Introduction

A Globalized World, yet Nationalized Policies

> The speed of light does not merely transform the world. It becomes the world. Globalization is the speed of light.
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> —Paul Virilio

> It has been said that arguing against globalization is like arguing against the laws of gravity.
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> —Kofi Annan

According to the World Bank (2021), the world ratio of trade to gross domestic product more than doubled over the past fifty years, expanding from approximately 25 percent in 1970 to 56 percent in 2019. World exports of goods and services multiplied from 383.55 billion dollars (dollar amounts in current US dollars) in 1970 to 24.78 trillion dollars in 2019. Accompanying the trade expansion, global foreign direct investment inflows soared from 12.36 billion dollars in 1970 to 1.51 trillion dollars in 2019. World portfolio equity inflows exploded from 1.36 billion dollars in 1970 to 376.96 billion dollars in 2019. These numbers indicate nothing but that national economies are more integrated into a global system of production and consumption now than they were half a century ago. In other words, the economic interconnectedness among states has incredibly intensified since the 1970s. The triumph of globalization is proclaimed.

Intensified economic interconnection changes the way that we perceive and interact with the world, as it has now been compressed into a tiny place (Friedman, 2005).[1] Is national politics then also globalized as a consequence? Put differently, when national borders are porous to impactful international economic flows, to what extent can governments continue to maintain their policy autonomy (if this is indeed possible at all)? This is the core question that this book seeks to answer. My brief answer is that states still manage to preserve policy autonomy but not in a conventionally understood manner. I will show that states adapt to an increasingly constrained environment imposed by globalization through policy convergence too.

Globalization implies integration and homogenization.[2] Economically, as previously noted, states are more intimately connected with one another (Bordo et al., 1999; Garrett, 2000; Goldstein et al., 2007; UNCTAD, 2016; WTO, 2014). On the ideational and institutional levels, states are becoming increasingly alike (Garrett, 2000; Held et al., 1999; Kriesi et al., 2006; López-Córdova & Meissner, 2011; Pinto, 2013; Smith et al., 1999). States also pursue similar or even identical policies, a phenomenon that is known as policy convergence. It seems that there is no place for diversity or differentiation in this process. In this sense, the prognostication that globalization will end the nation-state is not an exaggeration (Beeson, 2003; Ohmae, 1996), let alone the fact that it undermines democracy (Bloom, 2016; Rodrik, 2011; Wu, 2017). Since no states can escape from globalization (Garrett, 2000), no states can fight it. Globalization is the "golden straitjacket" on sovereign nations (Friedman, 1999).

However, this pessimism ignores the capacity of the state to adapt to this new policy environment and also overlooks the diverse forms and results of exercising policy autonomy (e.g., Clark, 2009; Jordana et al., 2018; Nooruddin & Rudra, 2014; Shin, 2017; Swank, 2002; Wang, 2017a). Accordingly, it overstates the threats of globalization as a constraining force. In this book, I hold that globalization indeed changes the policy environment in which states operate, but this does not mean that states had never existed in a constraining environment before. This new policy environment is new not in terms of its nature but in the degree and modality of the constraints (Krasner, 1999a; Zurn & Deitelhoff, 2015). Despite this constraining environment, states have exhibited extraordinary adaptivity (Stein, 2016), and they do so through both divergence and convergence.

Furthermore, the study conducted in this book suggests that globalization has not constrained states to the extent that the Westphalian system, which has structured inter-state interaction and intra-state governance for the past three hundred years, will soon dissolve and therefore require a replacement. Globalization changes the way in which sovereign states fulfill their functions but does not alter how they are organized to sustain their legitimacy (Thomson, 1995; Weiss, 1998; Zurn & Deitelhoff, 2015). In other words, the core of sovereignty is not endangered (i.e., the highest authority that an independent state can exercise remains intact; Thomson, 1995). Admittedly, what sovereigns can do is now more than ever subject to powerful structural constraints (Held et al., 1999; Sassen, 1995). However, there is currently no feasible polity model to replace the nation-state (Rodrik, 2011).[3] Later, I will critically review extant literature on globalization and national policymaking.

The Convergence Thesis: The Market Dominates the State

According to Kerr (1983), convergence is "the tendency of societies to grow more alike, to develop similarities in structures, processes, and performances" (p. 3).[4] Therefore, policy convergence refers to the tendency toward policy similarities across jurisdictions. Under globalization, it is held that national policies converge on neoliberal economic dictates (Davies & Vadlamannati, 2013; Jensen, 2013; Simmons & Elkins, 2004; Smith et al., 1999). Many globalization scholars believe that the fact that states compete for capital and markets at the global level is responsible for the observed policy convergence (Cao & Prakash, 2010; Davies & Vadlamannati, 2013; Elkins et al., 2006a; Garrett, 1995; Wang, 2018). In addition, this policy convergence is largely detrimental to public interests (i.e., a race to the bottom in regulations; Olney, 2013; Razin & Sadka, 2018). Consequently, as globalization accelerates, states are pressured into gradually conceding their decision-making power in vital policy areas to markets at the peril of social welfare (Hellwig, 2008). This is why scholars have predicted that globalization will eventually end the nation-state (Albrow, 1996; Ohmae, 1996).

There are two elements to this convergence argument. The first element is the belief that pursuing economic competitiveness must be achieved through policies that favor efficiency over welfare (Polanyi, 2001 [1944]; Wu, 2017). For example, it has been proposed that lowering the tax rate on capital guarantees a higher return and that doing so will help nations to increase capital flows (Cao, 2010; Hays, 2003). Furthermore, it has been claimed that loose environmental regulations attract investment and can help a nation to maintain a competitive advantage for its products on overseas markets (Cao & Prakash, 2012). The second element is the belief that such policies have strong and clear negative externalities (Franzese & Hays, 2008),[5] that is, policies that a state enacts increase the costs of refusing to adopt similar ones for its competing peers (also see Simmons & Elkins, 2004).

Indeed, there is evidence to support policy convergence in several issue areas, such as central bank independence (Bodea & Hicks, 2015a), corporate tax rates (Cao, 2010), economic liberalization (Simmons & Elkins, 2004), the environment (Cao & Prakash, 2010; Holzinger et al., 2008; Lee & Strang, 2006), investment protection (Elkins et al., 2006a), and social welfare spending (Brooks, 2005). It seems that a policy that a state adopts increasingly becomes a function of the policy choices of said state's economic competitors in the same issue areas.[6]

The aforementioned scholars have rightly pointed to the nature of the constraints that globalization imposes on states. It is true that globalization alters the policy space for states and that globalized economic competition strongly motivates cross-national policy convergence (Neumayer & Plümper, 2012; Simmons et al., 2006). Without globalization, convergence would be much narrower in scope or even less likely altogether. However, it is an overstatement to say that globalization is the only cause of convergence. Convergence can occur through learning, emulation, and/or coercion (Dobbin et al., 2007; Holzinger & Knill, 2005; Solingen, 2012). More importantly, convergence can happen as a result of states' strategic choices (Holzinger & Knill, 2005), such as substitution.

The Divergence Thesis: The State Still Matters

Counter to the convergence thesis, many studies have discovered that states can resist the pressure to converge in various issue areas. Because of this resistance, policy outcomes have successfully kept their diversity. Extant scholarship often ascribes this policy differentiation to variation in political institutions and organizations. For example, the proportional representation system more likely maintains higher tax rates (Hays, 2003) and more substantial social welfare spending (Swank, 2002) than the majoritarian system does. Political organizations also exert an influence. Kurtz (2002) has demonstrated that political parties, the organization of the poor, and the alliance patterns between the two account for the differences between Mexico and Chile in social policy, notwithstanding the fact that both countries embarked on a neoliberal economic reform, as dictated by globalization. Brooks (2002) finds that the party system is a robust causal factor in explaining the degree of pension privatization. Political legacies also shape the response to external pressure for policy changes. Brooks and Kurtz (2012) discover that import substitution industrialization influences the subsequent capital account reforms when faced with peer pressure to do so. Political regime is another significant factor that is conducive to variation in responses to international pressure to enforce deregulation. In two studies, Wang (2017a, 2017b) obtains evidence that when they are pressured to repress labor rights, more inclusive regimes are able to maintain better protection of such rights in practice.

A New Direction: Strategic Convergence

As demonstrated earlier, a race to the bottom does not invariably materialize in states across all issue areas. Policy autonomy may be eroded but not entirely lost, and there is still room for states to maneuver when globalization accelerates (Datz, 2019; Gritsch, 2005; Mosley, 2005; Naoi, 2020). However, resistance-generated divergence is not the only sign of policy autonomy. Convergence also results from states' policy adaptivity. Little current research specifically examines convergence from the perspective of strategic substitution, but several studies indeed help to lay the foundation for investigations into this topic. First, Hays (2003) describes a unique type of convergence. He has demonstrated that globalization does not simply set out to lower or increase corporate tax rates but that different electoral rules shape varying policy responses to other nations' corporate tax policy changes. Globalization makes the corporate tax rates of majoritarian nations fall rapidly while increasing those in places with consensus democracy, which makes corporate tax rates in these two types of nations converge in the middle. In other words, this convergence is a result of states' strategic choices that are based on their respective interests and policy priors within domestic institutional frameworks.

Second, with a focus on developing nations, Rickard (2012) finds that trade reduces social welfare spending, just as the convergence thesis predicts. However, these states offset such costs by increasing subsidies for the beneficiaries of social welfare programs. Taken together, these findings suggest that convergence should not be considered in isolation and that it may reveal states' policy ingenuity if it is carefully investigated in conjunction with other related policy changes.

Another study that merits our attention is Genovese et al.'s (2017) article, in which they illustrate that states can substitute internationally diffused policies with more politically advantageous alternatives. To the best of my knowledge, this study is among the first to deal with policy substitution in the context of globalization. Although Genovese et al. (2017) do not theorize their contribution to the framework of convergence, they do highlight policy substitution as a valid mechanism to exhibit states' policy adaptivity, which consequently leads to convergence in terms of policy instruments that differ from the diffused ones. Similarly, although not situated in a substitution-induced convergence theory, Shin's (2017) work verifies the practical possibility of such causal mechanisms. This work also reveals that leftist governments in some developed countries employ opaque tax policies to minimize tax burdens on firms and thus to alleviate concerns about these governments' retaining high nominal corporate tax rates.

In this book, I argue that states adapt to a constraining policy environment not only through plain resistance but also convergence, and that policy substitution leads to the latter. More importantly, this convergence can occur either within or across issue areas and either at the same analytical level or across analytical levels. In the following section, I present an overview of the book's theoretical framework.

An Overview of the Theoretical Framework

The globalization-convergence thesis has resulted from a misunderstanding of the type and the sources of convergence. Globalization mainly causes convergence in terms of policy input but not necessarily in terms of policy outcome or real-world impact. Differentiation in policy outcome has been revealed in a number of issue areas under globalization. Similarly, globalization constrains national policy autonomy through economic competition and international regimes that may or may not lead to convergence. Convergence can also occur by means of other mechanisms, such as transnational communication, hegemonic imposition, or substitution. Moreover, policy convergence is not unvaryingly harmful, and proximity in policy enactments across issue areas proves beneficial to societies. These policies' changes improve public welfare at the global level. Therefore, there is no inexorable causal link between globalization and perverted policy convergence.

States can adapt to changing policy environments in various ways, including by employing different and even opposing policy tools. Therefore, alternating policy instruments are not indicative of the shrinking of state capacity; rather, they constitute the embodiment of states' policy power. In other words, we should not attach absolute political significance to specific policy tools and equate them to state capacity itself. Which policy tool to deploy to maximize their interests is entirely at the discretion of states.

Globalization alters the policy environment in which states pursue prosperity and does so by channeling negative policy externalities through heightened cross-border economic competition and by creating webs of international rules and obligations that ensnare states. Undoubtedly, globalization reshapes national policy space. However, this fact does not suggest that such input change will categorically give rise to convergence in a way that was conventionally predicted. It is often costly to implement the policies that globalization demands; however, there are feasible alternatives at both domestic and international levels and either within or across issue areas, which allow states to substitute for the costly policies and are thus also conducive to convergence.

Overall, I contend that when faced with intensified globalization, states choose policies that minimize the costs of enforcing the dictates of globalization but remain compatible with its existence and deepening. Consequently, such behavior results in strategic, substitution-induced convergence, which embodies the policy adaptivity mastered by states. In the next section, I summarize evidence that supports this conjecture, evidence that has been obtained through the examination of selected policy areas.

Evidence from the Policy Areas Examined

To demonstrate the explanatory power and empirical validity of the proposed theoretical framework, I examine policy changes in four areas: bilateral investment treaties (BITs), preferential trade agreements (PTAs), corporate taxation, and central bank independence (CBI). These four policies are crucial to the evolution of globalization, as they intensively respond to and shape the principal elements of economic globalization, that is, trade and capital flows (FDI and portfolio investment). Owing to the lack of an effective global regime that governs cross-border direct investment, BITs are one of the most important and most widely used tools to protect overseas assets, particularly in developing countries (Elkins et al., 2006a; Jandhyala et al., 2011). Made in accord with the requirements of the General Agreement on Tariffs and Trade and the World Trade Organization, PTAs can further liberalize trade among members, which have grown exponentially since the end of the Cold War. PTAs also serve many other important functions, such as reinforcing the bargaining position in multilateral trade talks (Mansfield & Reinhardt, 2003) and promoting domestic reform (Baccini & Urpelainen, 2014). Corporate taxation is at the heart of the concern over the deregulatory power that globalization wields (Cao, 2010), as it is used to attract FDI and thus grow the economy but to the detriment of social welfare. CBI has diffused globally over the past 50 years (Bodea & Hicks, 2015a). An independent central bank is not only key to preserving monetary autonomy in an age characterized by enormous and fast capital flows but also to maintaining macroeconomic stability by taming inflation and shaping stable expectations.

Using rigorous statistical analysis and detailed case studies, I demonstrate that strategic substitution strongly drives policy convergence in these areas. First, BITs are used to substitute for difficult domestic judicial reforms. When states conclude more such treaties, the institutional benefits that these international instruments provide allow them to halt or even reverse judicial reforms that serve similar functions as these investment treaties do, causing deterioration in judicial independence. Causal inferential investigation and the case of Egypt illustrate this strategic consideration.

Second, making PTAs makes it possible for states to maintain a greater legal protection of labor rights. Concluding trade agreements does not incur substantial political costs in the way that reducing labor protection does, but it presents similar economic advantages. Analyzing dyadic treaty making and the formation of the China–New Zealand Free Trade Agreement (2008) lends support to this conjecture.

Third, by the same logic, leftist governments cut corporate tax rates in return for not diminishing laws concerning labor rights. In other words, lessening the tax burden on firms enables the leftist governments to retain policies that are important to their core constituencies. Quantitative evidence from examining corporate tax rate data substantiates this expectation.

Fourth, to secure their control of capital flows, states grant more independence to their central banks. Having more politically independent central banks sends a credible signal to investors that the value of their foreign assets will not be subject to inflationary fiscal expansion. Therefore, when neighboring states loosen capital control to attract investment, a state at issue tends to use CBI to achieve the same purpose while maintaining control of its own financial market. Multiple statistical analyses corroborate this theoretical postulate. A case study of the Philippine central bank reform offers complementary empirical support.

Contributions to the Literature

This study contributes to the literature on national policymaking under globalization on several fronts. First, unlike the majority of the literature that adheres to the notion of convergence as the sole evidence of globalization's constraining power (Bodea & Hicks, 2015a; Cao & Prakash, 2010; Elkins et al., 2006a; Garretson & Peeters, 2006; Notermans, 1993; Wang, 2018), I demonstrate that convergence can be a result of states' substituting feasible polices for costly ones. Therefore, under certain circumstances, convergence is also indicative of states' policy autonomy.

Second, focusing on convergence to locate states' policy adaptivity distinguishes this book from existing studies that mainly focus on policy differentiation to detect the policy independence of states when faced with intensified globalization (Bremer, 2018; Garrett, 1995; Garrett & Lange, 1991, 1995; Grieco et al., 2009; Hwang & Lee, 2014; Milner & Judkins, 2004; Mukherjee et al., 2009; Pinto & Pinto, 2008). Both policy divergence and convergence belie states' policy creativity, depending on the issue areas that are under investigation.

Third, extant scholarship on policymaking under globalization often confines itself to single issue areas (Bearce & Hallerberg, 2011; Brooks & Kurtz, 2012; Lütz, 2004; Milner & Kubota, 2005; Morrison, 2011; Ward et al., 2011). This book demonstrates that convergence can occur either within issue areas or across issue areas. Moreover, considering the policy instruments (domestic or international) that are deployed to implement substitution, convergence can be sought either at the same analytical level or across analytical levels.

Finally, the empirical exercises in this book also carry normative implications. When states enact policies such as signing BITs and PTAs, lowering corporate taxation, and granting independence to central banks, in practice, these policy enactments should be able to mitigate some of the pressure on states to deregulate labor market and other areas that are of economic significance and direct distributive consequences. In this sense, this book provides extra support to works that have shown globalization is not invariably harmful (Greenhill et al., 2009; Malesky & Mosley, 2018).

Plan of the Book

In the next chapter, I present the theoretical framework of this book. Unlike the literature holding that states' efforts to maintain policy autonomy necessarily foster policy divergence despite the pressure that globalization exerts to succumb to convergence, I theorize that convergence can also be emblematic of policy adaptivity. Substitution is the main mechanism through which such convergence occurs as a strategic response to globalized pressure for policy conformity. Building on issue areas and the level of analysis, I recognize four types of convergence based on how substitution operates. Chapters 2 to 5 examine three of these substitution mechanisms.

In chapter 2, focusing on convergence through within–issue area substitution across analytical levels, I highlight that developing capital-importing states' convergence in terms of BITs does not constitute an involuntary capitulation to the pressure from capital-exporting states. Rather, capital-importing states strategically use BITs to substitute risky and unstable domestic judicial reforms while maintaining their attractiveness to investors. In chapter 3, to illustrate convergence through across–issue area substitution across analytical levels, I explore how pressure from economic peers to deregulate labor markets can make it more likely for states to conclude PTAs. Chapters 4 and 5 are dedicated to exploring convergence through across–issue area substitution at the same analytical level. In chapter 4, I demonstrate that leftist governments' convergence on lower corporate tax rates is not so much a submission to the global tide of reduction in capital taxation as an active policy adjustment to avoid labor market deregulation. In chapter 5, I show that the diffusion of CBI can be accounted for by a strategic consideration: pursuing CBI is a better policy alternative to forfeiting the control of capital flows when states face high capital openness from their neighbors, which is economically costly to imitate.

In the conclusion, I summarize the theoretical arguments and findings of the book with an emphasis on the book's ability to enrich our understanding of policymaking under globalization. I further explore the book's relationship with a number of strands of literature. I then discuss the implications for policymakers. Finally, I present the prospective research directions that this book might open up.