously existing regulatory regimes. Her
analysis shows that an explosion in the use of export credits by rising powers, particularly China, has eroded the efficacy of existing international rules intended to prevent a competitive spiral of state subsidization via export credits. China’s refusal to participate in the established governance regime (or to accept international disciplines on its use of export credit) is undermining the set of governance arrangements that worked effectively in this issue area for decades. Hopewell notes that this is not due to a categorical unwillingness on the part of the established powers or the existing regime to accommodate rising powers, but due to the genuinely incompatible preferences of China, combined with high capacity and capability, underwritten by its massive, decades-long economic transformation. Under these conditions, the rise of new powers indeed threatens the established international order.

5. Conclusion

The deep international integration of markets in recent decades – through trade and in particular the massive growth and intensification of global value chains for the production of goods and services – implies that power transitions in the world economy have the potential to disrupt, transform, or potentially strengthen the regulatory regimes established to govern those global markets. A key element of this global market governance in flux is the diffusion and consolidation of the regulatory state. Domestic institutional arrangements for governing market competition, intellectual property, labor mobility, export finance, and other aspects of markets – now have substantial effects across borders (Farrell & Newman 2014; Dür & Elsig 2015). Consequently, the increasing market power of China, India and Brazil (as well as arguably some “middle powers”) has given them spoiler potential, raising the question of whether their rise is a threat to the international order.

In this introduction to our special issue on global market governance in flux, we have set forth an analytical framework – which we have dubbed PTT-EG – to systematically understand the consequences of the rise of these new economic powers for the governance of global markets in the context of regulatory state formation. This framework is put to the test in the remainder of this special issue in empirical analyses that examine the effects of the power transition in the world economy not just across countries and time but also separately for several regulatory issue areas.

We emphasize the need for such differentiated analyses because the transition to the regulatory state involves a process of (mostly horizontal) disaggregation whereby regulatory authority is delegated to multiple specialized bodies and is increasingly separated from the political arena, including policymaking and service-provisions functions (Levi-Faur 2013, p. 36). As the detailed comparative analyses of key issue areas of global economic governance in this special issue show, the issue-specific development of domestic regulatory institutions – jointly with the degree of divergence between the rising and the established powers’ preferences – determine whether an emergent economy is able to convert its growing market, material resources, and technical expertise into regulatory influence. These findings support the modified PTT develop above: Whether a “rule-taker” becomes a resentful but in its sham compliance inconsequential “rule faker,” a regime-strengthening “rule-promoter,” a rule-breaking spoiler who threatens the system, or a truly transformative “rule-maker” thus depends upon domestic political decisions as much as the country’s status in the world economy.

To be sure, size matters as a constraint: Middle powers have (all else equal) surely less potential to transform the international order.30 In the realm of competition law, examined in two of the papers in this special issue, middle powers have largely aligned their preferences with established norms and have therefore typically evolved into promoters of the existing regime, without challenging its basic norms. By contrast, where large emerging economies have acquired the requisite regulatory capacity and capabilities, the case studies assembled in this special issue find a broad range of outcomes. And in instances of preference divergence, whether the outcome is a transformation of the regulatory regime or contestation and disruption of the international order is not just a function of the strength of the rising power’s regulatory state. It also depends on the willingness and possibility of the established powers to accommodate those differing regulatory preferences within the existing regime.

Accommodation turns the former rule-takers with divergent preferences into rule-makers and transforms the existing regime in the process, as seen in the analyses of the health-related intellectual property rights regime (Serrano & Burri 2021) and the rules governing labor mobility (Lavenex & Jurje 2021). We also find, however, that accommodating large emerging economies is difficult and may be impossible if there is no cooperative solution that all sides see as preferable to maintaining separate, conflicting rules as in the case of the international
rules governing export credit (Hopewell 2021). Moreover, as shown by Evenett (2021), emergent economies are not alone in undermining, through noncompliance, the regulatory regimes that make up the international order. In some cases, it is established powers that are the most disruptive.51

In term of institutional design, our findings raise the question whether strongly legalized frameworks, such as the ailing World Trade Organization, may be insufficiently flexible to sensibly accommodate rising powers; even if sometimes this lack of flexibility may in the past have provided an opportunity for reformist elites in emerging economies to lock-in domestic reforms. More informal transgovernmental and transnational networks, which establish direct links between peer regulators and epistemic communities, may prove more viable as venues for mutual learning and consensus-building, as can be seen in the case studies where preference convergence has occurred over time, most notably in competition policy, as shown in the cases of Brazil, China, Mexico, South Korea, and Turkey by Aydin (2021), Cho and Büthe (2021), and Wang (2021).

For policymakers and for global governance, it is important to note the implications for key issues on the policy agenda: Our analytical framework, PTT-GEG, theorizes power transitions and their consequences for global economic governance as a general phenomenon. And the empirical articles following our introduction show that, as an empirical matter, several countries that had long played a rather marginal role in global governance have in recent years gained the potential to disrupt, transform, or potentially strengthen the various regulatory regimes for the governance of global markets. Their choices and actions are now consequential beyond their borders. It would therefore be misguided to reduce our opening question – how power transitions affect the governance of global market – to the question of whether the rise of China is a threat to global economic governance (as is often done). At the same time, China is, in many ways, the “elephant in the room” when these issues are addressed, both due to its size and because it is widely perceived as threatening.

Western, especially American, observers often see China as particularly prone to reneging on its commitments under international agreements, engaging in deliberate regime-undermining sham compliance while talking the talk of rule-promotion (see, e.g. Bown & Keynes 2020), and large-scale industrial espionage by Chinese companies and intelligence services appears to continue unabated. In addition, China’s domestic politics has under President Xi Jinping since 2013 become more centralized and top-down, allowing for less internal debate even in the Standing Committee of the Politburo compared to previous administrations (see, e.g. Brown 2016; Economy 2018; Ye 2020), reducing the transparency of China’s policy choices. The Chinese government is using new technologies, such as artificial intelligence in applications including face recognition, decision support, and others not just to strengthen its regulatory state but also for intensified social control (including through the infamous social credit system) and political repression. All of this makes it more worrisome and indeed threatening when it appears that China is – in some cases – not just seeking an increased voice but dominance of global economic governance.

Here, PTT-GEG helps explain China’s increased ability to push its preferences more assertively in international regulatory regimes, all the more so as the Chinese economy – if official statistics are to be believed – has been much less severely affected by the COVID-19 pandemic than the EU and U.S. economies, hastening the power transition.

At the same time, the PTT-GEG also yields insight that should caution both scholars and policymakers against assuming looming conflicts everywhere, including vis-a-vis China:

- Conflict and the deterioration of global governance may be more likely but are not an inevitable consequence of a power transition. Rising powers are not inherently dissatisfied or resentful. Conflicts arise as a consequence of political preferences and choices of the rising power and of the established powers.
- In global economic governance – and likely beyond – those preferences are often issue-specific rather than monolithic. It is unnecessary and probably misguided to seek to classify China as such as being either a “satisfied” status quo power or a “dissatisfied” revisionist power.
- Variation in Chinese behavior vis-a-vis different global regulatory regimes – cooperative and even regime-promoting in some cases, demanding substantial changes in others, and directly challenging and undermining in yet other cases – should not be assumed to be part of some kind of centrally coordinated, mischievous grand strategy. It is exactly what is to be expected insofar as China resembles a regulatory state if
its preferences variably diverge from U.S. and European (and possibly others’) preferences and/or if it has invested regulatory capacity and capability to varying degrees.\textsuperscript{32}

- As long as a rising power does not seek to overthrow the existing global order as such, accommodating the rising power’s divergent preferences is possible as long as there is enough overlap in outcomes that would be preferred over not reaching a compromise. Accommodation depends upon both the rising and the established powers’ willingness to identify and reach such a compromise.
- The recent new efforts of the EU and the new Biden administration in the United States to work together to face the challenges for global governance that arise from an increasingly assertive China\textsuperscript{33} can help if these established powers make it very clear – through words and deeds – that it is not the purpose of their cooperation to exclude China or more generally keep emergent economies from having a greater voice in global governance.
- China likewise can help by clarifying – in words and deeds – that it recognizes international leadership as a continuum and that (on most issues) it does not seek hegemonic status but to share in leadership.
- Accommodation will not always be possible, but a global governance breakdown in one issue area need not necessarily spill over to global governance in other issue areas. If the horizontally disaggregated nature of global governance is recognized, it may well be possible to have China as a rule-promoting participant of a global regime in one issue area and a regime-transforming rule-maker in another – while competing with a China-led new set of rules head-on (or have China act as a spoiler with regard to the established regime) in yet other issue area.

Overall, PTT-GEG and the empirical papers in this special issue identify a broad range of possible consequences of the rise of China, India, and Brazil, as well as the emergent middle powers. Potential outcomes include both hypothesized and realized instances of continued rule-taking and rule-faking, as we as regime-supporting rule-promotion, regime-threatening rule-breaking, and full-fledged transformations from rule-taker to rule-maker. Regulatory capability and capacity are crucial for putting emergent powers into a position to have these choices and for understanding the choices they make (partly conditional on the actions of the established powers). Preference alignment supports rule-taking and rule-promotion. And such convergence may be fostered and achieved through transgovernmental and transnational networks. In the realm of global economic governance, cases of diametrically opposed preferences have been few, and in some cases emergent economies have been accommodated by the entrenched powers, resulting in new rule-making and regime transformation outcomes. Only where preferences are too far apart and accommodation is truly not possible (or fails) will the ongoing power transition inherently threaten the international economic order.

Finally, our research suggests several issues for future research. The scope conditions of the theory are a key issue for such research. We developed PTT-GEG specifically to help us understand the transformation in economic governance. The core ideas of PTT-GEG, however, including its insistence on the pivotal role of regulatory capability and capacity, might well be applicable to other fields of global governance, such as global health. A second key issue are the five ideal typical outcomes we have distinguished. There are different ways in which a country can exhibit each of those types in any particular instance. A country can, for instance, be a rule-breaker by adopting – and/or propagating – a competing set of rules; or it might simply not implement or not enforce established global rules in its domestic market; or it might allow or even instruct its state-owned firms not to comply with the rules when operating abroad. It can be a rule-promoter by showcasing how it has improved its own compliance and benefitted from it, for example, by creating a more competitive economy; or by pushing its geographic neighbors in the region, in which it is the regional hegemon, to amend their economic cooperation agreements to include enforcement mechanisms for those international rules. Different modes and mechanisms are likely to have different consequences, which would be a worthy focus of future research, building on PTT-GEG. Third, opening up global economic governance to accommodate China (and possibly others, such as Russia, Turkey, etc.) will broaden the group of core countries well beyond the core of democratic countries, which have arguable embedded liberal values in the post-World War II international order. Whether such a change will also lead to more autocratic rule in global governance warrants more attention in future research.
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Data availability statement

There are no empirical data to share for this article.

Endnotes

1 According to the data from the World Bank World Development Indicators database (World Bank 2018), Mexico saw its share of regional (Latin American) GDP increase from 25% in 1980 to 38% in 2002, though its share subsequently declined again due low economic growth over the past decade and higher growth in other Latin American economies, especially Brazil. South Korea saw its share of the Asia-Pacific regional economy rise from 3.5% in 1980 to 8.7% by 2005; its share subsequently stagnated and even decreased to 6.3% in 2017, despite continuous strong economic growth, largely due to the even stronger growth of China, which now accounts for a massive 51% of the Asia Pacific’s total. Turkey increased its share of the European and Central Asian regional economy, from 1.5% in 1980 to 4% in 2013, and has stayed at about the same level since (authors’ calculations).

2 As discussed below, capability is used here, in the philosophical tradition of Martha Nussbaum and Amartya Sen, to denote empowering ability, not in the sense of power resources, as it is often used in IR.

3 Parts of the PTT framework, including large parts of Organski’s original work, focus primarily on global orders dominated by a single dominant power. This is the part emphasized by the lively literature applying power transition theory – often exclusively – to China or to the China–US relationship (see, e.g., Chan (2018); Feng et al. (2020); Kai (2017); Kim and Gates (2015); Schweller and Pu (2011); Tammen and Wahedi (2020)). But note that much of Organski’s framework is also concerned with global orders where multiple major powers play an important role in setting the rules. This is the part we emphasize here. We focus mostly on BIC rather than the BRICS, because Russia status among the BRICS is not so much based on being a rising power in the world economy but rather on being a (arguably declining but still very important) military superpower, whereas South Africa is (at least so far) mostly a regional middle power.

4 On China, see, for example, Organski (1958b, pp. 304, 321). Of course, scholars of international relations, going back at least to Thucydides, have long concerned themselves with what we might consider power transitions (see Gilpin 1988; see also Copeland 2014; Tilly 1992). Hintze (1975), originally written in 1906, remains a brilliant study of the consequences of technologically driven power transitions at the international level for the domestic order – in what Gourevitch (1978) later called the “second-image reversed” tradition. Keohane’s critiques of Hegemonic Stability Theory (beginning with Keohane 1980) similarly were concerned with that theory’s overly static orientation, resulting in an unappreciation of the chances for cooperation in the aftermath of changes in the distribution of power.

5 Organski was originally focused on inter-state conflict and cooperation, but other scholars have in more recent years extended the theory’s scope to cover sub- and nonstate actors (Benson & Kugler 1998; Lemke 2002), which is more suitable for global market governance, where transnational relations are often central. We therefore use Organski’s “international order” and “global order” as synonyms.
Note that capacity and capability might not be entirely independent of each other. We would generally expect regulatory capability to precede regulatory capacity: A stronger bureaucracy, well acquainted with the complexities of its field of action, is more likely to identify the distinct interests of its domestic stakeholders and act accordingly. This implies that regulatory capacity should be at least as high as regulatory capability (and that capability in this sense adds institutional strength to capacity). Exceptionally, however, regulatory capability may exceed regulatory capacity or come into existence prior to the development of strong capacity. Transnational actors interested in strengthening the regulatory capability of an emerging state – for example, to help it to become aware of its regulatory interests and better able to defend them – may provide support in the form of expertise, resources, or information. These actors can be economic (if the state in question has strong market/pricing power in a sector) or part of civil society (if that state is relevant for symbolic or practical purposes in activist policy networks campaigns). The pharmaceutical sector is a good example of this. India’s pricing power in the global generics market and its status as “the pharmacy of the poor,” providing cheap generic drugs to least developed countries, motivated private transnational actors to provide legal expertise to regulators and policymakers and global civil society groups to launch large supportive international campaigns, despite the limited capacity in regulators such as the Indian Patent Office (see Serrano & Burri 2021 in this issue). On variations in institutional strength more generally, see Levitsky and Murillo (2009).
Encouragement or even outright coercion by foreign actors has prompted the initial steps toward regulatory state formation in other, subsequent cases, too, such as in the establishment of regulatory bodies to combat illicit financial flows to avoid (or escape from) Financial Action Task Force blacklisting (Morse 2019; Sharman 2009), though such foreign-imposed regulators might nonetheless spark a domestic political process that ultimately result in substantial regulatory capacity and capability (see also Aydin 2016).

The extent to which functionally differentiated regulators also enjoy de facto independence from political leaders may vary. In many developing countries, nominally independent regulatory agencies have often struggled to keep political authorities from interfering (Murillo 2009; Post 2014) because checks and balances in those weak institutional environments are insufficient to safeguard de jure independence. The rising powers, which are our focus here, might exhibit greater promise for de facto regulatory autonomy, but the extent to which the ideal type of the regulatory state fits in a particular case is a question that needs to be examined in the specific empirical contexts. We thank Allison Post for discussions of this challenge of applying the ideal type of the regulatory state in the Global South.

Organski and Kugler (1980, p. 23) emphasize the preferences of rising powers as an important element of power transition theory, but later contributors have rarely treated rising powers’ “dissatisfaction with the status quo” as no more than a scope condition. They have therefore largely refrained from theorizing rising powers’ preferences, focusing instead on finding suitable proxies for use as control variables in empirical analyses, such as unusual military buildups (Werner & Kugler 1996) or alliance portfolios (Lemke & Reed 1998).

Read differently, Gilpin might be said to identify scope conditions for when a power transition is likely to threaten the established order.

We thank Bernhard Zangl for drawing our addition to Gilpin’s article. For a recent example of equating an increase in relative resources with conflicting preferences (albeit allowing for issue area differentiations) see Kastner et al. (2019), published after this special issue had already been conditionally accepted.

The strong regulatory state only creates the option to promote the existing (or an alternative) set of rules and norms. If the emergent power’s active promotion is not needed to sustain the regime, a narrowly self-interested emergent power might “promote” the regime merely indirectly and passively by complying with its stipulations, free-riding on the efforts of others to maintain the regime, but still re-enforcing its normative status through behavior that is consistent with the stipulations of the regime, but without incurring any costs to actively promote it (Kastner et al. 2019, pp. 23–37).

Institutionalizing a competing set of rules might ultimately be a bargaining tactic to bring about accommodation (see, e.g. Lipscy 2017) and thus a transition to rule-maker rather than rule-breaker, but such longer-term dynamics are beyond the scope of this issue.

We consciously bracket here the important realm of nongovernmental global governance.

This limitation is unproblematic insofar as our main theoretical argument, as summarized in Figure 2, brackets this issue by treating variation in preference alignment/divergence as given; many of the issue-specific empirical papers discuss the sources of those preferences in more detail.

See also Pauwelyn et al. (2021).

See the conceptual discussion in Cho and Büthe (2021, this issue).

Consistent with our emphasis on the domestic politics of regulatory state formation in emergent economies, we recognize that developments in domestic politics, including populism, as well as exogenous and endogenous shocks (from pandemics and climate change to sudden challenges to socio-political norms that are both more fragile and more crucial for the survival of democracy than they may appear) might render preferences and institutions quite unstable, including in the established powers. A full analysis of political preference formation, however, is beyond the scope of this special issue.

Conversely, caution may be advised if China were to behave clearly contrary to its known preferences but in ways that increase its leverage over others.


References


