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Globalization, harmonization, and competition: the different pathways to policy convergence

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Abstract

While economic globalization is frequently cited as a source for regulatory policy convergence, the precise causal links between these two variables often go unexplored. The common thread missing from most of the globalization literature is the role of state agency in the regulation of the global political economy. This paper builds on a simple game-theoretic model of policy coordination to argue that great powers remain the most important actors in determining the extent of policy convergence. When great powers act in concert, there will be effective policy harmonization. When the great powers fail to agree, partial policy convergence will take place through competition. The increasing returns to scale of regulatory harmonization will lead powerful actors to compete for as many allies as possible, leading to strong policy convergence, but at multiple nodes. These different pathways are examined by inspecting the variation in

outcomes of two different issue areas: money laundering and genetically modified organisms (GMOs).

Keywords:

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Notes

1 For an exception, see Bernstein and Cashore ([2000](#)).

2 On distinction between the two forms of power, see James and Lake ([1989](#)).

3 This is one reason why econometric methods to predict international trade flows are called 'gravity models'; the presumption is that the larger an economy - and the closer it is to other markets - the more traded goods that economy will naturally attract.

4 China and India have rapidly growing economies and sizeable populations. For the time period under study, however, these markets remain emerging and not emerged.

5 Space constraints prevent a further discussion of the factors that determine the values of both the coordination benefits and the adjustment costs of great power governments. For more, see Drezner (n.d.)

6 If state B chooses to switch standards, state A's utility from retaining its standards is greater than switching ($\pi > -d$). If state B retains its national standard, state A's utility

from retaining its standards is still greater than switching standards ($0 > \pi - d$). By symmetry, this holds for state B as well.

7 For a formal definition of 'games of cooperation,' see Bendor and Swistak ([1997](#)).

8 Formally, let Y_i equal the size of country i 's economy. Then for all i , π_i = a linear transformation of: $Y_j / (Y_i + Y_j)$.

9 For formal derivations of these hypotheses, see Drezner (n.d.)

10 The asymptotic nature of ratios explains this fact. With small countries, a great power's size can appear greater due to its market size, but as the size of the smaller country increases, the ratio falls exponentially.

11 The FATF Forty Recommendations have since been revised twice - in 1996 and in 2003.

12 A complete membership list can be accessed at http://www.fatf-gafi.org/Members_en.htm#MEMBERS.

13 Other FATF-style regional bodies have been established in Eastern Europe, South America, and Eastern and Southern Africa.

14 Membership lists can be found at http://www1.oecd.org/fatf/Members_en.htm#OBSERVERS.

15 See the 18 June 1999 Communiqué by G-7 Heads of State and Government at http://www.g7.utoronto.ca/g7/summit/1999koln/g7statement_june18.htm.

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