Article

EJIR

European Journal of
International Relations
17(4) 589–610

DOI: 10.1177/1354066110391306
ejt.sagepub.com
SAGE

International interdependence and regulatory power: Authority, mobility, and markets

Abraham L. Newman
Georgetown University, USA

Elliot Posner
Case Western Reserve University, USA

Abstract

This article revisits a fundamental question of international political economy: when does cross-border economic interdependence become a source of power. The view that economic interdependence is a source of potential power, not just mutual benefits, has a long lineage traceable to political realism, organizational economics, Ricardian trade theory, and structural Marxism, and researchers typically focus on preferred causal variables in isolation. Despite important contributions, little attention has been paid to understanding the interactions of multiple perspectives on asymmetric interdependence, or to making sense of contradictory expectations of the various models. As a consequence scholars engaged in globalization debates, such as those about policy convergence or private actor governance, frequently talk past one another. To deduce expectations about the relationship between power and interdependence, we build a model synthesizing standard approaches that analyze the effects of market size and market scope separately, and then add the critical variable of jurisdictional boundaries. By decoupling geography and authority, our analysis produces a respecification of classic interdependence models and advances core international political economy debates concerning power dynamics in a globalized economy.

Keywords

economic interdependence, global governance, globalization, political economy, territoriality

Corresponding author:
Abraham L. Newman, Georgetown University, School of Foreign Service, ICC 501 Georgetown University 37th & O St. NW, Washington, DC 20057, USA.
Email: aln24@georgetown.edu

Introduction

This article revisits a fundamental question of international political economy: when does cross-border economic interdependence become a source of power (Baldwin, 1978; Keohane and Nye, 1977)? The question has been as important in the first decade of the 21st century as it was throughout the 20th. In the years following the US invasion of Iraq, world trade, currency flows, foreign direct investment, and other measures of economic globalization reached extraordinary levels. And unlike in the second half of the last century when the two superpowers had relatively few economic ties, today's newly emerging great powers — China and India — have deep and complex financial and commercial interconnections with the US and Europe (Saxenian, 2006; Weber et al., 2007). Despite recurrent suggestions of economic decoupling, the global financial crisis of 2008/9 underscores the web of interconnections binding national economies together even in the face of severe downturn.

The view that economic interdependence is a source of potential power, not just mutual benefits, has a long lineage traceable to political realism, organizational economics, Ricardian trade theory, and structural Marxism.[1] Power analyses of interdependence typically focus on the researcher's preferred causal variable in isolation. There are two main approaches. In one, scholars treat the relative size of markets (a proxy for the relative size of international sectors) as a measure of asymmetric interdependence and as a source of power for the less dependent parties. The approach has most often been applied to explain power dynamics in intergovernmental trade negotiations and international regime outcomes (Drezner, 2007; James and Lake, 1989; Wagner, 1988). In the other, analysts use the relative mobility among customers, suppliers, and regulators to explain firm–regulator power dynamics. They expect regulatory races to the bottom, for instance, when multinational firms gain alternative locations to home jurisdictions for making fixed investments (Tonnelson, 2000; Vogel, 1995). Despite important contributions from both approaches, little attention has been paid to understanding their interaction or to making sense of their many contradictory expectations. As a consequence scholars engaged in globalization debates, such as those about policy convergence or private actor governance, frequently talk past one another (Rosamond, 2003).

In this article, we decouple geography and authority to build a model that synthesizes and expands on the standard approaches and deduces expectations about the relationship between power and interdependence. Our analysis makes three critical moves. First, we reconceptualize the relative mobility variable. The literature's focus on supplier or customer mobility limits the analytic usefulness of the concept. Such emphasis implies that the ability to relocate lies solely in the actor or asset; whereas relative mobility also stems from the rules of market access set by political authorities (Newman, 2008; Posner, 2009a). A financial company might easily relocate from Chicago to Los Angeles but would be relatively immobile in the context of international political economy if no political authority outside the US permitted it to operate within its jurisdiction. We develop this reconceptualization by emphasizing the 'scope' of markets, a related concept that refers to the space (not necessarily geographic) within which market participants buy and sell products (Amin, 2002). The scope of markets sheds light on a number of theoretical puzzles because it, like market size, can be treated as a determinant of asymmetric dependency and a source of the potential power of firms and political authorities.

Second, we add a new explanatory variable. The traditional approaches assume that the boundaries of jurisdictional authority are constant and congruent with national frontiers, a position rooted in the peculiarities of post-war IR debates. In contrast to this rigid coupling of authority and territoriality emphasized in the bipolar politics of national security states during the Cold War, international relations has long been waged by jurisdictions with a much more variable relation to territory (Agnew, 1994; Nexon, 2009; Nexon and Wright, 2007; Sassen, 2003). Historically, city-leagues, empires, and federations, and more recently regional trade associations and governance networks, exemplify the often-changing balance of authority between center and periphery in international affairs. The model presented in this article suggests why and how, in interdependent relationships, changing jurisdictional boundaries affect the balance of dependencies and thereby the potential power of authorities.

Finally, we combine all three variables — market size, market scope, and jurisdictional boundaries — in a single model to make predictions about power dynamics. This largely deductive exercise reveals that the relationship between economic interdependence and power is more complicated than portrayed in existing scholarship. In short, our analysis disentangles the determinants of asymmetric dependencies, a concept frequently invoked as a source of potential power but rarely examined in its full complexities.

Our respecification of classic interdependence models helps to advance four core international political economy debates concerning power dynamics: it suggests conditions under which to expect upward versus downward pressure on national regulatory practices; it offers a logic for understanding a jurisdiction's bargaining power in setting the rules for international markets; it challenges prominent functionalist accounts of regime formation; and it builds on recent research concerning the relationship between public authorities and private corporations. While we focus here on power dynamics in economic affairs among political authorities and between authorities and corporations, our analysis has implications for interdependent relationships in general.

The article proceeds in three sections. The next one examines three separate but deeply related literatures. The discussion outlines the core principles that underpin each and their relationship to our deductive exercise. This is followed by a presentation of our model including its implications for regulatory power. Rather than a systematic 'test' of our expectations, the goal of the article is to illustrate the model and offer an initial plausibility probe of its expectations. The final section concludes by examining our findings and considering the theoretical implications for IR research.

Power and interdependence — asymmetry, mobility, and jurisdiction

We begin with three largely distinct literatures. The IR approach to power and interdependence with the longest history focuses on market power derived from asymmetric interdependence. Such arguments blend themes from political realism, which expects power relations and concerns about relative gains to underlie state-to-state interactions, and organizational economics, which associates firm size and relative market concentration with the ability of companies to exert market power over prices (Baldwin, 1978; Keohane and Nye, 1977; Knorr, 1977; Mansfield, 1992; Simmons, 2001; Waterson, 1984). Using the example of economic relations between Nazi Germany and the smaller countries of central Europe, Hirschman (1945) demonstrates that large nations may exploit, and have exploited, asymmetric interdependence to achieve foreign policy goals. Hirschman's ideas about the 'influence effect' of trade are evident in Keohane and Nye's original distinction between levels of sensitivity and vulnerability in interdependent relationships that finds jurisdictions able to exercise influence when their import supply is elastic and the target country's import supply is inelastic (Keohane and Nye, 1977). A nation can most effectively make demands when competitors are highly dependent on its exports and the competitors' exports are easily substitutable.[2]

In borrowing the concept of market power (though not always the label) from organizational economics, International Relations scholars make an analogy between firms and countries.[3] Just as firms with monopolies (dominating supply) or monopsonies (dominating demand) influence relative prices and the behavior of other firms, so too nations with major shares of world production or consumption in a given industry shape policies of other nations and the rules governing exchange (Aggarwal, 1985). While the analogy has enjoyed widespread usage, scholars have not applied it in a consistent manner. James and Lake (1989) use the actual term 'market power', by which they mean the ability of a jurisdiction to influence international prices and the terms of competition in the global economy. Here, trade policy decisions made by the dominant power alter relative international prices and, via pressure from their own producers and consumers, prompt foreign governments to adjust trade policies. Simmons (2001) adopts the same concept, without using the terminology, as one of her four mechanisms by which the US influences foreign financial regulatory choices. Similarly, David Vogel focuses on the role that market power played in extending the reach of government rules in the international economy. His work on environmental regulations in California demonstrates that a jurisdiction may leverage the importance of its market to outsiders in order to shift the preferences of producers in foreign jurisdictions (Vogel, 1995, 1997). Not wanting to face the transaction costs of complying with multiple regulatory regimes, businesses in other countries may actually push for reform domestically in order to create a common set of regulatory standards across jurisdictions.

Other analysts apply the same basic logic — that large markets comprising a dominating share of world trade create market power — to explain other types of outcomes. Long (1996) and Shambaugh (1996) tie market power to the effectiveness of positive and negative sanctions. Aggarwal (1985), Oatley and Nabors (1998), and Richards (1999) make similar arguments to explain regime change. Aggarwal, for example, argues that the international regime governing textiles and apparel changed as the size of US consumer markets (relative to Europe's) diminished. More generally, regime scholarship demonstrates that nations endowed with market power have the ability to set the terms of international negotiations and thereby affect their outcomes (Oatley and Nabors, 1998). In recent work, scholars emphasize how negotiations occur in the shadow of the reversion point, typically viewed as the status quo absent negotiations, when no agreement is reached. Jurisdictions with market power have the ability to shift the reversion point and thereby act as agenda-setters altering the preference ordering of the other players and influencing the outcome of negotiations (Richards, 1999). Finally, unlike many of these examples that showcase the market power concept in arguments reminiscent of the hegemonic stability thesis (Gilpin, 1975, 1981; Kindleberger, 1973; Krasner, 1976), research on optimal tariff policy — the ability to raise national welfare through protectionism — uses the concept to arrive at the opposite conclusion. Gowa and Mansfield (2004), for example, argue that, because of its market power, a large economy has an incentive to reap the benefits of protectionism.

Thus, over the last half-century, the proposition that asymmetrical interdependence is a source of power has proven extremely resilient and quite critical in research concerned with the role of economic hegemons in constructing international economic stability, the creation and persistence of international regimes, the efficacy of positive and negative sanctions, and the international diffusion and convergence of policies across countries.[4] Scholars have generally been explicit about the limits of what relative market size purportedly explains and have made generous use of ceteris paribus clauses. For Keohane and Nye, market power is a ‘structural’ variable that is a determinant of potential power in bargaining situations rather than a source of influence over particular outcomes (Keohane and Nye, 1977: 9–17). For Aggarwal, by contrast, ologopsony power shapes outcomes of the regime he examines (Aggarwal, 1985: 29–32, 38).

We accept the proposition that market power is an important determinant of a jurisdiction’s ability to shape international market rules. At the same time, we find it problematic that a workhorse concept, playing such a prominent causal role in International Political Economy (IPE) explanations, is often only vaguely specified[5] and insufficiently examined in relation to other variables. While changes in market size may be one determinant of shifting ratios of international to domestic economic activity in a jurisdiction and thereby enhanced international influence, there are others, even if scholars have not conceived them as such.

More than one story about power and interdependence

A motivation behind this article lies in a desire to show that seemingly disparate discussions about the sources of power from interdependent relationships can and should be juxtaposed in a single explanatory framework. One of these discussions focuses on the mobility of actors. The core proposition is that relative mobility is a determinant of influence. Those who can credibly threaten to exit are said to wield power over those who cannot. The approach has several influences including international trade theory, especially the Ricardo–Viner (or specific factors) model, which emphasizes the relative mobility of capital, labor, and land (Frieden, 1991; Rogowski, 1989), Hirschman’s *Exit, Voice and Loyalty* (1970), and the second-image-reversed literature associated with Gourevitch’s classic article with an eponymous title (Gourevitch, 1978, 1986).

With the return of global finance since the breakdown of the Bretton Woods monetary arrangements, much scholarly attention turned to the effects of rising levels of capital mobility on domestic battles over institutional arrangements (Keohane and Milner, 1996; Laurence, 2001), macroeconomic policies (Goodman and Pauly, 1993; Webb, 1991), and intergovernmental negotiations concerning the global rules of exchange (Kapstein, 1992). National authorities in competition with their foreign counterparts to attract fleet-footed owners of financial assets are expected to adopt capital-friendly policies and institutions and bend to corporate pressure. A major theme of this approach, albeit a highly contested one, is that internationally mobile firms and asset managers will place relentless pressure on national governments for regulatory concessions (Garrett, 1998; Garrett and Lange, 1991; Strange, 1996). These arguments, sometimes taking the form of a regulatory race to the bottom, stress the constraints on states as they attempt to govern domestically and internationally (Drezner, 2005; Tonnelson, 2000).

To discuss the mobility variable in the context of asymmetric dependencies and regulatory power, we unpacked conceptual assumptions. The key revision rests in recognizing that the mobility of capital owners and other market participants is not just a characteristic of the underlying asset (on a continuum between specific or non-specific), but also of rules that determine where these participants can have access to buyers and sellers. The owners of non-specific assets, after all, do not gain influence against their own government unless a foreign authority offers them an alternative to domestic customers or suppliers (Newman, 2008; Posner, 2009a). The relative specificity of an asset is often constant.[6] What frequently empowers the owner of a non-specific asset (i.e. what makes it mobile) is not an inherent quality per se, but rather a construct built of permissive rules, such as the liberalization of capital accounts, that allows markets to expand beyond national borders (Simmons, 2001). The expansion over the last several decades of trade in services and products based on intellectual property law underscores this point, as the economic principles of excludability for such goods are defined not by a fundamental characteristic of the product but by national rules (Sell, 2003; Weber, 2004). This is why we use ‘market scope’, denoting areas where economic activity is permitted, rather than mobility levels as a determinant of potential power.

As implied in the above example of Vogel’s California effect, the race-to-the-bottom thesis is controversial. For every empirical instance supporting its validity scholars offer counter-examples (Scharpf, 1999; Wallerstein and Przeworski, 1995). Nevertheless, the proposition that the shifting scope of markets alters the power dynamics of regulatory authority is based on an elegant logic and has held up well in some empirical contexts (DeSombre, 2000; Vogel, 1997). Expanding or contracting market scope enables foreigners to choose under whose jurisdiction they conduct economic activity and therefore may be a determinant of asymmetric dependency between market participants and political authorities. Given that since the 1970s, technological and regulatory changes have integrated a number of markets freeing producers and more recently consumers from their national borders, it would make little sense to exclude market boundaries from a model designed to explain patterns of regulatory power.

Finally, our analysis of interdependence and power does more than reconceptualize one explanatory variable (i.e. mobility) and combine it with another (i.e. market size). We also add a third: the boundaries of jurisdictional authority. In doing so, we bring out in the open a causal variable associated recently with the constructivist turn in International Relations (Kobrin; 1998; Ruggie, 1993; Sassen, 1999, 2003, 2006), yet absent in most political studies of interdependence and power. The effects of jurisdictional boundaries went largely unnoticed during the last 60 years because scholars assumed a general congruence between national regulatory authority and markets. Bipolar Cold War politics emphasized the role of territorial sovereignty and that assumption was never as empirically sound as its promoters implied (Blatter, 2001; Keohane, 2002; Sjoberg, 2008). A cursory examination of International Relations literature demonstrates that historically authority has taken many forms, often decoupled from territorial borders. Research on city-leagues, the Vatican, and the Holy Roman Empire offer just a few examples (Hehir, 1990; Nexon and Wright, 2007; Osiander, 2001; Spruyt, 1994). In more recent years, it has become easier to see that the frontiers of authority, like consumer and producer markets, do not necessarily align with national borders, as the collapse of the Soviet Union, the intensification of the European integration project, and the retention of two regulatory regimes within the China–Hong Kong combination exemplify. Such developments raise questions about the impact of denationalization of political authority on power dynamics.

The applicable logic here is similar to the two previous instances: a jurisdiction acquires greater international influence as increasing numbers of foreigners rely on or want access to its markets and therefore comply with its rules. The expansion or shrinking of jurisdiction is thus a third route to alter asymmetric dependencies and increase or decrease the power wielded by corresponding officials. Moreover, while authority over a market has traditionally been exercised by national governments,[7] in an increasing number of markets authority has an extra-national flare. Uncovering power dynamics would therefore mean identifying the authorities with which firms must comply.

The notion that expanded jurisdictional authority could increase a regulator's influence in international forums not only derives from the constructivist turn. It overlaps with insights from the multi-level governance approach (Hooghe and Marks, 2003), and some realists implicitly or explicitly put forth similar hypotheses.[8]

In sum, by juxtaposing these two variables alongside market size, we de-link markets and jurisdictional authorities from a particular geographically delimited domain (i.e. states) in an effort to understand the nature of international economic influence. In doing so, we bring theory closer to Jacob Viner's observation: 'We tend today to take the identity of political and economic frontiers for granted, but it is in fact a quite modern phenomenon, and by no means a universal one even now' (Viner, 1950: 95). In the following section we re-examine the relationship between power and interdependence, offering a framework for explaining regulatory power. By synthesizing the scope of markets, jurisdictional boundaries, and market size, we develop a grounded analytic model of influence in the international economy.[9]

The sources of regulatory power

Regulatory power is the potential of authorities and corporations based in one jurisdiction to influence the decisions and arrangements in another. Like other 'structural' variables, the distribution of potential influence does not determine bargaining and other outcomes in any specific case, which will reflect political process, actor preferences, and specific context.[10] Rather, a structural variable can be expected to shape patterns between units across many instances of a phenomenon. Moreover, an exhaustive list of the determinants of regulatory power would no doubt include factors not discussed here, including normative and ideational variables emphasized by constructivist IR scholars. Thus, we bracket our discussion about the sources of power and its many 'faces' in order to clarify and enhance our understanding of how asymmetric relationships emerge and shape interactions among units.

The fundamental question is: what transforms an interdependent economic relationship into a source of regulatory power? Our first step in developing an explanatory model is to isolate the effects of two of the three candidate determinants of relative dependencies, market scope and jurisdictional boundaries, by freezing the third. We thus assume that markets grow at the same speed and that, so long as the boundaries of markets and jurisdictions are constant, the ratio of domestic to foreign economic activity in a given market remains the same. With such artificial parameters, if the relative levels of foreign economic activity change, economic growth as well as foreign purchases or sales of domestic assets would not be responsible.

These initial assumptions let us isolate the effects of market scope and jurisdictional boundaries. The aim is to demonstrate that, as these two determinants vary, the impact of interdependence on regulatory power changes in fairly predictable ways. For the purposes of constructing ideal-typical power relationships, we conceive of each as a dimension ranging between national and extra-national. Some markets, such as the market for health care insurance, are primarily national, while others, such as the current international market for currencies, have a distinctly extra-national character. Similarly, jurisdictional authority for some markets, including many labor markets, is fundamentally national, while others, such as the European market for telecommunications, is extra-national and is overseen by European Union authorities.

In line with recent research on regulatory power, we make one additional simplifying assumption (Bach and Newman, 2007; Konings, 2008; Mattli and Büthe, 2003): that regulatory capacity exists and that market participants believe this to be the case. In other words, a regulatory authority has the ability to monitor and enforce a set of market rules in a given jurisdiction. Whether firms operate within the given market or merely sell their goods from afar, the assumption is that the regulatory authority has the resources to implement its regulatory regime and companies know it.

Given these preliminaries, our model predicts that the effects of interdependence on regulatory power vary as the frontiers of markets and regulatory jurisdictions shift from national to extra-national, resulting in four ideal-typical scenarios of power dynamics (depicted in Figure 1). The remainder of this section discusses each type and offers illustrative cases.

Type I: Sovereign congruity

Sovereign congruity describes the case most familiar to International Relations scholars. Here, markets and regulatory authority are national. Relative market size, all other things equal, determines regulatory power at the international level because foreign firms must comply with national regulations to sell to national consumers. Assuming a fixed ratio of foreign firm activity, as the size of the national market grows compared to foreign markets, national authorities wield greater sway over foreign firms. These firms may then press their own regulators to take action in order to ensure access to the large market and reduce regulatory differences that raise compliance and other transaction costs. In this way, companies wanting access to important markets play the crucial role of transmitting foreign influence to home officials.

		Scope of market	
		National	Extra-national
Boundaries of (regulatory) jurisdiction	National	Type I: *Sovereign congruity* (National market size determines regulatory power)	Type II: *Sovereign mismatch* (National market size does not determine regulatory power)
	Extra-national	Type III: *Transnational mismatch* (The sum of national market sizes under a common jurisdiction determines regulatory power)	Type IV: *Transnational congruity* (Market size determines regulatory power)

Figure 1. Rethinking power and interdependence

Under sovereign congruity, differences in market size thus yield lopsided levels of regulatory power. This is Hirschman's point when he shows that Nazi Germany deliberately fostered asymmetric interdependence in order to gain influence over its Eastern European neighbors and Vogel's underlying message when he demonstrated California's regulatory power in shaping environmental rules in other industrialized nations. The sovereign congruity case is also well illustrated in the regulation of cross-border finance in the 1980s and early 1990s. Many US capital markets outsized those of foreign competitors. Markets in alternative jurisdictions, for example, could not consistently supply equivalent amounts of equity financing at the same price. Overseas companies wanting to sell shares to raise capital flocked to New York and complied with US laws and rules, such as accounting standards requirements, despite significant additional costs (Ball, 2004). Demands by foreign authorities for mutual recognition of national standards, moreover, were met by US intransigence.[11] In a vivid instance of regulatory power derived from market asymmetries, the SEC expected the rest of the world eventually to adopt US accounting standards (Bach and Newman, 2007; Simmons, 2001), and the result was that foreign authorities made adjustments, such as changing domestic rules to permit companies to use Generally Accepted Accounting Principles (US GAAP), as equivalents to national standards.

Type II: Sovereign mismatch

In the case of sovereign mismatch, markets expand beyond national borders while regulatory authority continues to be contained within them. This is a situation that was addressed by political scientists in the 1970s in the transnationalism literature and has received renewed attention as communications technologies have facilitated extra-national markets (Cerny, 1995; Keohane and Nye, 1998; Rosenau, 2002). In this scenario, an expansion in the scope of markets without a corresponding expansion in regulatory boundaries creates new conflicts among authorities. Such a change gives consumers and suppliers new choices about the jurisdiction under which they will purchase and sell. For instance, customers — whether asset managers purchasing stocks and bonds or households buying software or medicines — become mobile in the sense that they can do their shopping remotely from vendors in whichever jurisdiction they want. Any observed enhancement or diminishment of regulatory power does not derive from an increase or decrease in relative market size per se. Rather, it stems from choices made by consumers and suppliers. The potential for fiscal and regulatory arbitrage (i.e. a race to the bottom) pits officials from high-tax and rigorous-regulation jurisdictions against low-tax and lax-regulation ones.

Asymmetries in market size, then, have little bearing on relative regulatory power as foreign firms may gain access to national consumers but evade national regulations. The mobility of customers and suppliers has the potential to create a regulatory race to the bottom. It puts pressure on national officials of high-regulation states, who have incentives to convince or coerce their counterparts representing low-regulation states to harmonize or otherwise coordinate rules. Additionally, it may raise considerable uncertainty for firms facing multiple regulatory regimes. Companies might therefore support convergence of rules in order to minimize the transaction costs associated with regulatory conflict. Industry may look to foster hybrid or self-regulatory solutions in an attempt to address the conflicting demands of various jurisdictions (Farrell, 2003; Nicolaidis and Shaffer, 2005). Whether some form of harmonization, mutual recognition, or rival regulatory blocs emerge, it is clear that in instances of sovereign mismatch the likelihood of inter-jurisdictional disputes is high.

Since Hirschman (1945), scholars have tended to assume that the association between power and asymmetries of market dependencies is universal. Our model's conclusions run counter. The sovereign mismatch scenario suggests that the association is instead contingent on the parameters of market and jurisdictional authority. When markets exceed national borders but regulatory authority is exercised within them, relative market size is not expected to determine regulatory power.

The case of online content provides a striking example of sovereign mismatch. With the emergence of digital networks, text can be instantaneously transmitted around the world at virtually no cost over the telecommunications infrastructure. While heralded as a great boon to information exchange, the networks also permit the seamless distribution of illicit content challenging traditional notions of sovereignty. The Internet, for example, provides fertile ground to peddlers of hate speech and child pornography, content that is illegal in over 50 countries.[12] The attempted application of French content laws to the Internet service provider Yahoo is illustrative. In 2000, a French anti-racism organization took Yahoo to court in France for making Nazi paraphernalia available on its website. Yahoo countered that the material was available on the US website and not the French version of the service. The company could not be held responsible or prevent French citizens from visiting the US site. The French court found Yahoo guilty and demanded that the company create filters to prevent French citizens from visiting the site. The ruling was backed by a fine of 100,000 French francs (over $13,000 at the time) per day.[13] Yahoo removed the material, not wanting to damage its reputation, but also began a series of appeals in the US, where it believed First Amendment protections would better protect its interests. In shifting boundaries of market activity, the case raised difficult questions of regulatory sovereignty in this new marketplace.[14]

A series of cases involving Internet Service Providers (ISPs) and national content laws have prompted industry to invest in self-policing measures.[15] The Internet Watch Foundation (IWF) in the UK, which was founded by a consortium of ISPs, maintains a hotline for citizens to report illegal content. IWF then sends take-down notices to firms that violate the law at the same time that they inform law-enforcement officials. These national efforts have been accompanied by international private-sector initiatives to address harmful content, the most robust of which is the International Body of Internet Hotline Providers (INHOPE).

While such hotlines help demonstrate the effort of industry to comply with national regulations, they have not ended the content debate. Numerous websites that distribute harmful content have relocated to data havens that maintain limited regulations of online markets. At the same time governments have committed to cracking down on such behavior (Diebert, 2002). Those companies that lack a physical presence in high-regulation states, however, face limited extra-territorial exposure to government pressures. For even in the case of Yahoo, French threats only proved persuasive because the company held assets in Europe.

Type III: Transnational mismatch

The third type, transnational mismatch, describes cases where markets remain national but regulatory jurisdiction becomes extra-national. Currently, this is most common in Europe where the EU harmonizes national rules or shifts regulatory authority to the supranational level but markets remain largely national because of legal, cultural, or fiscal barriers. In our model, the sum of the size of individual national markets under a common regulatory authority determines relative regulatory power despite market fragmentation. This is true because foreign firms must comply with extra-national regulations to sell to consumers in any one of the individual national markets. As in the case of sovereign congruity, the size of the market (this time, the aggregate size of segmented national markets) determines regulatory power. Yet, interestingly, regulatory power is not dependent on market integration, as many in Europe and elsewhere believe. Enhanced regulatory power may occur even in the absence of a truly integrated supranational market.

Consider the effects on regulatory power of an exogenous shift in jurisdictional authority from national to extra-national frontiers, a move from sovereign congruity (Type I) to transnational mismatch (Type III) — with no change in the size or composition of markets. From the mere change in jurisdictional authority, the international regulatory power of officials representing the new authority would expand dramatically in comparison to that of national officials in the prior arrangement. This is what happened in the areas of data privacy regulations and financial services as the role of the EU expanded.

In data privacy, European governments since the early 1980s adopted comprehensive domestic rules concerning the collection and processing of personal information in the public and private sectors. Yet by 1990, these national regimes had little international influence. Israel was the only non-Western European country to emulate them. In 1995, the EU passed a privacy directive that centralized external control over regulation at the regional level. Article 25 of the directive prevents the transfer of personal information to countries that do not maintain 'adequate' privacy regulations. EU officials have the authority to determine whether other countries meet the 'adequacy' standard. While jurisdiction has been elevated to the extra-national level, markets for personal information concentrated in the banking, marketing, and insurance sectors remain largely national. Since the adoption of the directive, over 30 countries ranging from Albania to Argentina to Australia have emulated the European regulatory model. Even the US has been pressured to sign an international agreement, which requires US firms active in European markets to comply with EU rules. The shift toward the European model was not the result of a significant expansion in the combined size of the national European markets or even in any one national market. Rather, the directive created an extra-national jurisdiction, empowered to set rules of entry and access, that, in turn, aggregated the economic strength of the individual member state markets (Newman, 2008).

In financial services, the expansion of EU governance had a similar international effect (Posner, 2009b). In March 2000, EU leaders began a renewed effort to integrate national financial systems. In addition to passing some 50 new regional-level laws (covering money laundering, UCITS [i.e. mutual funds], accounting standards, market abuse, occupational pensions, prospectuses, and the regulation of conglomerates, among others), EU leaders significantly shifted the official procedures for producing and implementing them from the national to the supranational level. [16]As in data privacy legislation, many of these changes set new rules of entry and access.

The move toward EU regulation prompted US authorities to accept new terms of cooperation and make significant concessions in several high-profile transatlantic conflicts. In the years before the global financial crisis of 2008/9, this transatlantic cooperation generated new policies, such as the SEC's commitment to a de facto mutual recognition regime in accounting standards. US capital markets were still the largest and deepest for almost every financial asset, and a single European financial market remained a distant goal, despite important strides made in wholesale markets after the euro's introduction.[17] The new-found regulatory power of European officials was instead rooted in the changed EU jurisdictional boundaries. EU authorities gained the potential to adversely affect the businesses of US financial firms, which had previously found it easier to play regulatory arbitrage in Europe.[18]

Type IV: Transnational congruity

The fourth, and final, category is transnational congruity. In these cases markets and authority are extra-national and share the same frontiers. Goods and services cross borders and are overseen by an extra-national jurisdiction. Here, market size (covered by an extra-national jurisdiction) determines relative regulatory power because firms from outside the jurisdiction must comply with the extra-national regulation to sell to extra-national consumers. The extra-national regulator enjoys the aggregated market power of the integrated market. The transnational congruity logic therefore mirrors that of sovereign congruity.

While one can think of many issue areas in the European Union such as aviation or telecommunications that roughly fit this ideal type (Woll, 2008), this authority–market relationship is by no means exclusively present in the modern European case. Historically, similar arrangements existed, notably among the merchant guilds such as the Hanseatic League, which dominated trade in northern Europe for several hundred years during the medieval period.[19] A collection of some 200 towns located across northern Germany and the Baltic Sea including politically sovereign trading posts, known as *Kontors*, in England, Russia, Flanders, and Norway, the League established a transnational political authority (Dollinger, 1970; Postan, 1987). Although most of the towns remained affiliated with the Holy Roman Empire or local principalities, the Hanseatic League, acting as a collective unit, asserted its own overlapping political authority. Formally, the towns conducted their affairs through a central governing council, known as the *Hansetag*, which was supported by both regional and local town councils. These councils discussed the primary affairs of the League, including the relationships between towns and between the League and their trading partners. The League had the authority to expel cities, a threat it used to maintain control of the members. Additionally, the League established regulations that set entry barriers to competing merchants from other regions. These regulations, for example, limited the ability of foreigners to captain Hanseatic ships or for Hanseatic goods to be transported in non-Hanseatic vessels. These regulations shielded the Hansa merchants from new entrants, the British and the Dutch (Dollinger, 1970).

When trade partners breached agreements, the Hanseatic League used its collective authority over the transnational market to pressure adjustment. Many times during the 14th and 15th centuries, the Hansa successfully implemented economic embargoes. These embargoes forbade all Hansa merchants from trading with a certain partner under the threat of expulsion from the League. Flanders, Norway, and England all suffered under such embargoes. Some embargoes lasted several years and many resulted in the expansion or return of trade privileges. At several points, the Hansetag decided to shift a Kontor from one foreign city to another until trade privileges were re-established (Dollinger, 1970: 72; Greif et al., 1994). The Hanseatic League, then, offers a historical example of transnational congruence, whereby transitional authority is congruent with a transnational market, the size of which largely determines international influence. This congruence offered the League considerable power as it negotiated and interacted with other sovereigns of the time.

In the case of transnational congruence, however, changes in market integration do not necessarily lead to changes in regulatory power (i.e. a shift from extra-national mismatch [Type III] to extra-national congruity [Type IV]). Even though small and fragmented consumer markets become integrated at the extra-national level, regulatory power would stay constant, all other things equal. Once a common regulatory jurisdiction exists, there is minimal ‘value added’ by fully integrating markets. We would not expect the EU’s influence in financial services, for example, to expand merely because market integration proceeds. The logic is counter-intuitive. Since the late 1990s, the integration of regulatory regimes has outpaced the actual integration of financial services and capital markets. Most observers, including authorities representing the EU, have been surprised by the latter’s regulatory power in bilateral negotiations with US authorities. They did not expect an increase in European regulatory power until the distant future when markets caught up with regulations.

Implications and conclusion

Our synthetic approach to the relationship between power and interdependence helps to advance research in several debates. We conclude by highlighting its potential contribution to four of them. First, researchers tend to emphasize either regulatory competition (a race to the bottom referred to as the Delaware effect) or the adoption of rigorous regulations (a race to the top referred to as the California effect). Our model generates expectations concerning the likelihood of each. Expansion of market scope beyond existing political borders creates problems for regulators with high, relatively demanding regulations and tax regimes and pressures them to make adjustments in the direction of low, relatively lax regulatory jurisdictions. By contrast, an expansion in the jurisdictional boundaries of a high-regulatory regime ultimately creates problems for foreign regulators of weak regimes. Foreign firms come under pressure as they face the possibility of market exclusion and the potential of having to comply with multiple regulatory standards across jurisdictions. These costs may prompt foreign firms to support the emulation of relatively powerful authorities' policies, even if these regulations are more demanding. Existing 'race-to-the-top' explanations either assume asymmetric interdependence from the start and show what happens when the more powerful jurisdiction raises its standards or point to the enhanced influence of high-regulation jurisdictions following an increase in relative market size. We demonstrate that the expansion of jurisdictional frontiers may also spur a race to the top.

These predictions are about potential bargaining power, not outcomes in any particular issue area. In this sense, our expectations are not inconsistent with Scharpf's skepticism concerning general propositions for predicting regulatory patterns in the context of economic interdependence (Scharpf, 1999: ch. 3). At the same time, we do provide useful propositions about the pressures regulators face in the international economy. These expectations incorporate dynamic as well as static processes into the relationship between economic interdependence and rule harmonization and thereby can account for variation in regulatory outcomes.

Second, our model helps explain the mysterious growth of EU international influence despite persistent internal market fragmentation. Anticipating the implementation of the Single European Act in the mid-1980s, US commentators initially feared that Europe would leverage its new internal market to bully those outside of 'Fortress Europe' (Hanson, 1998). But as it became clear that mutual recognition, not harmonization, would become Europe's integration tool of choice, fears dwindled. Similar concerns arose with the creation of the single currency only to dissipate as financial markets retained much of their national characteristics.

Despite continued market fragmentation, Europe has successfully asserted itself internationally in a range of sectors.[20] Our understanding of regulatory power explains this surprising development. The creation of extra-national jurisdiction increases regulatory power. Extra-national authority, presenting a coherent and coordinated regulatory framework to foreign firms, shapes their behavior. Regardless of which national

European market firms wish to enter, they have to comply with pan-European rules and equivalency clauses.

It should be possible to extend this logic to the sub-national level as well. One can imagine, especially among federal polities, that market and jurisdictional scope affect power dynamics at the sub-national level. Expanding our two-by-two to a three-by-three model has interesting implications. Take the case where jurisdiction is sub-national and markets are national. We would anticipate that sub-national public authorities would encounter fierce challenges to their authority from federally and internationally active firms. With multiple exit threats, sub-national authorities would face extensive arbitrage pressure. This might shed light, for example, on the disparity between the SEC's international influence in the 1980s and the inability of US state public insurance authorities to shape the international regulatory agenda in the same period (Singer, 2007).

Third, our model highlights the limits of some functional institutionalist arguments employed in much International Relations research. Borrowing from institutional economics, IPE researchers in the functional institutionalist tradition argue that the inherent nature of assets and policy areas largely determines international regime outcomes, political processes, and power dynamics (Keohane, 1984). The underlying logic of these arguments is that the regulation of specific policy domains emits inherent constellations of actor incentives and preferences. While taxation yields one type of international bargaining game, social and environmental regulations are said to produce others. As the more sophisticated applications of this reasoning demonstrate, policy type is only one of several variables that shape international regulatory processes and outcomes (Simmons, 2001).

Our analysis goes a step further. Instead of focusing on the continuities within issue areas and over time, our model anticipates the dynamic nature of power relations. As market and jurisdictional boundaries change and asymmetries shift, the underlying character of both the 'problem' and the 'solution' within a regulatory domain evolve. Outcomes, then, are not merely efficient responses to particular issue challenges. Rather, political transformations in markets and authority alter the balance of power of those competing to provide governance solutions. The politics of transatlantic accounting standards illustrates how core bargaining dynamics may change in the same issue area. Initially, network externalities conferred first-mover advantages to the US, whose officials had few incentives to engage in mutual recognition agreements or convergence projects and good reasons to believe market forces would pressure foreign authorities eventually to adopt American standards (Simmons, 2001: 609–611). Since the members of the EU delegated new authorities to the supranational level in 2002, transatlantic bargaining dynamics have been closer to a deterrence game in which credible threats on each side prompt cooperative solutions. The nature of accounting standards, presumed to be a constant by functional institutionalist logic, cannot explain this pattern of change. Rather, change in the frontiers of political authority recalibrated the power relationships between the two economic great powers.

Fourth, our model of regulatory power adds to a burgeoning debate on the role of private actors in the international political economy (Cutler et al., 1999; Hall and Biersteker, 2002; Haufler, 2001; Pauly, 1997; Sell, 2003; Sinclair, 2005). While this literature has convincingly demonstrated that private actors are important players in international governance, the evidence is mixed as to whether private actors undermine or enhance public authority. We join a relatively recent research strain that attempts to parse out the relationship between public authority and private actors (Farrell, 2003, 2006; Mattli and Büthe, 2003; Newman and Bach, 2004). Contrary to pluralist analyses, our model addresses the Janus-faced relationship between the two, anticipating when public authority should be able to influence private-sector preference and when private actors should be able to pressure for regulatory change. The scope of markets and jurisdictions sets the stage, benefiting private actors when markets are extra-national and jurisdiction remains national. Firms are best positioned to exert their preferences when exit remains an option. Public authority, by contrast, benefits under favorable market asymmetries or when jurisdiction is extra-national. Here jurisdictions may leverage their rule-making authority to define the terms of market entry and access, forcing firms to confront the potential loss of vital markets. When jurisdictions expand, they capture foreign firms, which formerly operated under several authorities governing smaller portions of the foreign firms' businesses. The greater concentration of revenues produced in a single jurisdiction makes these companies more vulnerable to the rules, decisions, and retaliatory actions of its officials. Such scenarios are thus likely to increase the influence over firm compliance. The new vulnerability is also likely to prompt multinational companies to pressure home governments to change rules in accordance with the foreign regulation or alter policies to avoid retaliatory actions. Private actors may, then, be both the active force behind regulatory change and the reluctant recipient of public authority demands. The dynamics of regulatory power help to specify the terms of the relationship.

IR conceptualizations of markets and authority emerged from a 20th-century relationship between physical geography, political authority, and economic activity. They have today become cognitive short cuts that no longer correspond well to the realities of global governance in the 21st century. In decoupling the relationship between markets, authority, and location, our model further specifies the theoretical foundations of a workhorse concept in IPE and, we hope, paves the way for debate on the relationship between power and interdependence in the new millennium.

Notes

1 The concept of power has returned to the center of IR debates, especially those concerning global governance (Barnett and Duvall, 2005; Drezner, 2007; Fuchs and Lederer, 2008). Taking a step back from recent contributions that incorporate ideational and discursive forms of power into standard typologies, we focus strictly on economic and jurisdictional sources of the power to get others to do what they would not have done otherwise. As stated, our aim is to clarify existing conceptual problems. In terms of the two common usages of 'structural' power (Kirschner, 2008: 424–425), this article is concerned with Albert Hirschman's (Hirschman, 1980), focused on power derived through economic interdependence, rather than Susan Strange's usage (1994), which scholars have generally interpreted as the power to establish the social and ideational context within which interactions take place.

2 John Conybeare (1987: 25) explains the logic of the argument:

> large countries facing small countries are much more likely to improve their income with an optimal trade tax, even if the small country retaliates. The size factor operates in much the same way that it does when there is asymmetry between firms in a market; the larger the firm relative to the rest of the market, the more likely it is to be able to reap monopolistic profits by manipulating the overall market price and quantity supplied.

Large countries should have a relatively higher price elasticity of demand for the products of a small country than the small country has for the products of the large country, due to the former's wider range of substitutes. A small country is likely to be more dependent on a particular import from a large country, and therefore less likely to reduce its demand for that product if the large country imposes a price-raising tax on the good.

3 Waltz (1979) makes a similar move in Chapter 6 of *Theory of International Politics*.
4 For a more critical interpretation of the importance of market power for political influence, see Wagner (1988).
5 Measures include national income, transaction volume, or market concentration. For examples see Mansfield (1992), Richards (1999), and Conybeare (1987).
6 Technological change such as the introduction of new electronic technologies may indeed alter relative asset specificity.
7 To simplify, we leave the issue of sub-national authorities for the final section of the article.
8 Aggarwal (1985), for instance, noted that Europeans gained influence over global regimes in sectors where there was significant cooperation.
9 We argue that the inclusion of two additional variables greatly improves the approach's explanatory power without diminishing simplicity too drastically. Simmons (2001) similarly adds complexity to the basic market power hypothesis by elegantly weaving market power, actor preferences, and process in a single two-by-two model.
10 Hirschman (1978) makes this point.
11 For example, see European Commission (1995).
12 For an overview of the content debates, see International Chamber of Commerce (2002).
13 For a summary of the Yahoo case, see Greenberg (2003).
14 Yahoo appealed the decision in a Northern California district court. The district court found that free speech protection contained in the First Amendment shielded Yahoo, but the 9th Circuit court reversed the district court decision, affirming the jurisdiction of the French court. See 169 F. Supp. 2d 1181 (N.D. Cal., 2001) and 379 F. 3d 1120 (9th Cir. 2004). More generally on the question of sovereignty in digital marketplaces, see Mody (2001) and Kobrin (2001).
15 For a review of European efforts to prosecute harmful content, see Blarcum (2005).
16 Originally, the regulatory overhaul, known as the Lamfalussy process, only applied to investment services. In December 2003 EU policymakers extended it to banking and insurance.
17 See European Commission (2005).
18 For an interesting counter-example see the case of fragmented Eurobond markets and the international influence of the euro in McNamara (2008).
19 On merchant guilds, see Greif et al. (1994).
20 The sectors include food safety, telecommunications, financial services, chemicals, and consumer protection (see Mitchener, 2002). Scholarly empirical research includes Posner (2009b), Newman (2008), Young (2003), Bretherton and Vogler (1999), and Shaffer (2000). For a journalist approach, see Schapiro (2007). s

References

Aggarwal V (1985) *Liberal Protectionism*. Berkeley, CA: University of California Press.

Agnew J (1994) The territorial trap: The geographical assumptions of international relations theory. *Review of International Political Economy* 1(1): 53–80.

Amin A (2002) Spatialities of globalisation. *Environment and Planning* 34(3): 385–399.

Bach D and Newman A (2007) The European regulatory state and global public policy: Micro-institutions, macro-influence. *Journal of European Public Policy* 16(6): 827–846.

Baldwin D (1978) Power and social exchange. *American Political Science Review* 72(4): 1229–1242.

Ball R (2004) Corporate governance and financial reporting at Daimler-Benz (DaimlerChrysler) AG: From a 'stakeholder' toward a 'shareholder value' model. In: Leuz C, Pfaff D and Hopwood A (eds) *The Economics and Politics of Accounting: International Perspectives on Research Trends, Policy, and Practice*. Oxford: Oxford University Press, 103–144.

Barnett M and Duvall R (2005) *Power in Global Governance*. Cambridge: Cambridge University Press.

Blarcum C (2005) Internet hate speech: The European framework and the emerging American haven. *Washington and Lee Law Review* 781: online.

Blatter J (2001) Debordering the world of states: Towards a multi-level system in Europe and a multi-polity system in North America? Insights from border regions. *European Journal of International Relations* 7(2): 175–209.

Bretherton C and Vogler J (1999) *The European Union as a Global Actor*. London: Routledge.

Cerny, P (1995) Globalization and the changing logic of collective action. *International Organization* 49(4): 595–625.

Conybeare J (1987) *Trade Wars: The Theory and Practice of International Commercial Rivalry*. New York: Columbia University Press.

Cutler C, Haufler V and Porter T (1999) *Private Authority and International Affairs*. Albany, NY: SUNY.

DeSombre E (2000) *Domestic Sources of International Environmental Policy: Industry, Environmentalists, and US Power*. Cambridge, MA: MIT Press.

Diebert R (2002) The Internet and the coming borderless world. *Isuma: Canadian Journal of Policy Research* (Spring): 113–119.

Dollinger P (1970) *The German Hansa*. Palo Alto, CA: Stanford University Press.

Drezner D (2005) Globalization, harmonization, and competition: The different pathways to policy convergence. *Journal of European Public Policy* 12(5): 841–859.

Drezner D (2007) *All Politics is Global: Explaining International Regulatory Regimes*. Princeton, NJ: Princeton University Press.

European Commission (1995) *Accounting Harmonisation*. Brussels (COM95[508]EN).

European Commission (2005) *Financial Integration Monitor*. Brussels (SEC [2005] 927).

Farrell H (2003) Constructing the international foundations of e-commerce: The EU–US Safe Harbor arrangement. *Internatsional Organization* 57(2): 277–306.

Farrell H (2006) Governing information flows: States, private actors, and e-commerce. *Annual Review of Political Science* 6: 353–374.

Frieden JA (1991) Invested interests: The politics of national economic policies in a world of global Finance. *International Organization* 45(4): 425–451.

Fuchs D and Lederer ML (2008) The power of business. *Business and Politics* 9(3): Article 1.

Garrett G (1998) Global markets and national politics. *International Organization* 52: 787–824.

Garrett G and Lange P (1991) Political responses to interdependence; What's 'left' for the left? *International Organization* 45(4): 539–564.

Gilpin R (1975) *US Power and the Multinational Corporation*. New York: Basic Books.

Gilpin R (1981) *War and Change in World Politics*. Cambridge: Cambridge University Press.

Goodman J and Pauly L (1993) The obsolescence of capital control? Economic management in an age of global markets. *World Politics* 46(1): 50–82.

Gourevitch P (1978) The second image reversed: The international sources of domestic politics. *International Organization* 32(4): 881–912.

Gourevitch P (1986) *Politics in Hard Times*. Ithaca, NY: Cornell University Press.

Gowa J and Mansfield E (2004) Alliances, imperfect markets, and major-power trade. *International Organization* 58(4): 775–805.

Greenberg M (2003) A return to Lilliput: LICRA v. Yahoo! case and the regulation of online content in the world market. *Berkeley Technology Law Journal* 1191(Fall): online.
Greif A, Milgrom P and Weingast B (1994) Coordination, commitment, and enforcement: The case of the merchant guild. *Journal of Political Economy* 102(4): 745–776.
Hall R and Biersteker T (2002) *The Emergence of Private Authority in Global Governance*. Cambridge: Cambridge University Press.
Hanson B (1998) What happened to fortress Europe? External trade policy liberalization in the European Union. *International Organization* 52(1): 55–85.
Haufler V (2001) *A Public Role for the Private Sector: Industry Self-Regulation in a Global Economy*. Washington, DC: Carnegie Endowment for International Peace.
Hehir JB (1990) Papal foreign policy. *Foreign Policy* 78(Spring): 26–48.
Hirschman A (1945) *National Power and the Structure of Foreign Trade*. Berkeley, CA: University of California Press.
Hirschman A (1970) *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*. Cambridge, MA: Harvard University Press.
Hirschman A (1978) Beyond asymmetry: Critical notes on myself as a young man and on some other old friends. *International Organization* 32(1): 45–50.
Hirschman A (1980) *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge, MA: Harvard University Press.
Hooghe L and Marks G (2003) Unravelling the central state, but how? Types of multi-level governance. *American Political Science Review* 97(2): 233–243.
International Chamber of Commerce (2002) *The Impact of Internet Content Regulation*. Paris.
James S and Lake D (1989) The second face of hegemony: Britain's repeal of the Corn Laws and the American Walker tariff of 1846. *International Organization* 43(1): 1–29.
Kapstein EB (1992) Between power and purpose: Central bankers and the politics of regulatory convergence. *International Organization* 46(1): 265–287.
Keohane R (1984) *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, NJ: Princeton University Press.
Keohane R (2002) Ironies of sovereignty: The European Union and the United States. *Journal of Common Market Studies* 40(4): 743–765.
Keohane R and Milner H (1996) *Internationalization and Domestic Politics*. Cambridge: Cambridge University Press.
Keohane R and Nye J (1977) *Power and Interdependence: World Politics in Transition*. Boston, MA: Little, Brown.
Keohane R and Nye J (1998) Power and interdependence in the information age. *Foreign Affairs* 77(5): 81–95.
Kindleberger CP (1973) *The World in Depression, 1929–1939*. Berkeley, CA: University of California Press.
Kirschner J (2008) Dollar primacy and American power: What's at stake? *Review of International Political Economy* 15(3): 418–438.
Knorr K (1977) International economic leverage and its uses. In: Knorr K and Trager FN (eds) *Economic Issues and National Security*. Lawrence, KS: University of Kansas, 99–126.
Kobrin S (1998) Back to the future: Neomedievalism and the postmodern digital world economy. *Journal of International Affairs* 51(Spring): 361–386.
Kobrin S (2001) Territoriality and the governance of cyberspace. *Journal of International Business Studies* 32(4): 687–704.
Konings M (2008) The institutional foundations of US structural power in international finance: From the emergence of global finance to the monetarist turn. *Review of International Political Economy* 15(1): 35–61.

Krasner SD (1976) State power and the structure of international trade. *World Politics* 28(3): 317–347.

Laurence H (2001) *Money Rules: The New Politics of Finance in Britain and Japan*. Ithaca, NY: Cornell University Press.

Long W (1996) Trade and technology incentives and bilateral cooperation. *International Studies Quarterly* 40(1): 77–106.

Mansfield E (1992) The concentration of capabilities and international trade. *International Organization* 46(3): 731–764.

Mattli W and Büthe T (2003) Setting international standards: Technological rationality or primacy of power. *World Politics* 56(1): 1–42.

McNamara KR (2008) A rivalry in the making? The euro and international monetary power. *Review of International Political Economy* 15(3): 439–459.

Mitchener B (2002) Increasingly, rules of global economy are set in Brussels. *Wall Street Journal*, 23 April, Section A, p 1.

Mody S (2001) National cyberspace regulation: Unbundling the concept of jurisdiction. *Stanford Journal of International Law* 365: 372.

Newman A (2008) *Protectors of Privacy: Regulating Personal Information in the Global Economy*. Ithaca, NY: Cornell University Press.

Newman A and Bach D (2004) Self-regulatory trajectories in the shadow of public power: Resolving digital dilemmas in Europe and the United States. *Governance* 17(3): 387–413.

Nexon D (2009) *The Struggle for Power in Early Modern Europe*. Princeton, NJ: Princeton University Press.

Nexon D and Wright T (2007) What's at stake in the US empire debate. *American Political Science Review* 101(2): 253–271.

Nicolaidis K and Shaffer G (2005) Transnational mutual recognition regimes: Governance without global government. *Law and Contemporary Problems* 68: 263.

Oatley T and Nabors R (1998) Redistributive cooperation: Market failure, wealth transfers, and the Basel Accord. *International Organization* 52(1): 35–54.

Osiander A (2001) Sovereignty, international relations, and the Westphalian myth. *International Organization* 55(2): 251–287.

Pauly L (1997) *Who Elected the Bankers? Surveillance and Control in the World Economy*. Ithaca, NY: Cornell University Press.

Posner E (2009a) *The Origins of Europe's New Stock Markets*. Cambridge, MA: Harvard University Press.

Posner E (2009b) Making rules for global finance: Transatlantic regulatory cooperation at the turn of the millennium. *International Organization* 63(4): 665–699.

Postan M (1987) The trade of medieval Europe: The north. In: Postan M and Miller E (eds) *The Cambridge Economic History of Europe.* Cambridge: Cambridge University Press, 191–256.

Richards J (1999) Toward a positive theory of international institutions: Regulating international aviation markets. *International Organization* 53(1): 1–37.

Rogowski R (1989) *Commerce and Coalitions*. Princeton, NJ: Princeton University Press.

Rosamond B (2003) Babylon and on? Globalization and international political economy. *Review of International Political Economy* 10(4): 661–671.

Rosenau J (2002) Information technology and the skills, networks, and structures that sustain world affairs. In: Rosenau J and Singh J (eds) *Information Technology and Global Politics.* Albany: SUNY Press, 275–288.

Ruggie J (1993) Territoriality and beyond: Problematizing modernity in international relations. *International Organization* 47(1): 148–152.

Sassen S (1999) *Losing Control? Sovereignty in an Age of Globalization*. New York: Columbia University Press.

Sassen S (2003) Globalization or denationalization? *Review of International Political Economy* 10(1): 1–22.

Sassen S (2006) *Territory, Authority, Rights: From Medieval to Global Assemblages*. Princeton, NJ: Princeton University Press.

Saxenian A (2006) *The New Argonauts: Regional Advantage in a Global Economy*. Cambridge, MA: Harvard University Press.

Schapiro M (2007) *Exposed: The Toxic Chemistry of Everyday Products and What's at Stake for American Power*. White River Junction, VT: Chelsea Green Publishing.

Scharpf F (1999) *Governing in Europe: Effective and Democratic*. Oxford: Oxford University Press.

Sell S (2003) *Private Power, Public Law: The Globalization of Intellectual Property Rights*. Cambridge: Cambridge University Press.

Shaffer G (2000) Globalization and social protection: The impact of EU and international rules in the ratcheting up of US privacy standards. *Yale Journal of International Law* 25: 1–88.

Shambaugh G (1996) Dominance, dependence, and political power: Tethering technology in the 1980s and today. *International Studies Quarterly* 40(4): 559–588.

Simmons B (2001) The international politics of harmonization: The case of capital market regulation. *International Organization* 55(3): 589–620.

Sinclair T (2005) *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness*. Ithaca, NY: Cornell University Press.

Singer DA (2007) *Regulating Capital: Setting Standards for the International Financial System*. Ithaca, NY: Cornell University Press.

Sjoberg L (2008) Scaling IR theory: Geography's contribution to where IR takes place. *International Studies Review* 10: 472–500.

Spruyt H (1994) *The Sovereign State and its Competitors*. Princeton, NJ: Princeton University Press.

Strange S (1994) *States and Markets*, 2nd edn. London: Pinter Publishers.

Strange S (1996) *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press.

Tonnelson A (2000) *The Race to the Bottom*. Boulder, CO: Westview Press.

Viner J (1950) *The Customs Union Issue*. New York: Carnegie Endowment for International Peace.

Vogel D (1995) *Trading Up: Consumer and Environmental Regulation in a Global Economy*. Cambridge, MA: Harvard University Press.

Vogel D (1997) Trading up and governing across: Transnational governance and environmental protection. *Journal of European Public Policy* 4: 556–571.

Wagner RH (1988) Economic interdependence, bargaining power, and political influence. *International Organization* 42(3): 461–483.

Wallerstein M and Przeworski A (1995) Capital taxation with open borders. *Review of International Political Economy* 2(3): 425–445.

Waltz K (1979) *Theory of International Politics*. Reading, MA: Addison-Wesley.

Waterson M (1984) *Economic Theory of Industry*. New York: Cambridge University Press.

Webb MC (1991) International economic structures, government interests and international coordination of macroeconomic adjustment policies. *International Organization* 45(3): 309–342.

Weber S (2004) *The Success of Open Source*. Cambridge, MA: Harvard University Press.

Weber S, Barma N and Ratner E (2007) A world without the West. *National Interest* 90(Jul/Aug): 23–30.

Woll C (2008) *Firm Interests: How Governments Shape Business Lobbying on Global Trade*. Ithaca, NY: Cornell University Press.

Young A (2003) Political transfer and 'trading up'? Transatlantic trade in genetically modified food and US politics. *World Politics* 55(4): 457–484.

Biographical notes

Abraham L. Newman's research focuses on international political economy, with a special interest in global regulatory issues. He is the author of *Protectors of Privacy: Regulating Personal Data in the Global Economy* (Cornell University Press, 2008) and co-editor of *How Revolutionary Was the Digital Revolution: National Responses, Market Transitions, and Global Technologies* (Stanford University Press, 2006).

Elliot Posner is the author of *The Origins of Europe's New Stock Markets* (Harvard University Press, 2009), an exploration of the role of politics and bureaucracy in the formation of markets. His current research focuses on the sources of international financial regulation.