

International Regime Uncertainty

Helen V. Milner and Erik Voeten

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Abstract

Questions about the future of U.S. supremacy, the global spread of liberal democracy, and liberal international economic institutions create what we call "international regime uncertainty": doubts about the fundamental principles, rules, norms, and decision making procedures that govern areas of international affairs. This includes both probabilistic assessments of the risk that prevailing principles and institutions cease to function but also fundamental uncertainty over what alternative institutional arrangements and governing principles may emerge. Irrespective of actual systemic change, international regime uncertainty can affect transnational economic and political activities by increasing structural policy uncertainty and the probability of bargaining failures. The political uproar over energy transition policies that seemingly violate core principles of the international trade regime illustrates these points.

1 Introduction

There are fierce debates over the supposed demise of the Liberal International Order (LIO). Some argue that the relative decline of U.S. power, democratic deconsolidation, globalization backlashes, and a shift away from multilateralism demonstrate that the LIO's end is near. Others counter that the U.S. remains the dominant military and financial power, that levels of democracy and globalization are still high by historical standards, and that the core global economic institutions remain intact.

Our aim is not to resolve these debates but to point out that uncertainty about the LIO matters on its own, regardless of how the system evolves. Concerns over the building blocks of the LIO create what we call "international regime uncertainty": uncertainty about what principles, rules, norms and decision making procedures will be applied in a given policy area. Regime uncertainty goes beyond more typical worries about whether particular policies will remain in place, whether a leader will be re-elected, or whether a state will exit a treaty. Regime uncertainty reflects the precariousness of the fundamental building blocks of an order: What state will be dominant? Will liberal principles that underpin the LIO continue to be applied, or will new ones arise? What domestic order will the dominant states possess; will they be democracies? Widely used

democracy measures have already downgraded the status of the United States as a democracy, although alternative indicators point in a different direction (Little and Meng 2023). Irrespective of how far democratic backsliding will go, the uncertainty over the democratic present and future of the U.S. matters in its own right especially when combined with uncertainty over U.S. power and the U.S.'s continued devotion to the LIO's core institutions.

The key functions of an international regime are to lower the transaction costs of bargaining and to reduce uncertainty (Keohane 1982). Regimes can only fulfill these functions if there are shared expectations about what principles, rules, norms, and decision-making procedures apply and are likely to apply in the medium term. Robert Keohane argued that international regimes can survive hegemonic collapse (Keohane 1984). But it is less clear that an international regime can survive simultaneous challenges to all of its building blocks. Liberal democracies might continue to cooperate through the LIO's institutions even if the U.S. is no longer the dominant state. But what if the most powerful states are no longer democracies and want to organize cooperation around different principles? Simultaneous uncertainty about the LIO's building blocks amounts to uncertainty about the LIO itself.

Some of this uncertainty is measurable in that actors can form probabilistic expectations over how powerful China will become, whether U.S. election results will be respected or whether the WTO will survive. Yet, regime uncertainty also has a "Knightian" component in that actors may simply have no way of knowing the value of alternative governance arrangements and ideologies (Knight 1921). Uncertainty about whether the WTO will be superseded by bilateral or plurilateral agreements differs from uncertainty about whether fundamental principles that have governed trade for most of the last 75 years still apply and what shared principles, if any, will replace them. It is increasingly unclear whether we are or will continue to live in a trade regime that can be described as fitting within the LIO or whether we are moving towards into a new regime that we do not yet understand. This implies uncertainty not just over policies but also over fundamental principles, norms and decision-making processes that have remained relatively constant even as policies and leaders have changed.

Concerns about the LIO's survival are not new. For example, a coalition of states sought to create a New International Economic Order (NIEO) in the 1970s that would displace the Bretton Woods institutions as the centerpiece of the global economic regime (Doyle 1983). However, uncertainty about the medium term survival of the order was secondary while globalization, democratization, and institutionalization were all increasing and the U.S. remained the uncontested global superpower. This has changed. Our point is not to glorify the LIO or advocate for stability. Instead, our argument is that scholars of globalization should pay more attention to the consequences of uncertainty. Even if actual institutional change turns out to be limited, international regime uncertainty may affect trans-boundary activities in at least two consequential ways.

First, a core insight from political science is that institutions structure pol-

icy making. Policies depend on multiple actors with diverse interests. Decision-making procedures, rules, and principles steer this process towards some equilibria over others and make the policy making process more predictable, especially if contestation takes place in a low-dimensional ideological space. Beliefs about future policies are shaped by beliefs about the decision-making procedures under which policies can be changed and the principles that guide this process. If agents have doubts about how decisions will be made, they will also face greater structural uncertainty about future policies. This affects the economy; it can reduce investments and new entry into export markets, especially in high sunk cost industries.

Second, increased regime uncertainty may heighten the probability of bargaining failures and thus conflict. Under rising uncertainty, actors may miscalculate each other's capabilities, preferences, and resolve; and they may have difficulties making credible commitments to bargaining positions or outcomes. Stable formal institutions and low-dimensional policy spaces help with both of these problems. We should thus expect more bargaining failures when actors are uncertain about the rules of the game and the ideological space. A desire to avoid the consequences of increased conflict could incentivize economic agents to redirect investments towards areas that depend less on the international regime over ones that rely more on beliefs in the rules and principles of the LIO. There is considerable evidence that expanding the global trade regime in the 1990s especially increased trade among states with hostile political relations, such as China and the United States (Carnegie 2015). Uncertainty about the long-term future of the trade and investment regimes may then lead to an increasing concentration of cross-border economic activities among like-minded states whose ability to resolve disputes depends less on converging expectations about rules and decision-making procedures.

A concrete example is the controversy over new tariffs that tax carbon intensive products, such as the EU's proposed Carbon Border Adjustment Mechanism (CBAM), and industrial policies that privilege domestic firms in the production of electric vehicles, such as the U.S. Inflation Reduction Act. The goal of these policies is to prevent carbon leakage that could arise due to differences between domestic and international carbon prices and to garner political support for the energy transition. Yet, these tariffs also increase protectionism and discriminate across exporters, thus challenging fundamental principles that underlie the trading regime. Actors may have some expectations about how the WTO would address the resulting disputes. Yet, now it is highly uncertain what role, if any, the WTO will play in resolving this issue or how committed traditional liberal states are to the fundamental principles underlying the trade regime. One potential effect will be increased concentration of trade among like-minded states, perhaps along the lines of climate trade clubs (Nordhaus 2015). But regime uncertainty may also decrease the likelihood that major trading powers can reach a bargain that avoids escalating rival trade measures or even a trade war.

We do not take a stance on debates about whether decline or persistence of the LIO is a good or a problematic outcome. Instead, our goal is to encourage new theoretical and empirical research into the consequences of uncertainty

about the international regime. We first briefly describe how IR scholars have defined the LIO and the recent challenges to it. We then discuss uncertainty about the three building blocks of the LIO: U.S. power, liberal democracy, and multilateralism. The next section defines international regime uncertainty and discusses its implications for economic globalization.

2 The Building Blocks of the Liberal International Order

2.1 What is the LIO?

John Ikenberry defined an international political order as "the governing arrangements among a group of states, including its fundamental rules, principles, and institutions" (Ikenberry 2001). Power, ideology, and institutions form the foundations on which international political orders are built. The Liberal International Order (LIO) is an international political order based on U.S. leadership and underpinned by institutions that advance a liberal ideology. David Lake, Lisa Martin, and Thomas Risse argue that: "liberal" connotes a belief in the universal equality of individuals and posits freedom as well as individual and collective self-determination as the highest human aspirations" (Lake, Martin, and Risse 2021). Liberalism is widely associated with free and fair elections as the appropriate way to compete over leadership, the sanctity of private property rights and the rule of law, and a preference for market arrangements and free trade over state ownership and protectionism. Internationally, this translates into a preference for legally binding treaties, legalized dispute settlement, and international governance over domestic issues, such as human rights, property rights, behind the border tariffs, environmental rules, and election practices.

This liberal order has always been contested and structured by power politics. The United States and its allies hold privileged positions in the core institutions. These institutions advance principles, rules, and policies that favor the U.S. and its allies as well as states that practice some form of domestic liberalism. During the Cold War, the LIO was challenged by communist states and by a coalition of states from the global South that proposed a New International Economic Order (NIEO). The U.S. and its allies led efforts in the 1990s to bring former communist states and states from the Global South into the LIO's core institutions and to further legalize and strengthen these institutions. An example was the replacement of the GATT with the World Trade Organization (WTO), which has a broader membership, deeper liberalization commitments, and an enhanced legalized dispute settlement system.

The LIO's principles clash with other aspects of the international system that Lake, Martin, and Risse call the "Westphalian order," which is based on the principle of non-interference into the domestic affairs of states and diplomatic conflict resolution (Lake, Martin, and Risse 2021). Security issues tend to be governed more by Westphalian principles while economic institutions have increasingly adopted liberal principles. For example, the International Financial

Institutions (IFIs) started to finance domestic institutional and policy reform projects, such as judicial reform and market regulations, that fit the liberal objectives of these institutions (e.g. Chemin 2020).

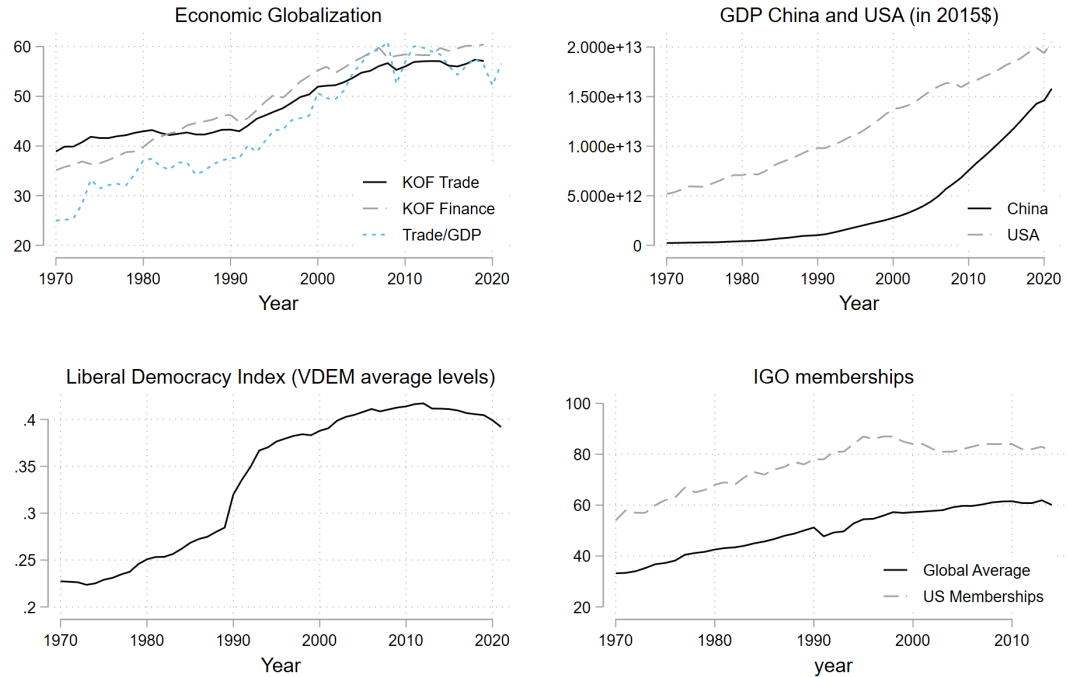
The LIO affects globalization through the combination of U.S. hegemonic leadership, the dominance of liberal democracies, and multilateral international organizations that institutionalize liberal governing principles. The argument that hegemonic leadership is needed for stable economic openness dates back to Charles Kindleberger, who attributed protectionism during the great depression to the declining relative power position of the United Kingdom (Kindleberger 1986). John Ikenberry stressed the central role that the United States has played in establishing the LIO after World War II and expanding it after the end of the Cold War (Ikenberry 1998; Ikenberry 2001). U.S. power has been central to the spread of democracy after the end of the Cold War (Gunitsky 2014; Narizny 2012) and the U.S. took the lead in bringing former Soviet bloc countries and China into the global trading system and the global financial institutions in the 1990s.

The role of democracy in promoting economic openness is also well documented (e.g. Mansfield, Milner, and Rosendorff 2000). For example, democratization in poorer countries increases the political power of those with an interest in increasing trade, especially labor (Milner and Kubota 2005). There is also ample evidence that democracies cooperate more and more deeply through multilateral institutions (e.g. Mansfield, Milner, and Rosendorff 2002; Mansfield, Milner, and J. C. Pevehouse 2008). International institutions with large numbers of democracies encourage further democratization and democratic consolidation (J. Pevehouse 2002b; J. Pevehouse 2002a). There is also ample evidence that international institutions increase economic globalization. For example, the WTO and other trade institutions have increased trade (Goldstein, Rivers, and Tomz 2007), especially among states with tense political relations (Carnegie 2015). Finally, democracies are much more transparent than their authoritarian counterparts, which contributes to economic cooperation (Hollyer, Rosendorff, and Vreeland 2018).

U.S. predominance, democratization, institutionalization, and economic globalization are intricately tied together but they may also unravel together. Figure one shows temporal trends for common indicators of economic globalization (trade as a percentage of GDP from the World Development Indicators and the KOF Globalization index (Gygli et al. 2019)), relative power (GDP in 2015 dollars for the US and China), liberal democracy (average VDEM liberal democracy scores (Coppedge et al. 2021)) and membership in international organizations (COW IGO membership data (J. Pevehouse et al. 2020)). The graphs start in 1970 for data availability reasons. Economic globalization, democracy, and IGO memberships share the same pattern: there are gradual increases, followed by a rapid increase in the 1990s, and a leveling off or small decrease since the mid 2000s.

The lessons from these graphs are not straightforward. There is a clear leveling of trade and economic globalization since 2010 but there are still more democracies and IGOs in the 2020s than there were in the early 1990s, and the

Figure 1: Changes in Economic Globalization, Relative Power, Average Levels of Liberal Democracy, and IO Memberships



U.S. is still the dominant power. What is clear is that there is much greater uncertainty now about the direction of these trends than there was in the 1990s or early 2000s. We discuss each below.

Throughout we refer to a 2019 survey we conducted with around 2000 European and U.S. international relations scholars about the LIO's future (Milner, Powers, and Voeten 2022). We asked these scholars to make explicit predictions about the decline, stability or rise of various elements of the order. For the most part, there was a lot of disagreement, suggesting a lack of convergence of expert opinion on where the LIO is headed. This disagreement might be one sign of growing uncertainty.

2.2 Relative Power Change

Analysts are unsure both about the extent of China's rise and what it would mean if China were to catch up with or overtake U.S. power. China's remarkable economic growth in the early 21st century led to predictions that China would soon overtake the United States in terms of its economic power. Yet, scholars have long debated how to properly measure China's rise and whether China is

truly catching up with the United States (e.g. Shifrinson and Beckley 2012). Simple linear interpolations from extraordinarily high growth rates in the early 2000s were always unrealistic. Analysts have altered their projections as China's growth rates have slowed and uncertainty about the sustainability of China's economic and political model has increased. The Economist has changed from alarmist headlines in the 2010s that "America surrenders to China"¹ to ones that include question marks, like "Will China's economy ever overtake America's in size?"² and "Has China reached the peak of its powers?"³ Some scholars now even label China a declining power (Brands and Beckley 2021).

A more concrete manifestation concerns China's challenge to the continued dominance of the U.S. dollar, which is a significant source for U.S. financial power. To what extent does the internationalization of the Renminbi (RmB) erode the dollar's status as the world's main reserve currency and its dominance in international payments (Arslanalp, Eichengreen, and Simpson-Bell 2022)? Some worry that U.S. usage of the dollar as a coercive weapon to achieve foreign policy goals could lead states and private actors to move towards the RmB (McDowell 2023). For now, the dollar has retained its superiority both as a preferred reserve currency and as the dominant currency for international payments. In our survey, we found that 48 percent of IR scholars believe that the dollar's position as a reserve currency would decrease by 2025, while 41 percent that the dollar's dominance would increase or stay the same. Again, this split suggests high uncertainty even among experts.

On top of doubts over future shifts in the distribution of power, there is also considerable uncertainty over the aims and ambitions of China. This refers to China's territorial ambitions as well as the degree to which China might challenge the LIO's core principles, rules, and institutions. For example, scholars have been debating the extent to which the China-led Asian Infrastructure Investment Bank (AIIB) challenges the U.S. dominated World Bank by offering developing countries an alternative that does not emphasize liberal values (Qian, Vreeland, and Zhao 2023). This could mean a greater emphasis on principles of the Westphalian order, which emphasize non-interference into domestic affairs. This would not just mean a hesitation to critique the human rights records of states, but it could also affect economic policies, for example creating a reluctance to restrict state intervention into the economy even if this affects trade competition. China may also go further and spread its authoritarian system of governance and its economic model to other countries, although it is unclear how attractive China's model is with global audiences (Brownlee 2017; Way 2016). In our survey, 36 percent believed that global public favorability toward China (relative to the US) would decrease by 2025, 24 percent that it would stay the same, and just 29 percent that it would increase. There is no convergence of opinion on even the medium term trends in China's soft or hard power.

¹<https://www.economist.com/cassandra/2010/12/18/america-surrenders-to-china>

²<https://www.economist.com/the-world-ahead/2022/11/18/will-chinas-economy-ever-overtake-americas-in-size>

³<https://www.economist.com/the-world-ahead/2022/11/18/has-china-reached-the-peak-of-its-powers>

2.3 Liberal Democracy

Those concerned about decline of the LIO worry about two trends: that fewer countries will be democracies and that fewer democracies will support liberal policies especially with regard to trade, immigration, and the rule of law. Some argue that there is clear evidence of democratic regress globally and even that the world is witnessing a new wave of autocratization (Haggard and Kaufman 2021; Lührmann and Lindberg 2019). Others counter that democratic decline is only visible in more subjective measures of democracy, but not in more objective indicators, such as the number of competitive elections and the probability of turnover following elections (Little and Meng 2023; Treisman 2022). These scholars question why the United States no longer qualifies as a democracy by some subjective measures, such as Polity scores, even if there is little reason to think that U.S. elections are now less free and fair than they were in the 1960s or even in 2000.

One interpretation is that people's beliefs about democratic consolidation have changed. Juan Linz and Alfred Stepan defined a consolidated democracy as "when no significant national, social, economic, political, or institutional actors spend significant resources attempting to achieve their objectives by creating a nondemocratic regime [..]" (Linz and Stepan 1996). Moreover, they add that: "Attitudinally, a democratic regime is consolidated when a strong majority of public opinion [..] holds the belief that democratic procedures and institutions are the most appropriate way to govern collective life, and when support for antisystem alternatives is quite small or more-or-less isolated from prodemocratic forces" (Linz and Stepan 1996). Arguably, the U.S. is still a democracy but no longer a consolidated democracy given that significant political actors and segments of the public supported an attempt to overturn the results from a democratic election. This implies uncertainty over whether the main power that underpins the LIO will remain a democracy. There are similar worries about other linchpins of the LIO that were once thought safe from authoritarian regress. In our survey, 51 percent of IR scholars believe the number of democracies will decrease a little or a lot by 2025, while 35 percent believe that the number will stay about the same or increase. Scholars thus lean pessimistic about the future of democracy, but there remains a lot of uncertainty.

A second type of uncertainty concerns the extent to which globalization-skeptic politicians have increased their influence even in liberal democracies, resulting in more protectionist, isolationist, and nationalist policies (e.g. Walter 2021). Most mainstream parties in Europe and the United States long supported the rules, principles, and institutions that form the LIO. European party systems have become more fragmented with the "rise of a transnational cleavage as a reaction to reforms that have weakened national sovereignty, promoted international economic exchange, increased immigration and exacerbated cultural and economic insecurities" (Hooghe and Marks 2018). This new cleavage cross-cuts the pre-existing left-right divides over redistribution and the welfare state. In the United States, the political space has similarly been transformed, and globalization has become a key point of domestic contestation, especially

since the 2016 election. Thus, in both Europe and the U.S. elections can now plausibly result in leadership transitions that no longer support key elements of the LIO.

2.4 International Institutions

In some ways, the global institutional landscape appears quite stable. There is little evidence that states are withdrawing from IGOs in large numbers nor that such withdrawals are motivated by a resurgence of nationalism, despite Brexit (Von Borzyskowski and Vabulas 2019). Leaders' criticisms of global economic institutions are low by historical standards (Kentikelenis and Voeten 2021). However, states are increasingly seeking to curb the authority of international judicial institutions, as illustrated by the impasse surrounding the WTO's appellate body (Voeten 2020). Otherwise, the core global economic institutions have not seen much formal change.

Rather than mass exit from and reform of existing institutions, states have created new and alternative ways of governing economic relations. This includes the emergence of rival international institutions, a rise in informal governance arrangements, and increases in unilateral extraterritorial uses of authority, especially by the United States. We discuss each in turn as they each create more regime uncertainty.

First, there are new formal international governmental organizations that are not organized around liberal principles nor led by liberal states, such as BRICS and the Asian Infrastructure Investment Bank (AIIB). To some, these institutions were explicitly created as an alternative to the Bretton Woods institutions and are attractive precisely because they are not dominated by Western states and liberal principles that interfere with domestic policies and practices (Liao 2015, e.g.). There is indeed evidence that AIIB founding members have partially substituted their World Bank loans with AIIB loans (Qian, Vreeland, and Zhao 2023). Others, however, find fears about the AIIB and similar institutions unwarranted or at least exaggerated (Lipsky 2015). China can, and does, lend unilaterally, and its adoption of multilateralism is at least a nod to the LIO. Moreover, some of the reasons for China's desire to partake in the organization are pragmatic, such as the management of its foreign exchange reserves and domestic oversupply of building materials. What is clear is that these institutions add more options and thereby make it more difficult to predict lending and repayment policies. This may be especially important with debt restructuring, where China is not part of the core institutions (the Paris club) and it is unclear just how indebted countries are to China.

Second, while the number of formal IOs has remained constant since the late 1990s, the number of informal IOs has doubled (Roger and Rowan 2022). Charles Roger argues that this trend follows from increasingly polarized views about the purposes of IOs and an anticipated power shift that make states less willing to cement current power relations in formal rules (Roger 2020). The advantage of informal IOs is greater flexibility. But this flexibility comes at a price. Formal IOs are more transparent and more difficult to change, increasing

the credibility of commitments. Informal IOs often lack clear founding principles and possess unclear and unstable rules about participation and decision-making. The G20 is a good example of this: its announcements appear highly influential but participation rules are ad hoc and unstable; there are no transparent voting rules; and its founding principles are extremely thin.

A third change is what some have called "weaponized interdependence:" the increased usage- by the United States in particular-of its economic power to achieve foreign policy objectives and impose rules unilaterally (Farrell and Newman 2019). For example, the U.S. has vastly increased its usage of secondary sanctions to enforce sanction policies that lack multilateral support. U.S. regulatory control over banks and international payment systems allows it to apply its policies extraterritorially. In the trade area, the renewed emergence of unilateral sanctions means that rules and policies can change based on the actions of just one state. Of course, the U.S. has long has an outsized influence, and it has used its outside options to get favorable arrangements from multilateral institutions (Voeten 2001). Yet, analysts increasingly worry that overusage of extraterritorial applications of sanction policies will generate a backlash and encourage states and private actors to seek alternate arrangements that escape U.S. jurisdiction (Drezner 2021; McDowell 2023).

In our survey, 48 percent of IR scholars think the WTO will decline a little or a lot in importance by 2025. This number is 34 percent for the World Bank and 29 percent for the IMF. Thus, substantial numbers foresee a decline but there is no convergence of expectations. There is similarly no consensus over the growing influence of informal IOs: 43 percent of scholars think these will grow in influence. In short, there is considerable uncertainty about the processes and rules through which global economic policy will be made over the medium term.

3 International Regime Uncertainty

3.1 Definition

U.S. power, the spread of democracy, and formal legalized international institutions are the LIO's building blocks. Increased doubts about these building blocks amounts to doubts about the order itself. We label this "international regime uncertainty." Regime uncertainty captures the idea that economic and political actors are not just unsure about future market conditions and policies, but also about the more fundamental rules, principles, and decision-making procedures that shape the environment in which economic decisions are made. This captures uncertainty over both institutions and ideology. The most basic form of uncertainty is the risk that existing institutions and principles may lose strength or cease to operate (Nelson and Katzenstein 2014). Yet, actors also face more fundamental uncertainty over what types of institutions and ideologies might replace the LIO. A key feature of regime uncertainty is that existing rules and institutions may be replaced by something that we do not yet understand.

We are not the first to use the regime uncertainty concept. Economic histo-

rians have employed the concept to capture the idea that the long term decline of entrepreneurial activity during the Great Depression was shaped not just by concerns over the state of the economy and specific policies but also by uncertainty over the survival of the core principles that governed the economy, such as the protection of property rights (Higgs 1997). Others have used the term more narrowly to characterize uncertainty over the survival of domestic regimes. For example, economists have studied how regime uncertainty affects investment decisions (Nishide and Nomi 2009) and conflict scholars have analyzed how uncertainty over regime type affects militarized disputes (Bas and Orsun 2021). We are not aware of an application to international regimes.

An international regime is a set of “implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations” (Krasner 1982). International regimes are broader than single international institutions but they are narrower than the system as a whole (Haggard and Simmons 1987). For example, the WTO is at the center of the trade regime. But the trade regime also encompasses a range of other institutions and agreements that are connected through convergence on fundamental principles like reciprocity, Most Favored Nation (MFN), national treatment, tariff binding, and a general prohibition of quantitative restrictions (Barton et al. 2006). These principles structure trade policy even outside of the WTO context. Regime uncertainty captures not just uncertainty about the WTO or its Appellate Body, but also about whether states will continue to be guided by these fundamental principles when they develop trade policies. A deeper uncertainty exists about what the options are for the trade regime going forward. Will we see a return to mercantilism? Increased regionalism? Muddling through? Or perhaps a new system that we have not yet fully envisioned, for example a trade system that allows much more room for industrial policy.

The investment regime is not tied together by an overarching global multilateral institution. Instead there are a large number of bilateral and some plurilateral investment treaties that are connected through core principles, for example regarding compensation for expropriation. Many treaties also create the opportunity for arbitration at a select set of tribunals, such as ICSID. These principles have long been challenged. For example, Latin American countries have always advocated for the application of the Calvo doctrine, which wouldn’t extend foreign investors’ privileges beyond what domestic investors have. There is considerable uncertainty over whether the principles that lie at the foundation of the current investment regime will survive. States that have been on the losing side of investment disputes have started to redesign investment treaties to make them less interventionist (Thompson, Broude, and Haftel 2019). EU countries have left the Energy Charter out of concerns over its effects on the energy transition. There are multiple efforts to fundamentally redesign the investment regime, but the regime could also develop in ways that we cannot yet fully imagine.

Regime uncertainty is thus not just uncertainty about institutions, but also the ideology that ties these institutions together. John Ruggie pointed out that

multilateralism is a distinct form of cooperation because it is based on general principles of appropriate conduct that apply irrespective of particularistic interests (Ruggie 1992). An ideology is a widely understood set of interconnected propositions about how a set of issues should be resolved and who should resolve them (Voeten 2021). Antony Downs argued that ideology is a rational response to the costliness of political information (Downs 1957). Governments are unsure what other governments want and how they will act. The information needed to overcome this ignorance is costly, often prohibitively so. However, for governments to be willing to make long-term investments in multilateral cooperation, they need to have some information about the principles that guide how future issues will be resolved and how they can protect their interests.

Ideologies are an imperfect way to cope with this lack of information. The U.S. and its allies have marketed the LIO's institutions as fitting within a well-understood set of internally consistent propositions about what is good, who should win, and how power should be allocated. This allows others to predict, albeit imperfectly, how they might be affected by the institution. This facilitates decisions whether to make long-term investments into multilateral cooperation. Contestation over multilateralism can also be understood in ideological terms. For example, the Ukrainian government's decision in 2014 to create institutional ties with the EU informed others about the position that government intended to take on a range of policy issues, its internal institutional development, and the countries it wished to build closer ties with. The Russian government inferred that the Ukrainian decision to choose an FTA with the EU could have a range of consequences that the Russians deemed undesirable. When multiple institutions are available with unclear guiding principles, these signals become less clear. States, like Vietnam, may actively engage with the AIIB and have trade agreements with China but they also wished to join the TPP.

The changing nature of ideological competition contributes to increased regime uncertainty. Much global political contestation since World War II has taken place in a low-dimensional ideological space, where government ideal points are strongly correlated with domestic market liberalism, regime type, and allegiances towards the United States (Voeten 2021). The same states often stared at each other from opposite sides of the fence in very different issue areas. This has imposed considerable structure on institutional politics. There is evidence that the ideological space is becoming multi-dimensional and that states increasingly form coalitions based on immediate interests in the value of a transaction rather than a predictable ideology (Bailey and Voeten 2018). It is not yet clear what, if any, ideological content these higher dimensions have, as illustrated by the earlier discussion about China, and this too increases regime uncertainty.

To sum up, international regime uncertainty reflects beliefs about whether the existing principles and decision-making processes of the LIO will survive and further uncertainty about what principles and institutions might replace these. This uncertainty is deeper in the sense that it is not just about the probability of decline, but the difficulties in evaluating alternatives, thus making it hard to form rational expectations over future governing arrangements. Below, we

suggest two concrete ways in which international regime uncertainty can affect economic globalization.

3.2 Regime uncertainty and Structural Policy Uncertainty

A core insight from political science is that institutions and ideology structure policy making. Policies depend on multiple actors with diverse interests reaching compromises. Decision-making procedures and rules steer this process towards some equilibria over others and make the policy making process more predictable. The paradigmatic example is the median voter theorem, which tells us that collective decision making in a single dimensional ideological space results in the policy most preferred by the actor with the median ideological preferences. In international affairs, qualified majority rule or unanimity are more common than simple majority voting, but these institutions also create predictable outcomes with single dimensional voting (Maggi and Morelli 2006). Multidimensional collective decision-making situations are characterized by indeterminacy and cycling, thus creating uncertainty over what policy outcomes will prevail or whether chosen policies are stable and sustainable.

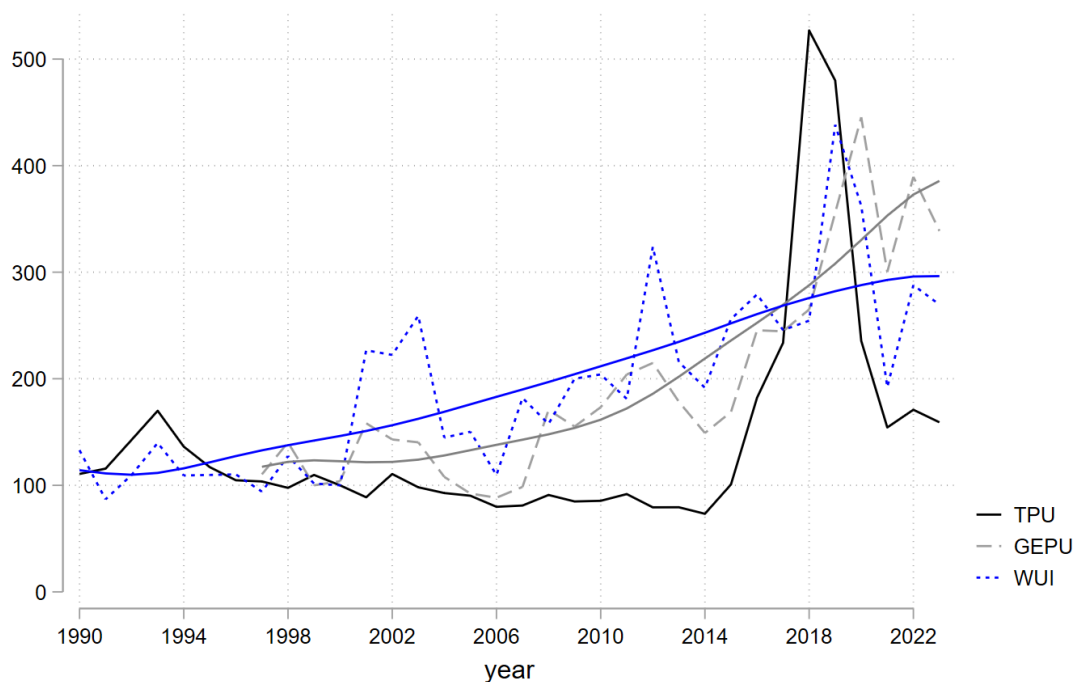
International regime uncertainty should result in structural increases in policy uncertainty. Regime uncertainty implies that economic and political actors are uncertain about the process by which policies might change and the principles by which that process is guided. If some of the trade policy uncertainty reflects regime uncertainty, then it is less likely to be resolved by elections (e.g. the defeat of Donald Trump in the 2020 elections) or other events that may influence policy in the short term. That is, we may see a more structural increase in uncertainty that reflects deeper uncertainty about what principles or decision-making procedures will be used to make future trade policies.

Figure 2 plots temporal changes in three global measures of economic policy uncertainty: the IMF's World Uncertainty Index (WUI) (Ahir, Bloom, and Furceri 2022) and the Global Economic Policy Uncertainty (GEPU) (Baker, Bloom, and Davis 2016), and an index of U.S. Trade Policy Uncertainty (TPU) (Caldara et al. 2020). Economists developed these three indices to capture perceptions of uncertainty about global economic policies and national trade policies in major countries. The three measures rely on textual analysis, although each use different methods and sources. The measures are available at daily or monthly intervals; the graph here plots annualized data since we are more interested in overall trends. The plot also shows lowess curves for the global measures, which help visualize more structural changes in policy uncertainty.

The global measures show significant increases after the mid 2000s, which matches the timing of changes in U.S. relative power, democratization, globalization, and IGO memberships plotted in figure 1. The U.S. TPU only increased after the election of President Donald Trump in 2016. The TPU reduced after the election of Joe Biden, but it did not return to previous levels. Policy uncertainty responds to events, like elections, but there is also evidence of an overall mean level increase in uncertainty since the mid-2000s.

There is a considerable literature that establishes the importance of policy

Figure 2: Changes in Annualized Measures of Economic Policy Uncertainty



All indices are standardized at 100 in 2000. TPU is U.S. Trade Policy Uncertainty (Caldara et al. 2000). GEPU is Global Economic Policy Uncertainty (Baker et al. 2016). WUI is World Uncertainty Index (Ahir et al. 2022).

uncertainty for transnational economic interactions, especially in trade (e.g. Caldara et al. 2020; Limão and Maggi 2015; Handley and Limão 2017; Handley and Limão 2022). When firms have to make irreversible investments, increased uncertainty over policies that affect the return on these investments can increase the option value of waiting and thus reduce current investments, especially in high sunk cost industries. This literature recognizes trade agreements as an important tool to reduce policy uncertainty. For example, Handley and Limão estimate that the reduced policy uncertainty caused by China's entry into the WTO can account for over one-third of China's export growth to the United States in the period 2000-2005 (Handley and Limão 2017). Limão and Maggi find that the realized volatility of the average US tariff became much lower as the U.S. became a party to trade agreements (Limão and Maggi 2015). On the flip side, even in the period leading up to the Brexit referendum, trade policy uncertainty increased and reduced British exports (Steinberg 2019). IMF researchers estimate that uncertainty around trade policies reduced global gross domestic product in 2019 by nearly one percent (Ahir, Bloom, and Furceri 2022).

This suggests that if international regime uncertainty indeed has resulted in structural increases in policy uncertainty, then this has substantial negative con-

sequences for global economic trade and potentially economic growth. Of course the evidence here is speculative and would require more systematic analysis.

3.3 Bargaining Failures and the Relocation of Economic Activity

IR theorists have long pointed out that uncertainty over power transitions can result in conflict (Tammen, Kugler, and Lemke 2017). The essential dilemma for a state in relative decline is that if it stands firm earlier it will be stronger in the event of war. But the earlier a declining state stands firm, the more likely the probability of an unnecessary war (Powell 1996). More generally, bargaining theory predicts that the probability of bargaining failures, including war, increases with uncertainty (Fearon 1995; Muthoo 1999). Bargaining theorists have mostly focused on incomplete information over preferences (resolve) and future relative power changes. Yet, the theory implies that regime uncertainty should also increase the risk of bargaining failures and thus conflict.

An international regime makes bargaining more predictable by structuring the process; for instance, by making clear what principles guide the process, what voting rules apply, and how agenda setting power works. In most bargaining models, these rules are assumed to be fixed and common knowledge. Another insight from bargaining theory is that the status quo matters, as it determines the reversion values. In the context of uncertainty over whether existing decision making rules still apply, bargainers may also be uncertain about what the reversion is in the absence of agreement.

The observation that international regime uncertainty increases the probability of bargaining failures does not necessarily mean that it necessarily increases the probability of conflict. Economic and political actors may preemptively avoid conflict. Most notably, economic actors may concentrate transnational economic activity in locations that are less susceptible to bargaining failures because conflict resolution depends less on the international regime.

The trading regime offers a useful example. Political and security conflicts are an important cause of trade policy reversals, as illustrated by the U.S.-China dyad. Both U.S. President Bill Clinton and Republican leaders supported China's admission into the WTO in 2000.⁴ Before this vote, China's preferential access to the U.S. markets was subject to annual congressional approval. Institutionalization reassured investors that market access would persist even amidst future political tensions, thus facilitating the creation of greater trade and investment flows as well as global supply chains (Carnegie 2015).

Political science research has demonstrated that the positive effect of the WTO and other treaties on trade is the largest amongst pairs of states with distinct ideological commitments (Carnegie 2015). Conversely, increased uncertainty about the regime's future should most negatively affect states with

⁴THE CHINA TRADE VOTE: A CLINTON TRIUMPH; HOUSE, IN 237-197 VOTE, APPROVES NORMAL TRADE RIGHTS FOR CHINA" <https://www.nytimes.com/2000/05/25/world/china-trade-vote-clinton-triumph-house-237-197-vote-approves-normal-trade-rights.html>

relatively distinct ideologies. Scholars have already found a similar effect on investment. The 2023 IMF World Economic Outlook found that: “Over the last decade, the share of FDI flows among geopolitically aligned economies has kept rising, more than the share for countries that are closer geographically, suggesting that geopolitical preferences increasingly drive the geographic footprint of FDI.”⁵

The underlying logic is that the trade regime can overcome a hesitancy to make long term investments in geopolitically distanced states in the context of low-dimensional ideological conflict. However, when investors are uncertain about the survival of these institutions and about what future ideological conflict will be, they face incentives to make investments in countries with similar ideological commitments. Presumably, there is less uncertainty about future policies or how potential disputes would be resolved among this subset of countries.

4 Conclusion

Experts diverge on the prolongation of U.S. supremacy and the plight of liberal democracy and multilateral institutions, which creates what we call “international regime uncertainty:” fundamental doubts about the principles, rules, and decision making procedures that govern an area of international affairs. Even in the absence of actual backsliding, this uncertainty can affect cross-border activities by structurally increasing policy uncertainty and the probability of bargaining failures. This is consequential. Increased structural policy uncertainty suppresses economic activity and the prospect of bargaining failures may contribute towards a relocation of transnational activities towards groups of states that continue to share ideological alignments.

This article has mostly been conceptual even as we illustrated our arguments with some examples. Our aim is to encourage more systematic research into how uncertainty affects international cooperation and transnational economic activities. There is a developed literature on this in trade, but this has mostly focused on narrow policy uncertainty rather than on more systemic uncertainty. Moreover, the trade policy uncertainty literature has yet to penetrate political science. We see ample opportunities for expanding this research to other policy areas, such as investment, technology, and international migration. It is also important to think more carefully about how this uncertainty affects countries in the Global South. On the one hand, many of these countries have long expressed concerns about the structural biases embedded in the LIO. On the other hand, many developing countries already have more volatile flows in goods and services that may be especially affected by regime uncertainty.

Regime uncertainty becomes especially pertinent when thinking about new issues. For example, developing energy transition policies that are consistent with the global trade regime is politically complicated in many economically

⁵<https://www.imf.org/en/Blogs/Articles/2023/04/05/fragmenting-foreign-direct-investment-hits-emerging-economies-hardest>.

developed countries. The seriousness of the climate change problem may well justify deviations from accepted practices. Yet, it has become extremely unlikely that states can negotiate adjustments to the global trade regime that incorporate exceptions for energy transition policies. It is entirely unclear whether the fundamental principles that underlie the trade regime still apply in this area. Technology and intellectual property are another area where China, the EU and the U.S. each promote different regimes based on distinct fundamental principles with little prospect for a coordinated solution (Bradford 2023).

The LIO embeds power asymmetries that allow some states to benefit more than others. Institutions do not always respond flexibly to changes in economic power. Most of the formal treaties that govern global economic relations were last updated in the 1990s. There is very little prospect for the renewal of formal multilateral treaty-making on substantive issues. Instead, states have opted for less legalized and more informal governance mechanisms. This may well be a pragmatic way forward; however it is also accompanied by increased uncertainty over principles and decision making structures that might guide international politics and economics.

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