Power Transitions and the Rise of the Regulatory State: Global Market Governance in Flux

Introduction to a Special Issue*

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Abstract

Analyzing the consequences of the ongoing power transition in the world economy through the prism of the regulatory state, this special issue emphasizes the interplay of domestic and international politics that fuels or inhibits the creation of regulatory capacity and capability and thus emerging countries' transition from rule-takers to rule-makers in global markets. This introductory article proposes a power transition theory of global economic governance, which extends the scope of power transition theory to conflict and cooperation in the international political economy and global regulatory governance. It emphasizes variation in the institutional strength of the regulatory state as the key conduit through which the growing market size of the emerging economies gives their governments leverage in global regulatory regimes – if and only if, for a particular regulatory issue, they choose to invest their resources in building regulatory capacity and capability. And it 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. 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: Emerging powers, regulation, regulatory state, comparative political economy, power transition

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I. 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 2017). 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 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. Yet, they escaped the below-average macroeconomic performance and growth that 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 are all three among the ten largest economies, poised to play a greater role in the governance of global markets, just as the United States under Donald Trump appears to be abdicating global leadership and Brexit weakens the EU's market power. In addition, middle powers such as Mexico, South Korea and Turkey have increased their market share, especially within their regional spheres.[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 and 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

[1] According to data from the World Bank World Development Indicators database (Oct. 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).

conducive political institutions, especially the regulatory state. The regulatory state entails, inter alia, 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 and Newman 2014).

The resulting 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, which we develop in section II. Here, we start from a sympathetic critique of power transition theory (PTT) as originally developed by A.F.K. 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, as critics of structural Realism have long pointed out, only under the most exceptional circumstances does the mere existence or possession of power resources determine what a country will do with those resources and what the larger consequences are (e.g., Keohane 1984; Baldwin 1993; see also already Wolfers 1962, esp. 13-15). 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 power transition theory 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 conflict with the regulatory status quo, we emphasize variation in the extent to which rising and established powers' preferences diverge.

The general argument about 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) – 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 III, examining the domestic and the

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

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: 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 multi-disciplinary literatures. For the literature on the governance of global markets, we develop a set of hypotheses, derived from power transition theory and the IPE/CPE literature on the regulatory state, about the consequences of major changes in the distribution of economic power resources. This allows us to specify the conditions under which such a change will lead to conflict and/or breakdown in the global order – and the conditions under which such change might result in substantially strengthened global regimes or barely perceptible change.

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

Our theoretical framework and the empirical analyses in this special issue also 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 a power transition theory of global economic governance (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 power transition theory 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 emerging economies and rising powers, moving beyond the dichotomies, for which Mahrenbach (2018) has rightly criticized much of the literature on emerging powers, by turning both preference divergence and the institutional strength of the state into variables. PTT-GEG thus offers a framework for moving beyond simply treating the BRICS 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]

Highlighting the interplay between domestic regulatory structures and international cooperation venues, the PTT-GEG framework contributes to the "new interdependence approach" outlined by Farrell and Newman by specifying how domestic institutional politics – including “judicial norms, regulatory oversight, the organization of the executive” (2014, 339) – contribute to the development of regulatory capacity and capability and how 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, Falleti, & Sheingate 2015; Mahoney & Thelen 2015; Rixen, Viola, & Zürn 2016; see also Büthe & Mattli 2011), e.g., by allowing for novel comparisons across regulatory issue areas.

II. The Consequences of Power Transitions for Regulatory Regimes: Explaining Conflict and Cooperation in Global Economic Governance

II.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 often expect a linear relationship between economic power and international influence (Drezner 2007, Xuetong 2011). However, historical institutionalist scholarship across a wide range of issues and countries cautions against the assumption of smooth, quasi-automatic adjustments of global

[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 exclusively to China or to the China-US relationship (see, e.g., Kai (2017); Kim & Gates (2015); Schweller & Pu (2011)). 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.

governance institutions, implied by such arguments. How might we think more systematically about this power transition in the global economy and its consequences for global economic governance?

A.F.K. 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" (1958b, 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, 300f; see also 1958a, 1968). The theory is thus based on a (relative) resources concept of power (see 1958b, 305), with high assumed fungibility across issue areas.[6]

Importantly, power resources are not assumed to be static. Instead, power transition theory (PTT) emphasizes that industrialization can result in endogenous increases in an emergent country's power resources.[7]

These 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, 328). This necessarily creates a conflict of interest vis-à-vis the established powers, given that the established powers are assumed to have well-institutionalized their privileged position in the existing order. Resolving it would therefore require pro-active accommodation and in that sense cooperation (Milner 1992, esp. 468-470) – which, however, PTT considered 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

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[4] On China, see, e.g., Organski (1958b, 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; Hintze (1975) remains a brilliant study of the effect of technologically driven power transitions on the *domestic* order which Gourevitch later called the "second-image reversed" tradition. Pin-cites are, unless otherwise noted, to the first, 1958 edition of Organski's *World Politics* as the original source; he did not revise any of the core ideas on which we build here in the 2nd edition of his book.

[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 non-state actors (Benson and 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.

[6] See critique in section II.2.b., below.

[7] Note that, according to PTT, the initially emphasized but later simply assumed formation of conducive *political* institutions can also bring about an increase in power. Such increases are endogenous insofar as countries can launch this process and drive it forward on their own initiative.

tendency to overestimate the increase in their own power (1958b, 335f). But the conflict is above all due to the unwillingness of the leading established power(s) to accommodate the rising power. And the established powers are expected to be unwilling to do so unless forced, given that they 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" (1958b, 328) of the change needed to bring political voice opportunities in line with the transitioning (or post-transition) new international distribution own power.

Notwithstanding the fundamental and seemingly inevitable conflict of interest, Organski repeatedly notes that it is *possible* that the previously preeminent power(s) may accommodate a rising major power, allowing it to "shar[e] in the leadership of the … international order and in the benefits that flow from it" (1958b, 327). It even is possible that such a "challenger" becomes the new "dominant" power in such a way that the existing order fundamentally prevails (1958b:323ff, 332f).[8] Such confirmatory accommodation, however, is considered very unlikely, especially when a major power has "recently risen in power thanks to industrialization" (1958b, 323). Under any but the most unusual other circumstances,[9] 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, 323).

Accordingly, power transition theory 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 that proposition,[10] though

[8] Zangl et al (2016, 174f) point out that such expectations tend to rely upon assuming functionalist drivers of policy choices on both sides, in that here the expectation of joint gains is sufficient to achieve agreement on institutional adaptation.

[9] The conditions that uniquely allowed for the peaceful transition from British to U.S. leadership after World War I include: a rising power that does not openly challenge the leading power(s) and either genuinely does not seek a leadership position in international affairs or at least shows no hostility toward the established leading power(s); a pattern of internal and external empowerment that does not threaten the leading power(s), such as U.S. westward expansion on the North American continent, imperialistic ventures directed only against the vestiges of the Spanish not the British colonial empire, population growth through immigration that was overwhelmingly welcomed by the countries from which the migrants emigrated; material gains from the emerging country's good fortune for economically and politically powerful interests in the established power(s), such as British financial investments in U.S. industrialization; and a commitment by the rising power to the principles of the existing international order (Organski 1958b, 323-325, 336f). And even this transition in the early decades of the 20th century caused massive political and economic havoc, as discussions of "hegemonic stability theory" (HST, which has much in common with PTT) have pointed out; see, e.g., Gilpin (1981); Keohane (1980); Kindleberger (1973); Krasner (1976).

[10] E.g., Organski and Kugler (1980); Kugler and Lemke (1996); Lemke and Werner (1996); Tammen et al (2001). For an overview of further applications in the realm of security studies, see, e.g., Benson [2007]. One of few exceptions offering a broader reading is Kruck and Zangl (2017).

some studies have questioned whether the pattern really holds[11] or is attributable to the factors emphasized by the theory.[12]

We seek to extend the scope of PTT beyond explaining militarized conflict. Specifically, we propose a modified power transition theory 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, Kugler & Genna 2003).

II.2. The Power Transition Theory of Global Economic Governance

In developing this power transition theory of global governance, 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 power transition theory of global economic governance (PTT-GEG), thus constitutes a modified version of power transition theory with potentially broad applicability.

II.2.A. From Power Resources to Potent Regulatory Capacity and Capability

Traditional power transition theory expects newly emerging economic powers to be necessarily a threat to the international order, because it equates an increase in productivity, economic output (GDP) 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. 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 Keohance (2014) have called "contested multilateralism" through either "regime shifting" (Helfer 2004) or "competitive regime creation" or the fragmentation of regime complexes (Raustiala and Victor 2004; see also Jupille, Mattli and Snidal 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), i.e., 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' non-implementation 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).

[11] E.g., Lebow and Valentino (2009) and Harris (2014).
[12] E.g., Rapkin and Thompson (2003) and Rauch (2016).

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, esp.176). As Lake (1983) points out, the key concern therefore is not necessarily the development of a competing set of rules. Destabilization can also flow from norm-deviant or rule-violating behavior (which 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.

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 (D. 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 their 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.

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

<u>Regulatory capacity</u>: 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, esp. 830-832) have proposed the term "regulatory capacity" for having "regulatory expertise, coherence, and … statutory sanctioning authority" (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 and 2010b; Lavenex 2014; Lavenex, Krizic and Serrano 2017; Peterson and 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 2010; Lavenex 2014)—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 also 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" (2015, 102).[13] 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) and thus even for an emergent economy's spoiler potential to become actionable.

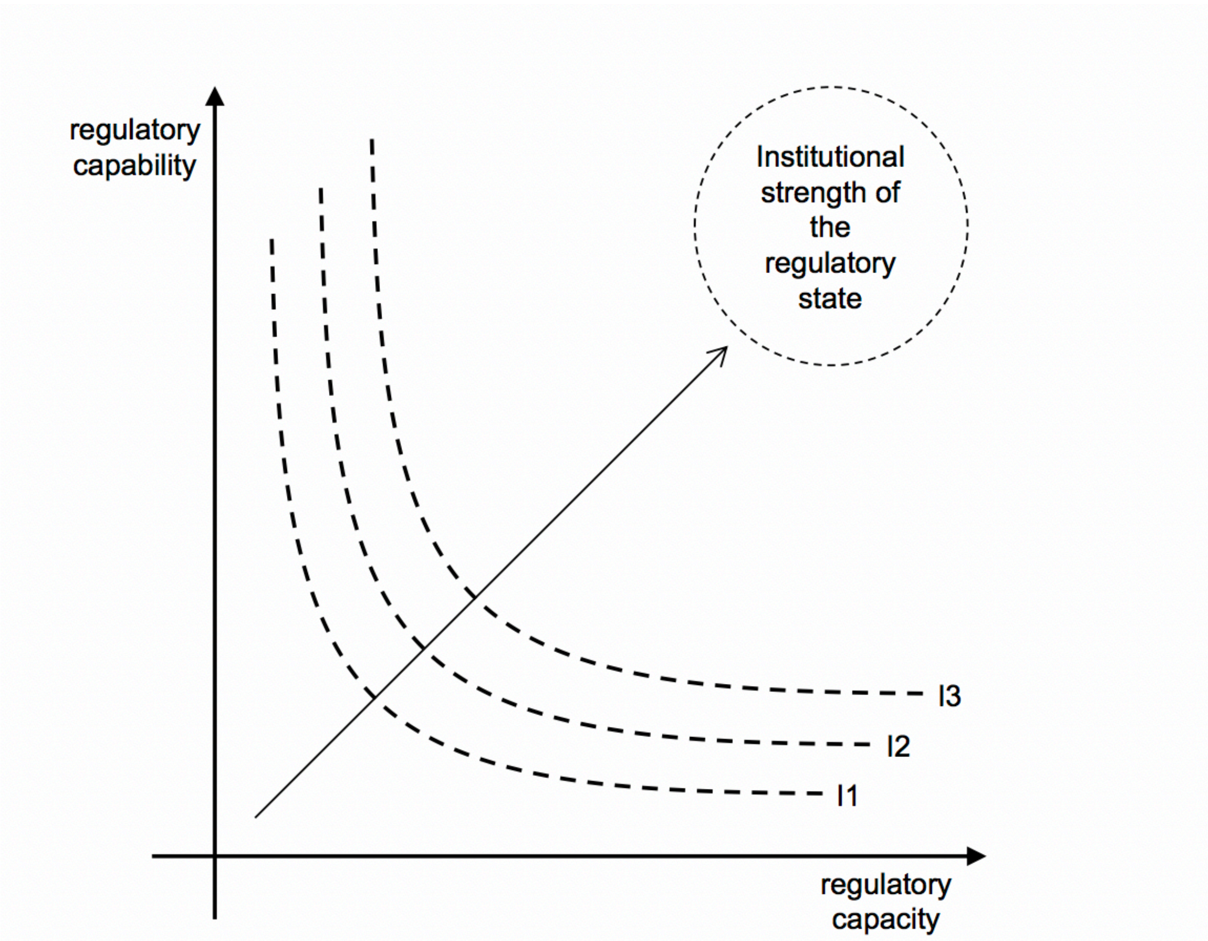
Jointly, regulatory capacity and capability determine the institutional strength of the regulatory state, as portrayed in Figure 1. The figure reflects this in the shape of three indifference curves, where all combinations on a given indifference curve are indicative of the same level of institutional strength whereas an outward shift onto a higher indifference curve is indicative of greater institutional strength.[14]

[13] This emphasis on regulatory capability is based on the assumption of the normative primacy of "the ability of individuals and collectives to determine the rules that shall govern them," derived from the work of Amartya Sen and Martha Nussbaum (Cafaggi & Pistor 2015, 98).

[14] Note that capacity and capability might not be entirely independent of each other. We would generally expect regulatory capacity to precede regulatory capability: 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 – e.g., 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 2018 in this issue).

FIGURE 1

THE INSTITUTIONAL STRENGTH OF THE REGULATORY STATE AS A FUNCTION OF REGULATORY CAPACITY & CAPABILITY



II.2.B. THE DISAGGREGATED REGULATORY STATE

Traditional power transition theory 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), and Keohane and Nye's (2001 (1977)) notion of complex interdependence, we posit 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 strength of the regulatory state, must be issue-specific, corresponding to the disaggregated nature of the regulatory state.

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 and 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. This 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, 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 III 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 1978; 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 and Elsig 2015; Hoekman et al. 2002 p. 413ff). Formal inter-governmental 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 and 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 greatly vary 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 political stakes implied by demands for changes to particular regulatory regimes.

II.2.C. 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" (1958b, 327). He also assumes that the leading countries maintain their influence in part by passing on some of the benefits to their followers/supporters (1958b, 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, 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, esp. 394f). Organski seems to recognize as much when he differentiates between "satisfied" and "dissatisfied" countries (1958b:esp. 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" (1958b, 325, emphasis added). Given the difficulty of operationalizing dissatisfaction or alignment (de Soysa *et al* 1997; Lebow and Valentino 2009, 391), however, the PTT literature has tended to simply assume that emergent powers necessarily have divergent and *conflicting* interests, even if this assumption is rarely stated as bluntly as: "A rapid rise in power … produces dissatisfaction in itself" (Organski 1958b, 328).[15]

[15] Organski and Kugler (1980:23) 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'

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 variable – and (in section III, 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 BIC country and for each regulatory regime: competition policy (for China: Wang 2018; Mexico and Turkey: Aydin 2018; South Korea: Cho & Büthe), public procurement (for China and Brazil: Krizic 2018), labour mobility (for China and India: Jurje & Lavenex 2018), trade liberalization (for China: Eckhardt and Wang, 2018), trade (export) finance (for China: Hopewell), and intellectual property rights (for Brazil and India: Serrano & Burri 2018).

II.2.D. 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 rising powers build the regulatory states that give them the option to use their market size's spoiler potential to contest the international order. Even under these conditions, 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:

Weakly Supportive 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, supportive in principle but unable to provide meaningfully regime-strengthening support.

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 below:

preferences, focusing instead on finding suitable proxies for use as control variables in empirical analyses (such as unusual military build-ups, see Werner & Kugler 1996, or alliance portfolios, see Lemke & Reed 1998).

Regime-Strengthening Rule-Promoter: When emergent economies develop preferences that are well-aligned with the regulatory status quo, then it should be in their 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 without substantively changing it.

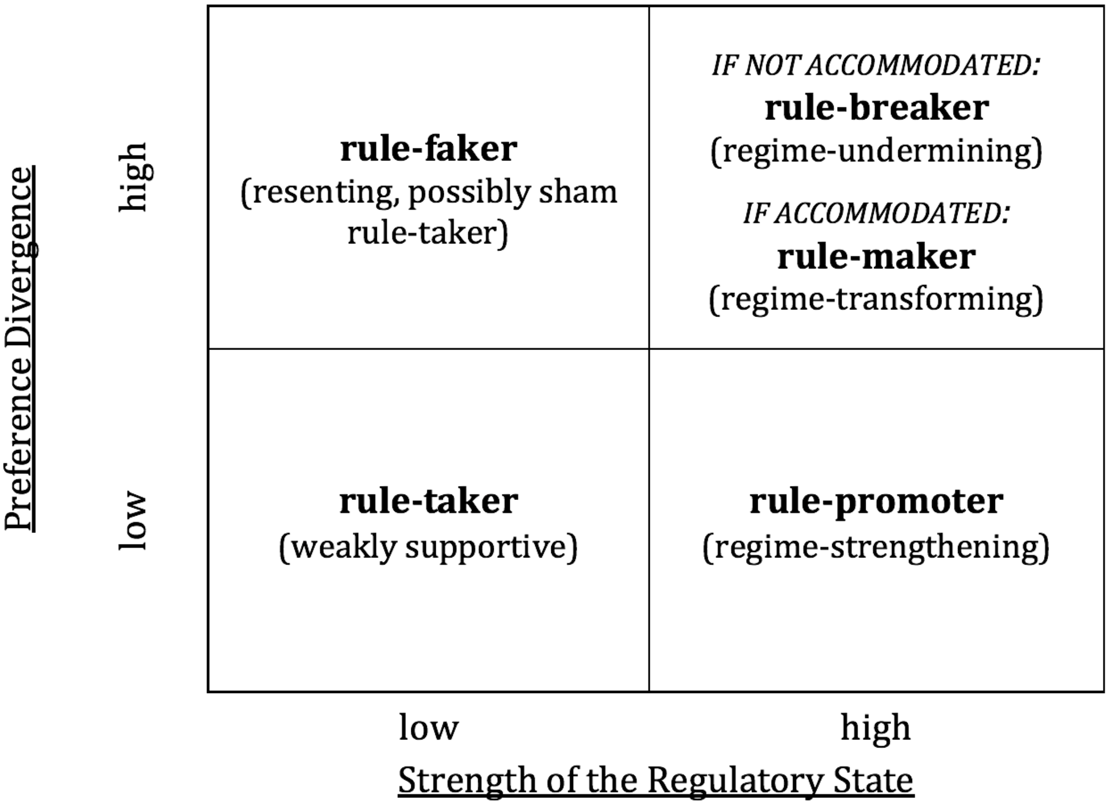
Regime-Disrupting/Undermining Rule Breaker/Spoiler: When emergent economies develop preferences that significantly diverge from the regulatory status quo as developed by the established powers, but the established powers reject their demands for substantive changes to the regime governing a given aspect 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 and Keohane 2014). The previously rule-taking emergent economy thus becomes a rule breaker and spoiler. The consequences for the established regime will depend on the extent to which non-participation 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 since 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 – though we think of them more in a set-theoretic way 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 either is more regime-strengthening or more regime-undermining; a genuine middle ground is not available.

FIGURE 2

AFTER POWER TRANSITION: EMERGENT ECONOMY´S EXPECTED POSITION VIS-À-VIS THE GLOBAL REGULATORY REGIME IN A GIVEN ISSUE-AREA



III. Explaining Regulatory State Formation and Preference Alignment

III.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.

But what explains the variation (including possibly within the same country across issue areas) in regulatory state formation? 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 – 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 may 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, esp. 107ff) 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 pressure by states and international financial institutions "to adopt institutional innovations" (2012, 261) 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 2012). 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 the process of regulatory state formation elicits from domestic economic and societal interests. To put it another way: We expected regulatory state formation to be always contested, since 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, 267), as suggested for state formation generally (Jackson & Rosberg 1982): formal bodies that contribute to the appearance that the country is a compliant rule-taker but have little substantive effect. Lacking domestic support for significant investments into the new regulatory institution, we would expect a regulatory body with little regulatory capacity and even less capability – 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; S. Vogel 2008), help them retain market access (Starobin & Weinthal 2010), or remain at the competitive edge (Balleisen 2015, esp. xxii-xxxiii; Stiglitz 2010, 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 2018). 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 2018 in this issue). Transgovernmental networks have come to supplement or sometimes even substitute classic multilateralism in policy areas ranging from finance (Bach & Newman 2010, 2014; Posner 2009) to competition policy (Djelic & Kleiner 2006; Coppola 2011; Botta 2013), environmental (Andonova 2005, Raustiala 2002) or energy cooperation (Maggetti 2013) and, on a more operational basis, security policy (Mérand 2010). 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 such 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 (e.g., enhanced market access and foreign aid), such agreements can help mobilize winners and compensate losers, changing the supporters/opponents' ratio and allowing for domestic reform (Baccini & Urpelainen 2014; Büthe & Milner 2008; 2014; see also Bradford & Büthe 2015; Eckhardt & Wang 2018 in this issue).

At the same time, the transition towards the regulatory state and preference alignment is anything but uncontroversial in countries that are characterized by a strong legacy of developmentalism and state intervention into the economy (Pearson 2005; Wade 1992; Woo-Cumings 1999). 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 far from apolitical. This makes large emerging economies particularly interesting to study as arenas for contestation, both in terms of (economic) interests and (political/regulatory) ideas and bureaucratic units. Trade-offs 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 costs of medicines, at least if strict enforcement of pharmaceutical patents limits the production of cheaper generic versions (Serrano & Burri 2018, in this issue). Similarly, the implementation of competition policy (Wang 2018, in this issue) and international government procurement rules (Krizic 2018, in this issue) create adjustment costs, including possibly increased unemployment, e.g., 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 identity, number, 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.

III.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.[16] 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 (Bearce & 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

[16] 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.

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 counter-balance. 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). 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). While the rise of populism in Europe and the United States could upend this "grand bargain" (Mastanduno 2014), so far China and other emerging economies have generally supported, or at least acquiesced to, the existing international order, 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, i.e., transgovernmentalism, is particularly amenable to such more co-optive forms of influence (Lavenex 2014; see also Checkel et al 2005). 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 (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 preference 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 derive those preferences deductively from the particular circumstances in which a given country finds itself regarding a given issue. For instance, both Hopewell's and 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.

IV. Emergent Economies and the International Order: The Papers in this Special Issue

The rise of emerging 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 on the latter’s 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 issue areas and for the three major emergent economies of Brazil, India and China, as well as three emerging “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 (2018, this issue), which examines key premises of the Power Transition Theory of Global Economic Governance, drawing on Evenett's Global Trade Alert, an original, exceptionally comprehensive database of trade-inhibiting and trade liberalizing measures undertaken by governments since the beginning of the great recession of 2008. It allows him to conduct multi-dimensional analyses of the extent to which the BRICS governments have violated international rules, especially the ostensibly widely agreed non-discrimination norm, and 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. In addition to offering well-taken caveats regarding empirical measurement across countries and time, he shows, importantly, 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), but also 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 the 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 Turkey and Mexico by Umut Aydin, and in South Korea by Moohyung Cho and Tim Büthe. 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 (2018, 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 2011/12 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 (2018, this issue) as well as Cho and Büthe (2018, 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 the analyses in this special issue 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-GEG 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 (2018, this issue) examine the domestic and international drivers of regulatory capacity and capability and of policy preferences in the realm of competition law and policy in 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 non-participant in this international regulatory regime, by the early 1990s developed substantial regulatory capabilities and capacity in competition law and policy (which have continued to grow since)—and 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 this realm. 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, 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 high preference alignment results in a shift from rule-makers to rule-promoters.

Aydin 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 (2018) 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 preference 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 "non-discrimination" 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, due largely to difference in their preferences, they have remained mostly detached and due to their size and the strength of their regulatory state have thus become regime-disrupting spoilers with regard to the non-discrimination hard law regime, 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-supportive outcome. Besides locking-in economic reform through the WTO, China has, Eckhardt and Wang (2018) show, engaged in a gradual but ambitious strategy of trade liberalization through preferential trade agreements (PTAs) to support a 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 IPR rules. For this reason, China has gone beyond its WTO commitments and included a wide range of behind the border issues in a similar way as the US and the EU 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. Jurje and Lavenex (2018, this issue) focus on a particularly sensitive field of global economic integration: labour 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 have shifted to bilateral venues and 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 capabilities, thus effectively widening the scope of the GATS mode 4 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 (2018, 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 India to build a moderately strong regulatory state in this realm, which was significantly augmented by transnational epistemic communities of legal scholars, and networks of advocacy organizations. The consequently elevated regulatory capacity and capability has enabled India, with its ex ante strongly divergent preferences, to become a rule-maker and transform the existing regime, when the established powers refrained from challenging at the World Trade Organization the new limits on patentability pushed by India (though recent mega-regional trade agreements seek to limit the use of the new norm). Brazil, with similarly divergent preferences but less regulatory capacity and capability concerning health-related intellectual property due to a contested/split regulatory state, has also gone from being a rule-taker or -faker to becoming a rule-maker, but has remained less effective in gaining acceptance for its preferred rule-changes.

Kristen Hopewell's analysis of China as a regime-undermining rule-breaker and spoiler in the global trade finance regime (2018, 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 credit by rising powers, particularly China, has eroded the efficacy of existing international rules intended to prevent a competitive spiral of state subsidization via export credit. 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.

V. 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 are innately linked to the diffusion and consolidation of the regulatory state. In numerous regulatory regimes – governing aspects of markets that range from market competition and intellectual property to labor mobility and export finance – domestic institutional arrangements for setting, monitoring, and enforcing market rules, now have substantial effects across borders (Farrell & Newman 2014; Dür & Elsig 2015). Consequently, the increasing market power of China, India and Brazil has given them spoiler potential, raising the question 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 the Power Transition Theory of Global Economic Governance – 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 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 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 areas of global economic governance in this special issue show, the issue-specific development of domestic regulatory institutions and international economic integration go hand in hand and – jointly with the degree of divergence between the rising and the established powers' preferences – determine whether an emerging country is able to convert its growing market, material resources, and technical expertise into regulatory influence. These findings support the modified power transition theory 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 domestics political decisions as much as the country's status in the world economy.

To be sure, size matters as a constraint: Middle powers have much less potential to transform the international order. 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 no longer just a function of the strength of the emerging country's regulatory state. It also depends on the willingness and capacity of the established powers to open up the existing regime and accommodate the new regulatory preferences.

Accommodation transforms 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 2018) and the rules governing labor mobility (Jurje & Lavenex 2018). We also find, however, that accommodating large emerging economies is difficult and maybe 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 2018). Moreover, as shown by Evenett (2018), emerging economies are not alone in undermining, through non-compliance, the regulatory regimes that make up the international order. In some cases, it is established powers that are the most disruptive.

Finally, our findings raise the question whether strongly legalized frameworks, such as the World Trade Organization, may be insufficiently flexible to sensibly accommodate rising powers; even if sometimes this lack of flexibility may provide an opportunity for reformist elites in emerging economies to lock-in domestic reforms. More informal transgovernmental and transnational networks establishing 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 (2018), Cho & Büthe (2018) and Wang (2018).

Overall, we identify a broad range of possible outcomes from the rise of China, India and Brazil, as well as the emerging middle powers, with 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 absence of alignment, emerging economies may be accommodated, leading to rule-making and regime transformation outcomes. Only where accommodation is not possible or fails will the ongoing power transition in global governance threaten the international order.

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