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# China's rise, institutional balancing, and (possible) peaceful order transition in the Asia pacific

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## ABSTRACT

Challenging a popular view that China's rise will lead the United States and China to fall into the 'Thucydides trap'—a possible hegemonic war between the two—this paper proposes an 'institutional peace' argument, suggesting that the ongoing international order transition will be different from previous order transitions in history. Instead of using military means to change the international order, China and the United States have relied on various institutional balancing strategies to compete with one another for an advantageous position in the future international order. The discussion on the institutional competition between China and the US around the AIIB and the ARF-related multilateral security architecture supports the 'institutional peace' argument: institutional competition in the form of institutional balancing strengthens the dynamics and utility of international institutions, encourages states to offer new public goods, and could lead to a more peaceful order transition in the international system. However, this institutional peace argument is constrained by two caveats: the continued validity of the MAD nuclear deterrence and a limited degree of ideological antagonism between the US and China.

**KEYWORDS** Institutional balancing; international order transition; China's rise; institutional peace; peaceful change

## Introduction

China's rise is one of the most defining political events of world politics in the 21st century. Policy makers and pundits have heatedly debated over the implications of China's rise. One popular argument, called the 'Thucydides trap', rooted in power transition theory in International Relations (IR), suggests that there will be an inevitable conflict between the United States—the hegemon and China—a rising power in the

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international system (Allison, 2017; Organski, 1958).<sup>1</sup> The diplomatic stand-offs, signified by the trade war and tech war between the United States and China during the Trump administration, seem to vindicate the idea of a coming clash between the two nations as well as the emergence of a new Cold War in the world (Davis & Wei, 2020; Layne, 2020; Westad, 2019). Although President Biden claimed that he would not take Trump's approach toward China, his administration is preparing for 'extreme competition' with China (Macias, 2021). The key question is: will the US-China strategic rivalry lead to a military conflict or a hegemonic war during the international order transition?

Challenging the 'Thucydides trap' argument and traditional power transition theory in IR, this paper introduces an 'institutional-competition-for-peace' argument (shortened as 'institutional peace'). It suggests that a hegemonic war is unthinkable during the international order transition, if not impossible, because of nuclear deterrence under the logic of mutual assured destruction (MAD) between the United States and China. Great powers shall actively engage in institutional competition with one another besides a traditional military rivalry triggered by a power transition in the system. Consequently, the institutional order transition will be no longer the result of power transitions among great powers. Instead, institutional changes will take place along with the power transitions among great powers, thereby also encouraging a more peaceful order transition in the international system.

It is worth noting that a peaceful order transition is not equal to peace. Here, I adopt a minimalist understanding of order transition in that it refers to the change of international order without a direct hegemonic war between the hegemon and rising powers (for a more comprehensive discussion on 'peaceful change', see Paul, 2021; also Paul in this issue). The reference point of this 'peaceful order transition' is the 'hegemonic war' argument (Gilpin, 1981) or the 'Thucydides trap' thesis mentioned above. It is a minimalist definition because it does not deny the possibility of a conventional war or conflict between two rising powers (e.g., China and India) or even a proxy war between China and the United States across the Taiwan Strait during the period of order transition in the international system. However, so long as the United States and China do not directly fight a catastrophic nuclear war with each other, the order transition can be seen as more peaceful than the previous ones in history, especially those from WWI and WWII.

Differing from the prevailing power transition argument that China is a source of conflict, the analysis in this paper suggests that China's rise and its institutional competition with the United States through various institutional balancing strategies can contribute to a peaceful change in

international order. In contrast to neoliberals who argue that institutions have a transactional function to facilitate state cooperation under anarchy, I argue that *institutional competition* among states can ensure constructive institutional dynamics, provide public goods substitution, and facilitate a peaceful change in international order.

There are three parts in the paper. First, I introduce the ‘institutional peace’ argument by specifying the reasons, the strategies, and the unintended consequences of institutional balancing among great powers during the order transition. Second, I apply this ‘institutional peace’ argument to examine the interactive dynamics of China’s institutional balancing with the United States in both economic and security arenas. In conclusion, I discuss two caveats of this ‘institutional peace’ argument: the eroding confidence in MAD and the deepening ideological antagonism. The paper warns that the ideological divide between the US and China might lead to a Cold-War-type institutional confrontation and split the international order into two rival parts (Kissinger, 1957; Khrushchev, 1959).

### ***Institutional competition for peace and order transition***

The popular ‘Thucydides trap’ argument and power transition theory in IR suggest that a war is more likely to take place between a rising power and a ruling state when their power gap narrows during the international order transition (Allison, 2017; Organski, 1958). I argue that this argument is too deterministic and pessimistic for two reasons. First, nuclear deterrence based on the ‘mutual assured destruction’ logic among great powers will make direct military conflicts unthinkable, if not impossible. Second, the world has been fundamentally changed by the deepening globalization and integrated supply chains. Although some politicians in the United States advocate the ‘decoupling’ with China, it is a politically motivated rhetoric rather than a well-crafted strategy (Farrell & Newman, 2020). As David Ignatius points out, ‘the United States and China have an increasingly competitive relationship, but they need each other, too, like conjoined twins. Hasty attempts at separation could harm them both. Open research made U.S. technology great; making it more difficult for the best brains to live and work here would be folly’ (Ignatius, 2020). In other words, it will be much harder, more painful, and harmful for the United States and China to decouple from one another, economically and technologically.

Then the question is: how will the United States and China compete or ‘fight’ without war when the power disparity continues to narrow between the two nations during the international order transition? In this paper I introduce a new ‘institutional peace’ argument, which suggests that the future international order transition will not feature a military conflict

between the United States and China, although diplomatic standoffs and even military tensions might take place more frequently than before. Institutional competition and conflicts among great powers will become a new game (though not the only game) in town during the period of international order transition. Consequently, these institutional dynamics will generate incremental change that may lead to a more peaceful international order transition.

The 'institutional peace' argument presumes that deepening globalization and the existing nuclear deterrence situation have changed the nature of international order transition. Both the United States and China, as nuclear powers, will do their best to compete for power and influence, but at the same time, they will avoid direct military conflicts because a nuclear showdown will not only destroy their adversaries, but themselves as well. Therefore, international institutions, one pillar of the international order,<sup>2</sup> will become the focal point of competition among great powers, especially between the United States and China, during the order transition.

International order transition is not just about the US-China strategic competition (see Pempel in this issue; Teo in this issue). However, US-China relations will play the most important role in shaping the process and outcome of the international order transition in the system. Therefore, while acknowledging the potential role of other states in the period of order transition (as discussed later), this paper shall focus on the US-China strategic competition, especially on the institutional dimension of the order transition. International institutions are designed and constructed by great powers, especially the ruling states. As Robert Gilpin has suggested, after a hegemonic war the new hegemon will form various international institutions to facilitate its management of relations with others in a new international order (Gilpin, 1981). The rules and norms of international institutions will mainly serve both material interests and ideational values of the new hegemon. Other states will have no choice but to accept these rules and norms embedded in international institutions due to the military victory of the hegemon. Otherwise, they will be excluded from the international order led by the hegemon.

For example, the United States played a leadership role in constructing the so-called liberal international order after World War II, featuring the establishment of the Bretton Woods system, such as the World Bank and IMF, as well as the US-led bilateral and multilateral security alliances. As another winner of WWII, the Soviet Union did not just accept US-led international order. Instead, it established its own economic and security institutions, which attracted most communist states into its camp. However, the end of the Cold War and the demise of the Soviet Union signified the victory of the US-led liberal international order. The world experienced a

'unipolar moment' after the Cold War, though this 'moment' has lasted for more than three decades (Krauthammer, 1990).

The reason for other states, including China, to embrace international institutions is rooted in the tangible and intangible benefits from the US-led liberal international order. Although the hegemon—the United States—takes the lion's share from the institutional arrangements it designed and led, others will also receive some 'absolute gains' from these institutions because institutions can reduce transaction costs, identify focal points, and foster cooperation among states (Baldwin, 1993; Keohane, 1984). More importantly, the membership of these international institutions can also offer international legitimacy and reputation that other states, especially rising powers, have desired in the international order. It is why China went through hard negotiations and made substantial concessions to other WTO members, especially the United States, in order to join the WTO in 2001 (Lardy, 2004). The WTO membership has not only spurred China's economic growth in the early 21st century, but also boosted its international legitimacy and prestige in international society.

As G. John Ikenberry states, the US-led liberal international order is easy to join but hard to overturn because of its 'open and rules-based' nature (Ikenberry, 2008, 2011, p. 24). However, as more states, especially rising powers, jump on the bandwagon of the liberal international order, the distribution of benefits inside these institutions starts to change. The liberal international order will experience a 'crisis of success' as Ikenberry suggests.<sup>3</sup> For ruling states, especially the hegemon, the benefits they receive from existing institutions will inevitably decrease over time because of the processes of power diffusion and the economic law of diminishing returns. The costs of sustaining the existing institutions and the constraints that these institutions impose on ruling powers' freedom of action will increase.

At the same time, rising powers or these new members of the liberal order become gradually familiar with and learn to play the rules of the game in the existing international institutions. They start to employ various strategies to compete for power and status in international institutions as well as to make new arrangements in order to re-distribute the benefits that originally gravitated toward the ruling powers instead of other members. For example, Rosemary Foot argues that China adopts 'accommodating and hedging' strategies to live within a US-hegemonic global order in that it has learned to use the United Nations as a key venue to demonstrate its 'responsible Great Power' status and provide global public goods (Foot, 2006, 2014). In a similar vein, Marc Lanteigne (2005) also suggests that international institutions have become a diplomatic weapon for China to pursue great power status in world politics after the Cold War.

However, rising powers will face repressions and constraints from the existing rules and norms of the institutions as well as from the ruling states directly because ruling states will not easily give up the benefits and privileges they have enjoyed for years in the existing institutions. Therefore, intense institutional competitions will ensue between ruling states and rising powers inside and outside these existing international institutions. It is worth emphasizing that both ruling states and rising powers might harbor some resentments and dissatisfactions toward the existing institutions, though stemming from different rationales, during the period of the order transition. These dissatisfactions toward the existing order in turn encourage states to engage in intense institutional competition, especially between ruling states and rising powers. In other words, both ruling states and rising powers can play a 'revisionist' role in challenging the existing institutional arrangements in the international order (Chan, Hu, & He, 2019, Chan, Feng, He, & Hu, 2021; He, Feng, Chan, & Hu, 2021).

How do states compete within international institutions in world politics? Some scholars suggest that states can rely on 'soft balancing'—non-military means—to undermine the other powers' legitimacy and compete for power and influence within international institutions (He & Feng, 2008; Pape, 2005; Paul, 2005; Paul, 2018). However, the soft balancing argument seems unable to specify the various institutional strategies that states employ within international institutions. Based on network theory, Stacie Goddard (2018) argues that depending on a state's access to and brokerage position in existing networks of international institutions, a revisionist state can choose four strategies: institutional engagement, institutional reform, institutional 'exit', and war to challenge the existing institutional order. In a similar vein but focusing on China's institutional behavior, Kastner, Pearson, and Rector (2016, 2018) argue that a rising power can adopt three institutional strategies to challenge the existing arrangements in global governance: free ride and passively 'accept' existing regimes; 'hold up' and change some rules of existing institutions; or 'invest' and actively engage in existing as well as new regimes. Although these existing works indeed enrich our understanding of institutional strategies conducted by revisionist states, they seem to embrace both cooperative and competitive features of institutional strategies. In other words, they fail to differentiate between 'institutional competition' and 'institutional cooperation'.<sup>4</sup>

In this research, I adopt an 'institutional balancing' theory to highlight the 'competitive' feature of a state's institutional strategy (He, 2008). The goal of institutional balancing is similar to military-based hard balancing, which is to increase a state's power and influence vis-à-vis others. This analysis follows Robert Art's conceptualization of balancing, which refers to 'behavior designed to create a better range of outcomes for a state vis-à-vis

a state or coalition of states by adding to the power assets at its disposal, in an attempt to offset or diminish the advantage enjoyed by that other state or coalition' (Art, 2006, pp. 183–184). Institutional balancing, therefore, means a state's institutional behavior aiming to increase this state's power and influence in relation to others in an institution or in the institution-related issue area in general.

There are two types of institutional competition strategies: inclusive institutional balancing and exclusive institutional balancing. While the former refers to a strategy of including a target state into an institution and relying on the rules and norms of the institution to constrain its behavior, the latter means to exclude a target state from an institution so that the solidarity of the institution can impose pressures and constraints on the target state.<sup>5</sup> A concrete example of inclusive institutional balancing is ASEAN's efforts to include China into the ASEAN Regional Forum (ARF), through which China's behavior had been constrained by the rules and norms of the ARF, such as the cooperative security norm and the ASEAN way, in the 1990s (See Caballero-Anthony & Emmers in this issue; Paul in this issue). An instance of exclusive institutional balancing is the US efforts to exclude China from the Trans-Pacific Partnership (TPP) under the Obama Administration. As Obama stated, 'If we don't write the rules, China will write the rules out in that region' (cited in Seib, 2015). In other words, the TPP aimed to develop a club with the rules and norms designed by the United States and its trading partners and to keep China out of this new club.

It is worth noting that a state can employ inclusive or exclusive institutional balancing or both to compete with its adversaries during the order transition. The targets of their institutional competition aim at two key elements of institutions: leadership and rules. The leadership of institutions determines who make decisions in the chain of command, while the rules of institutions dictate how decisions will be made as well as how benefits will be distributed inside institutions. Although a leadership position normally carries more weight in making the rules of institutions in the first place, the rules can constrain the leadership afterward. In other words, the leadership and the rules of institutions are interconnected, but also mutually constraining. Therefore, when a state, no matter whether a rising power or a ruling state, becomes dissatisfied with an existing institution, it is more likely to challenge either the leadership or the rules or both in this institution.

Again, it is worth emphasizing that both the hegemon and rising powers can initiate institutional challenges to the existing order playing a revisionist role in the system. In a similar vein, depending on the issue areas and their perceived interests within institutions, both the hegemon and rising powers can defend the existing institutional arrangements as 'status quo'

states (Chan et al., 2021; He et al., 2021). In other words, it would be misleading to label any state as either revisionist or status quo solely based on its power trajectory. In the ‘institutional peace’ argument, what matters is not who initiates the institutional competition, but how these states engage in institutional competition as well as what the implications of institutional competition mean for the order transition.

For example, in institutional competition a state can increase its weight or power in decision-making processes by replacing the leadership position in an institution. Or this state could change the rules of an institution so that it will get more benefits from the new institutional arrangement. Besides material interests, institutional balancing can also help a state to strengthen its legitimacy and prestige—some intangible benefits embedded in institutions. A rising power is more likely to gain recognition and much-desired status in international society if it can establish the leadership in or reformulate the rules of a well-respected institution. Similarly, a ruling state can also strengthen or even recover its losing status if it can maintain the leadership role and the rules in an institution.

A direct outcome of institutional balancing is intense competition among states through institutions. Ruling states and rising powers will engage in both inclusive and exclusive institutional balancing inside and outside existing institutions. The institutional competition in the form of institutional balancing might lead to diplomatic standoffs and even deepen the strategic rivalries among states. However, this rivalry and competition will be confined to the domain of institutions and will be fundamentally different from military conflicts. Institutional competition, no matter how intense, will be more peaceful than military-based hegemonic war. In other words, states are still fighting for the leadership and the rules of institutions, but they are unlikely to use force to achieve their goals under the MAD logic of nuclear deterrence.<sup>6</sup>

This analysis highlights the role of nuclear deterrence in changing states’ behavior toward institutional competition. In the past, states might have used military means to address their dissatisfactions and grievances toward some institutional arrangements, as Japan and Germany did in the case of the League of Nations prior to World War II. However, nuclear deterrence is more likely to encourage great powers to keep ‘institutional competition’ within the institutional domain although no one can completely rule out a possibility of military conflicts or even nuclear wars among great powers. Moreover, as mentioned before, the absence of hegemonic wars in the nuclear age does not necessarily mean peace among states because these great powers can still get involved in proxy wars or conventional conflicts with one another. Nuclear deterrence between the hegemon and rising powers might make the order transition *more* peaceful than before, but it

will not guarantee the absence of wars or fear of wars in the system in a general sense.

One key question remains: if under the nuclear constraints, great powers, like the hegemon and rising powers, are more likely to engage in institutional competition in the form of institutional balancing, what will happen during the international order transition? The argument in this paper suggests that the intensifying institutional balancing among great powers is more likely to lead to an unintended consequence, which is a more peaceful order transition compared to the traditional military-based order transition—normally accompanied by hegemonic wars (Gilpin, 1981). The escalating institutional balancing among great powers will bring two ‘positive externalities’ to the order transition. The first positive externality of institutional balancing among states is to increase the dynamics of institutions, which will in turn ensure the intensity and utility of institutions in the international system. The dynamics of institutional competition will encourage the process of ‘institutional Darwinism’ (Pempel, 2010) through which some underperforming institutions will die out or be marginalized and some well-performing institutions will flourish. The institutional competition driven by institutional Darwinism can also encourage institutions to perform institutional reforms inside institutions and beyond in order to avoid institutional involution and functional stagnation.<sup>7</sup> For example, existing institutions might reform their existing functions to address some new problems that they did not cover in the past. Under institutional competition, some new institutions might be created to solve these problems in order to steal the thunder from the existing institutions. In short, institutional competition driven by institutional Darwinism will keep dominant states inside existing institutions on their toes so that they have to keep reforming and improving the institution if they do not want it to fade away in the international system.

The second positive externality of institutional balancing among states is ‘public goods competition’. In order to gather and attract support from others, states are more likely to compete for the provision of public goods or to engage in some form of competition for offering public goods through institutions. This public goods competition will lead to a substitution of the existing public goods mainly provided by the hegemon or ruling states at the early stage of establishing institutions. For rising powers, they will need to provide some new types of public goods that can replace the old ones. For ruling states, their dissatisfaction with the existing institutional arrangements will encourage them to change the status quo of the institutions, either through internal reform (inclusive institutional balancing) or by establishing a new competitive institution (exclusive institutional balancing). However, ruling states will also need to offer new public goods to

attract followers. Therefore, another unintended consequence of institutional balancing among states during the order transition is a proliferation of public goods, which is also conducive to a peaceful transition of the international order.

In sum, institutional competition in the form of institutional balancing will be intensified among great powers during a period of international order transition. States will compete to pursue new leadership and form new rules in their respective institutions. The purpose of institutional balancing for states is to increase their power and influence as well as to strengthen their legitimacy and status in international society. Although institutional balancing might escalate competition and rivalries among states, these negative externalities are likely to be confined inside the institutional domain without the use of force in the age of nuclear deterrence among great powers. The unintended consequences—positive externalities of institutional balancing—include the increasing dynamics of institutions and the proliferation of public goods substitutions along with intensifying institutional competition among great powers. Therefore, the international order transition in the context of institutional balancing is likely to be more peaceful than previous, military-rooted, hegemonic wars among states.

It is worth noting that Robert Keohane also suggests that international institutions will survive after the decline of US hegemony (Keohane, 1984). However, Keohane's neoliberal institutionalism highlights the functional utility of institutions, such as reducing transaction costs and identifying focal points in fostering international cooperation under anarchy. Differing from Keohane's cooperation-based theory, this 'institutional peace' argument suggests that intensifying *competition* through institutional balancing among states can help to maintain the dynamics of international institutions, offer public goods substitutions, and thereby lead to a more peaceful order transition.

### ***Institutional balancing between China and the United States and peaceful change in the asia pacific***

According to realism, especially power transition theory in the IR literature, China as a rising power is a typical revisionist state bent on challenging and even overthrowing the existing international order.<sup>8</sup> However, the fact is that China's rise after the end of the Cold War has not led to military conflicts for almost 30 years in the Asia Pacific, despite some diplomatic stand-offs and even military incidents with the United States and its neighbors (See Kang, 2003; Paul in this issue; Singh in this issue; Thies & Nieman, 2017). Although the deterioration of US-China relations under the Trump administration after the trade war and tech war in 2018–2020 seems to

have pushed the two countries to the edge of a new Cold War, the two countries have also engaged in some much-needed cooperation on climate change when Biden came to power in 2021. Moreover, Biden claimed that he would not 'do it the way Trump did' [toward China] although there would be 'extreme competition' between the United States and China. According to Biden, 'we [the United States] are going to focus on the international rules of the road' (Macias, 2021). It is clear that Biden's 'extreme competition' on 'international rules of the road' features the intense institutional competition between China and the United States during the period of international order transition as the 'institutional peace' argument has suggested. Through examining the institutional balancing between China and the United States in both economic and security domains after the Cold War, the following sections illustrate how institutional competition can contribute to a possible peaceful transition of the international order.

### ***China, AIB, and global financial governance***

In the post-Cold War era, China's challenges to the international order are mainly featured as institutional balancing in both economic and security arenas. As a newcomer of the US-led liberal order, China initially embraced economic institutions, such as the WTO, the World Bank, and the IMF through which China socialized itself into the liberal international order and learned how to play the institutional game inside the existing institutions (Foot & Walter, 2010; He & Feng, 2015; Johnston, 2014). As Ikenberry points out, China is one of the largest beneficiaries of the existing economic order given its stunning economic growth rate after the Cold War (Ikenberry, 2008). In 2010, China surpassed Japan to become the second-largest economy after the United States. In 2013, China overtook the US as the world's largest trading nation.

Though China has no reason to overthrow the economic international order that has benefited it immensely, it does not mean that it is fully satisfied with the status quo. For example, despite being the second-largest economy in 2010, China's voting power in the IMF was still behind Japan, Britain, Germany, and France. It is why China joined other emerging economies to push for the quota reform in the IMF in 2010. However, due to the existing rules in the IMF, the United States had the power to delay the process of the quota and governance reforms in the IMF. Consequently, the US Congress intentionally delayed ratifying these proposed reforms until December 2015. The delayed IMF reforms frustrated China and increased its dissatisfaction toward the existing institutional arrangements in the IMF, especially the US leadership and the Western-favoured rules (Huang, 2015a).

In 2013, China initiated the creation of a new developmental bank, named the 'Asian Infrastructure Investment Bank' (AIIB), which was officially established in March 2015 with 57 states as founding members. As some scholars point out, China's initiation of the AIIB represented the start of its challenge to the US-led system of global economic governance as well as the post-war international economic order (Huang, 2015b; McDowell, 2015; Roach, 2015; Wan, 2015). China's AIIB initiative represents its institutional balancing strategy toward the US-led global finance institutions, rooted in China's frustration with the delayed IMF reforms.

The target of China's AIIB is to compete for the leadership and to change the rules of global financial governance. Although the AIIB has thus far not presented an alternative financial institution that can potentially replace the IMF and World Bank, it is the first time that China has competed with US leadership in the domain of global financial governance (He & Feng, 2019). In addition, the AIIB has also provided a new platform for China to establish new rules and norms in global financial governance. Whether or not it will succeed in the future, however, will depend on how China behaves as well as on how the AIIB performs in the institutional competition between China and AIIB on the one side and the US and other existing institutions, such as the IMF and World Bank, on the other.

China can achieve two strategic goals through the AIIB. On the one hand, China would like to use the AIIB to increase its weight and influence in global financial governance. On the other hand, the AIIB can help China strengthen its international legitimacy and status, as a rising but also potentially leading state, in the future international order. For the United States as the existing hegemon, China's success in the AIIB will seriously threaten its leadership position and thereby challenge the status quo of the current global financial governance. It is why the United States tried hard, but eventually failed, to block its allies, such as Australia, from joining the AIIB (Keck, 2014).

The AIIB is an example of China's institutional balancing in both the inclusive and exclusive senses. Initially, China intended to convince the United States to join the AIIB because the establishment of the AIIB can well fill in the much-needed infrastructure finance gap left by the existing financial institutions, especially the IMF, the World Bank, and the Asian Development Bank (ADB) (Ferlez, 2015; He & Feng, 2019). Including the United States into a new institution that China will lead is an instance of inclusive institutional balancing strategy because the US would be under China's command if it agreed to join. As a newcomer and rising power, the easiest way to climb up the status ladder in international society is to get endorsements and support from the existing hegemon or ruling states. It is why besides the United States, China also intended to persuade Japan, an economic giant, to join the AIIB (Nikkei News, 2015).

Unfortunately, China's inclusive balancing strategy was unsuccessful because the United States (and Japan) refused to endorse the AIIB as well as China's potential leadership role in global financial governance. Consequently, China's AIIB became an exclusive institutional balancing strategy because the United States excluded itself from the AIIB. For China, it has to ensure the success of the AIIB in order to gain international legitimacy and leadership recognition from others. As Jeffrey Wilson (2019, 147) points out, the evolution of China's AIIB agenda reveals 'the flexibility of Chinese economic statecraft' as well as 'its willingness to compromise strategic goals to boost the legitimacy of its international leadership claims' in global financial governance. Moreover, the success of the AIIB will in turn help China's soft balancing against or countervail institutional pressures from ruling states in global financial governance, especially the United States and Japan (Chan, 2017).

For the United States, although its efforts to sabotage the AIIB failed because most of its close allies chose to join the AIIB instead of being excluded, the self-exclusion strategy can still exert negative impacts on China and the AIIB. Without the US endorsement, China's pursuit for a leadership role in global financial institutions will face more hurdles and obstacles. In addition, the United States has worked with Japan to enhance infrastructure finance in the Asia Pacific through other channels, including both bilateral arrangements and multilateral institutions, such as the ADB. These infrastructure finance efforts will pose a functional challenge to the future development of the AIIB.

Although the United States and China have engaged in furious institutional competition around the AIIB, the institutional balancing between the United States and China generates two unintended consequences, which might lead to a peaceful change of global financial governance. The first positive externality of US-China institutional balancing is to enhance the institutional dynamics and effectiveness through encouraging internal reforms within existing financial institutions. As mentioned before, it is still too early to examine the success of the AIIB. However, one thing is clear: China's challenge through the AIIB has triggered some transformations in global financial governance. China is no longer just a recipient of financial aid or loans from the Bretton Woods institutions. Instead, the AIIB has made China a provider, a creditor, and a new leader in the new global financial system, which might embrace new rules and norms during the transformation process.

It is worth noting that AIIB has worked closely with the IMF and the World Bank by largely following existing practices of development financing. However, its very existence has exerted pressure on the existing institutions (Stephen & Skidmore, 2019; Wilson, 2019). Consequently, some existing financial institutions, such as the ADB, have started some

institutional reforms to become more efficient in infrastructural finance (Pardo & Rana, 2018; Ella, 2021). As Gisela Grieger (2021, 11) points out, '[AIIB] has prompted the ADB to slash its approval cycles by half. The ADB and the IBRD (International Bank for Reconstruction and Development—a lending arm of the World Bank group) have ratcheted up their capital resources and have adjusted their lending practices to remain relevant'. Although it would be an exaggeration to say that the AIIB is a game changer of global financial governance (Hameiri & Jones, 2018), its continued success has encouraged or even forced the existing multilateral development banks to improve their practices and efficiency in development financing as well as to increase investments in the Asia Pacific region, which had been underdeveloped in the past.

Moreover, the institutional competition around the AIIB has also encouraged the United States, Japan, and China to provide more public goods in terms of infrastructural finance to developing countries. It becomes the second positive externality of institutional balancing between China and the United States around the AIIB. For example, Japan launched its 'Partnership for Quality Infrastructure' in 2015 and later pledged to invest US\$200 billion in global infrastructure (MOFA (Ministry of Foreign Affairs of Japan), 2015). In May 2017, Japan and India officially announced the establishment of the Asian-Africa Growth Corridor (AAGC), aimed at promoting quality infrastructure and connectivity in Africa and creating a free and open Indo-Pacific Region—as a joint response to China's Belt and Road Initiative (BRI) (Singh, 2019). In late 2017, the US Overseas Private Investment Corp. (OPIC) signed a memorandum of understanding with its Japanese counterpart, the Japan Bank for International Cooperation (JBIC), to cooperate on infrastructure financing in the Indo Pacific. In 2018, the US and Australia officially endorsed Tokyo's 'Quality Infrastructure' concept. Australia's Export Finance and Insurance Corp. also lined up with OPIC and JBIC to offer joint financing for infrastructure projects in Asia.

In November 2018, US Vice President Mike Pence announced a loan of US\$60 billion to support infrastructure projects in the Indo-Pacific countries at the APEC CEO Summit (The White House, 2018). In the same month Australian Prime Minister Scott Morrison revealed a A\$3 billion financial package to boost ties with Pacific Island nations (Pearlman, 2018). The latest development was the establishment of a trilateral 'Blue Dot Network' by the US, Australia, and Japan in November 2019. This 'Blue Dot Network' aims to bring the public and private sector together to 'promote high-quality, trusted standards for global infrastructure development in an open and inclusive framework' (ABC News, 2019).

It is clear that China's AIIB and related BRI projects have triggered an 'infrastructure hype' or the 'balance of infrastructure' in the Indo Pacific (He,

2021), in which major powers have competed to offer aid, finance, and various other types of assistance to infrastructure projects in developing Asia, especially South Asia, Southeast Asia, and the South Pacific. While these new initiatives led by the US, Japan and Australia aim at competing with China's AIB and BRI—an exclusive institutional balancing against China's influence—one unintended consequence of this intensifying institutional competition is to provide the much-needed public goods—infrastructure finance and aid—to developing countries in the region. No matter who wins this infrastructure game, the positive externalities of this institutional balancing between China and other great powers will lead to a more peaceful transformation of regional order.

### ***China, ARF, and security multilateralism***

Besides economic and financial institutions, China has also challenged the security architecture in the Asia Pacific through institutional balancing strategies in the post-Cold War era. The United States has relied on bilateralism through forging bilateral alliances, the so-called the 'hub-and-spokes system', to maintain the security order in the Asia Pacific in the post-war era. During the Cold War, although China officially opposed US bilateral alliances in the region, it became a de facto ally of the United States against the Soviet Union after the rapprochement of US-China relations in 1972.

After the Cold War, the strategic rationale behind US-China relations disappeared due to the collapse of the Soviet Union. Following Beijing's Tiananmen crackdown, Washington led other Western countries to impose economic sanctions and arms embargos on China. China changed from a de facto ally to a strategic rival of the United States in the post-Cold War era. During the 1995–1996 Taiwan crisis, the United States and China almost headed to a military confrontation across the Taiwan Strait. The 1999 embassy bombing incident in Belgrade and the 2001 EP-3 aircraft collision in the South China Sea also made Chinese leaders realize the strategic pressures from the United States in the post-Cold War era.

However, due to the huge power gap between the two countries, especially on military capabilities, China did not directly challenge the US hub-and-spokes alliance system after the Cold War although China portrays it as a 'relic of the Cold War' in its official discourse. According to Wang Jisi, a leading Chinese strategist, Beijing also unofficially recognizes the positive role of the US alliance system in reining in Japan's militarism (Wang, 1997). However, it does not mean that China is satisfied with the existing security order under US bilateralism. What China has done is to employ institutional balancing strategies to undermine the relevance and the preponderant role of US-led security order in the Asia Pacific in the post-Cold War era.

China supported the ASEAN countries to sit in the ‘driver’s seat’ in constructing multilateral security institutions in the region, especially the ASEAN Regional Forum (ARF). A successful multilateral security architecture led by ASEAN had the potential to undermine the importance of US-led security alliances in regional security. As a group of middle and small powers, ASEAN states are living under the shadow of great power politics. The end of the Cold War and the strategic uncertainties of its aftermath in the region, however, provided an opportunity for ASEAN to play a leading role in developing a new multilateral security mechanism in the Asia Pacific region. In 1994, ASEAN established the ARF—the first and also only multilateral security dialogue in the Asia Pacific which includes all major powers in the world. Even the European Union is a member of the ARF.

The original purpose for ASEAN to establish the ARF is twofold. On the one hand, it is intended to engage, constrain, and eventually socialize China through cooperative security norms as well as the ASEAN way— a unique decision-making model, emphasizing informality, consultation, and consensus-building process as well as respecting sovereignty and the non-interference principle. On the other hand, its aim is to bind the United States to the region so that there will not be a security vacuum after the Cold War. From an institutional balancing perspective, ASEAN conducted an inclusive balancing strategy to ‘take China down and keep the United States in’ through the ARF (Emmers, 2013; Katsumata, 2006; He, 2009, 2008; Caballero-Anthony and Emmers in this issue). Being aware that it was the target of these multilateral security arrangements, China initially hesitated to join the ARF and engage in multilateralism in the security domain (Foot, 1998).

However, after the 1995 Mischief incident in which China’s occupation of a disputed island in the South China Sea caused an outcry from the ASEAN states, China decided to change its policy attitude toward ASEAN and multilateralism. Through the ARF, China started to engage in multilateral security dialogues with ASEAN and other countries in the region, including the United States. For China, the ARF is a double-edged sword. On the one hand, China has to be constrained by the rules and norms inside the ARF, especially on the South China Sea disputes. On the other hand, China also realized that the ARF can be used to constrain the United States and even undermine US-led bilateralism in the security arena.

For example, both China and ASEAN insisted on the ‘non-interference’ principle in internal affairs triggered by their concerns related to humanitarian interventions and military-related actions that the United States and other Western countries conducted in Kosovo and Bosnia in the 1990s. Therefore, the ARF became a useful diplomatic platform for China to solicit support from the ASEAN states and say ‘no’ to the United States on some

contentious issues, such as human rights, Xinjiang, Tibet, and Taiwan. In addition, the increasing relevance of ARF and multilateralism in the region also had the potential to gradually erode the importance of US-led security alliances as well as neutralize US strategic pressures on China's security in the region.

For China, the strategic benefits of the ARF in countervailing US pressures as well as US-led bilateralism have outweighed the cost of being constrained by the ARF. Just due to this strategic calculation, China embraced the ARF as an institutional balancing strategy to challenge US-led, bilateralism-based security order in the post-Cold War era. The target of China's institutional balancing through the ARF is not the leadership of the ARF *per se*. Instead, China intends to change the basic rule of US-led security alliances—bilateralism. In the eyes of Chinese policy makers, the success of the ARF in regional security affairs will signify a new effective way to pursue security—multilateralism—in the Asia Pacific. While bilateralism focuses on US leadership and military supremacy of the US alliances in the region, multilateralism emphasizes consultation, quiet diplomacy, non-use-of-force, and non-interference. These multilateral principles have been summarized as the 'ASEAN way', which is an antithesis of US bilateralism in regional security affairs. Although many critics suggest that the ASEAN way is just 'making process, not progress' (Beeson, 2020; Jones & Smith, 2007; Ravenhill, 2009), it does fit China's strategic interests well because it provides an alternative way for countries in the region to pursue security without solely relying on US-led alliances (Beeson, 2019).

The United States is fully aware of China's institutional balancing efforts through the ARF. In the eyes of US policy makers, the ARF is just a useful complement to US-led security order, which provides a multilateral mechanism for the United States to engage China (Goh, 2004). However, because of the close cooperation between China and ASEAN inside the ARF, the strategic utility of ARF for the United States as a means of constraining and pressing China is limited. Therefore, the United States adopted two new institutional balancing strategies to countervail China's growing institutional power and influence in the Asia Pacific.

First, the United States strongly supports the Shangri-La Dialogue (SLD), a new multilateral security dialogue in the region, in recognition of ARF's weaknesses. To a certain extent, the rise of SLD will gradually marginalize the role of ARF in the multilateral security architecture of the region. Although the ARF focuses on regional security issues, foreign ministers instead of defence ministers dominate the ARF agenda. In 2002, the International Institute for Strategic Studies, a London-based think tank, initiated an intergovernmental security forum attended by defense ministers and military chiefs in the region. Twenty-eight countries sent their

representatives to the annual conference. Since the forum is held at the Shangri-La Hotel in Singapore, it has been known as the SLD ever since (Capie & Taylor, 2010).

The United States has shown a relatively high degree of enthusiasm for the SLD given the fact that the US Secretary of States skipped some of the ARF meetings in the 2000s. The SLD is an inclusive institutional balancing strategy against China because China is also invited to participate in the SLD meetings, in which it has become a target of the US and its allies on regional security issues, especially the South China Sea disputes in recent SLD meetings. The SLD has, therefore, become a multilateral diplomatic platform where the United States can have more freedom to criticize and hopefully constrain China's behavior in regional security.

Second, the United States advocated a US-led minilateral security mechanism to countervail the influence of ARF and multilateralism supported by China and ASEAN in regional affairs (Tow, 2019). In 2007, the United States, Japan, India, and Australia established a Quadrilateral Security Dialogue to exchange views on regional security issues. Called Quad 1.0, it was short-lived after Australia unilaterally withdrew from it because then Australian Prime Minister Kevin Rudd worried that the Quad would antagonize China.

When Trump came to power in 2017, the Quad 2.0 was revived after high-level officials from the four Quad countries met again in the sidelines of the EAS meeting. Moreover, the Quad 2.0 was elevated to ministerial level in 2019. Along with Trump's Free and Open Indo Pacific strategy and the intensifying strategic competition between the US and China, the Quad 2.0 has the potential to become an Asian version of NATO to contain China's rise in the future. Since China is excluded from the Quad, it is an exclusive institutional balancing strategy that the United States conducted against China. The security dialogue among these four countries clearly targets the 'elephant in the room'—China's potential threat and challenge to the US-led security order in the Indo Pacific (Saaliq & Hussain, 2020). The leaders of the QUAD met for the first time virtually on March 12, 2021.

There is no doubt that institutional balancing between the United States and China will intensify during a period of international order transition. However, if both countries stick to institutional competition, an unintended consequence is that it will lead to a more peaceful transition of the security order in the region. As discussed above, China's institutional balancing against the United States through the ARF has triggered some institutional responses from the United States—the emergence of the SLD and the revival of the Quad. It is also expected that China will augment its support for the ARF as well as for the ASEAN-led ADMM-Plus in order to undermine the relevance of the US-led multilateral security institutions. As See Seng Tan points out, we might see that 'multilateralisms [are] at war' in the Asia

Pacific just because of the intense competition among multilateral institutions in the region (Tan, 2018).

Multilateral institutions, like it or not, will become a new feature of the future security order in the region. How multilateral security institutions will evolve and compete in the region is still uncertain. Some institutions will become more relevant while others will be marginalized. Institutional Darwinism will shape the future multilateral institutions in the security order in the post-US hegemonic era (Pempel, 2010). As the 'institutional peace' argument suggests, the dynamics of multilateral institutions as a result of institutional balancing among great powers actually envisage a more peaceful transition in the international order because no matter how hard they fight through institutions, the violence level will be much lower than the one of military confrontations.

Just as in the case of institutional balancing in the economic arena, states are also encouraged to offer extra public goods for attracting support from others in the security arena. China has conducted substantial cooperation with ASEAN states in the non-traditional security area in the frameworks of ARF and the ADMM Plus (Arase, 2010; Gong, 2020). In addition, China has been actively negotiating the 'code of conduct' (CoC) in the South China Sea with ASEAN states although the progress seems to be slow. However, if China eventually signs the code of conduct with ASEAN, the security situation in the South China Sea between China and the United States will change significantly. The US' Freedom of Navigation (FON) missions in the South China Sea might be potentially at odds with both China and ASEAN if the CoC can hold China and ASEAN together on the US FON activities in the South China Sea.

In order to lure ASEAN's support, the United States has shown its support for ASEAN's self-claimed 'centrality role' in the Indo Pacific region. In addition, it is reported that the Quad countries have proposed expanding the Quad to become the 'Quad plus' so that some ASEAN countries will be invited to join the security dialogue potentially targeting China (Panda, 2020). Moreover, as mentioned before, the Quad countries have discussed how to pool resources for increasing infrastructural finance to the Southeast Asian countries so that China's charm offensive through AIIB and BRI will be countervailed. Again, institutional balancing among states does not change the competitive nature of international politics. However, the competition through institutional balancing will make the potential international order transition more peaceful and less violent than previously believed.

## Conclusion

Challenging a popular view that China's rise will lead the United States and China to fall into the 'Thucydides trap'—a possible hegemonic war between

the two—this paper argues that the international order transition will be different this time. Instead of using military means to change the international order, China and the United States have relied on various institutional balancing strategies to compete with one another for an advantageous position in the future international order. Institutional competition in the form of institutional balancing among great powers will strengthen the dynamics and utility of international institutions, encourage states to offer new public goods, and eventually ensure a more peaceful order transition in the international system.

Since the end of the Cold War, China and the United States have engaged in institutional balancing in both economic and security orders in the Asia Pacific. By targeting US domination and existing rules in global finance institutions, China's AIIB initiative has encouraged some intense but healthy institutional competition in the arena of global infrastructure finance. Through multilateral cooperation with the ASEAN states in the ARF and ASEAN-dominated institutions, China has also challenged the legitimacy and dominating role of the US-led hub-and-spokes bilateral system in the regional security architecture. One unintended consequence of institutional balancing between the United States and China is the proliferation of multilateral security institutions, such as the SLD, the ADMM-Plus, and the revival of the Quad 2.0 in the region. The AIIB and ARF cases have shown that the international order transition led by institutional balancing might be more peaceful than previously perceived.

Two caveats, however, are worth noting to support this optimistic view of the international order transition. The first one is that the MAD logic of nuclear deterrence should remain valid among great powers. Interdependence based on the mutual vulnerability in the context of nuclear weapons was the key factor making the antagonism between the United States and the Soviet Union remain 'cold' during the Cold War. Given the technological innovations in military weaponry, it becomes questionable whether nuclear deterrence will still be sustained between the United States and China (Christensen, 2012; Glaser & Fetter, 2016; Lieber & Press, 2006; Lieber & Press, 2017; Wu, 2020). As some scholars point out, institutional competition among states might 'lock in an unjust status quo, produce exclusion, or generate grievances that turn into struggles, they may in fact induce conflictual change' (Mérand & Pouliot, 2020, p. 129). If one side no longer believes in MAD, military force will become a legitimate mechanism to change the international order, and therefore, a hegemonic war cannot be ruled out.

It is worth noting that Asia is an inherently dangerous place. Soon after the Cold War, some scholars predicted that Asia was 'ripe for rivalry' because of the mounting territorial disputes as well as burgeoning

nationalism (Friedberg, 1993). The 1995–1996 Taiwan Strait crisis almost triggered a military conflict between China and the United States. The Taiwan issue might be the most likely reason for China and the United States to go to war in the future. The nuclear tests and missile crises ignited by North Korea remind us that the Cold War has not ended on the Korean Peninsula. The maritime and territorial disputes in the East China Sea and the South China Sea have damaged China's relations and trust with its neighbors. During the coming international order transition effective nuclear deterrence might prevent China and the United States from fighting a direct war or a hegemonic war; however, it will not stop conventional military conflicts among regional actors or even proxy wars between the United States and China if these security flashpoints are not managed and controlled well (Taylor, 2018). International and regional institutions can potentially help to build trust and alleviate these regional tensions among states. However, in order to make 'institutional peace' work, the United States and China—as two nuclear powers in the region—need to reach a strategic consensus, which is to compete fiercely by 'all measures short of war' (Wright, 2017).

There is a positive sign that the militaries from the United States and China have remained rational under the logic of MAD. It has been reported that General Mark Milley, the Chairman of US Joint Chiefs, was seriously worried that Trump might 'go rogue' and even launch a nuclear war in the final days of his presidency. More importantly, some US intelligence reports showed that 'the Chinese believed the United States was going to attack them' (Woodward & Costa, 2021, p. 128). In order to deescalate a possible military conflict or even a nuclear war, Milley secretly called his Chinese counterpart, General Li Zuocheng, on October 30, 2020, four days before the election, to assuage Chinese concerns that the US was planning to attack China. In his own words, Milley said,

General Li, I want to assure you that the American government is stable and everything is going to be okay. We are not going to attack or conduct any kinetic operations against you ... there's going to be tension. And I am going to be communicating with you pretty regularly ... We're not going to have a fight.

General Li said 'Okay. I take you at your word'.

(Woodward & Costa, 2021, pp. 128–130)

It is clear that both the US and Chinese military leaders are fully aware of the catastrophic consequence of military conflicts between the two nations. Nevertheless, civil politicians in both states might still play with fire to escalate bilateral tensions for political gains in the future. Interestingly, the military in both nations might play a 'peace-guardian' role in avoiding a war, particularly a nuclear one, between the two nations.

The second condition of institutional peace is that the ideological divide among great powers should remain at a limited level. The institutional dynamics of the liberal institutional order in the post-Cold War era are based on limited ideological antagonism among great powers. It is also a major reason why China and other rising powers have actively joined international institutions led by the United States and other Western powers. The United States under the former Trump Administration had waged an ideological war during the pandemic when US high-ranking officials explicitly blamed and condemned the Chinese Communist Party for the global spread of Covid-19 (Pompeo, 2020). Although Biden claimed that he would not follow Trump's footsteps in dealing with China, his China policy is still imprinted with ideological antagonism against China.

Washington hosted the virtual 'Summit for Democracy' on December 9–10 in 2021 in order to 'to set forth an affirmative agenda for democratic renewal and to tackle the greatest threats faced by democracies today through collective action' (<https://www.state.gov/summit-for-democracy>). The 'great threats' to democracies the United States implied apparently refer to China and Russia, which were excluded from the Summit. Ironically, more than 30 percent of the 110 invited countries are classified by the Freedom House as only 'partly free' in their democratic scores. Therefore, according to one commentator in *Time* magazine, Biden's summit for democracy is the 'height of hypocrisy' because it is nothing about democratic values, but a 'geopolitical ploy' against China and Russia (Chowdhury, 2021). It is a dangerous trend because the ideological antagonism between the US and China could drag the whole world into a new Cold War (Christensen, 2021).

An ideological divide can undermine all the positive externalities of institutional balancing, such as the dynamics of institutions and public goods competition, among great powers. The world would be divided into two camps with two institutional orders, respectively dominated by the United States and China. Even though nuclear deterrence might help the United States and China avoid direct military conflicts with one another, it would not stop violent proxy wars between the two camps as we have seen from the bloody history in Third World countries during the Cold War between the United States and the Soviet Union. Interestingly, as a response to Biden's 'summit-for-democracy', China did not propose an alternative ideology to fight back as the Soviet Union did with Communism. Instead, China published a White Paper entitled 'China: Democracy that works' a week before the US 'Summit for Democracy' on December 4, 2021. The Chinese White Paper clearly states, 'Democracy is a common value of humanity and an ideal that has always been cherished by the Communist Party of China (CPC) and the Chinese people' (China State Council Information Office

China, 2021). Rather than launching an alternative ideology to fight democracy, China re-interprets what democracy is and how it works in China. Although China's re-interpretation of democracy might not be appealing to others, it at least shows China's willingness to eschew an ideological warfare against the United States and democracy in general. The very fact that China did not fight back with an alternative ideology becomes a positive sign of potential peaceful transition in the international order although the danger of a new Cold War lingers on.

International order transition is not all about the United States and China because other secondary states can also play a significant role in shaping the process and outcome of the order transition (See Pempel in this issue; Teo in this issue). The Cold War between the United States and the Soviet Union was initiated by the two superpowers, but implemented by the two ideological blocs in the system. It means that no country, no matter whether it is the United States or China, can wage an ideological war or a new Cold War by itself. Other states' attitudes and positions will be critical for the making of a new Cold War in the international system. It is time for other states to work together and stand up to say 'no' to this ideological trap during the period of international order transition. Institutional balancing without ideological antagonism will lead to a more peaceful transition in the future.

## Notes

1. For critiques on the Thucydides' trap argument, see Chan (2020); Feng & He (2020).
2. International order is a contested concept in IR. Here, we adopt Henry Kissinger's definition of international order, emphasizing the two pillars of the order: balance of power and international institutions. See Kissinger (2014, p. 9). For other conceptualizations of international order, see Nye Jr. (2003); Bull (1977); Reus-Smit (2017); Feng & He (2020).
3. Ikenberry recognizes the evolution of the liberal international order from 1.0 to 2.0 and 3.0 and argues that 'precisely because the crisis of liberal order is a crisis of success, leading and rising states in the system are not seeking to overturn the basic logic of liberal internationalism as a system of open and rule-based order.' See Ikenberry (2009, p. 84).
4. Other notable works include Lipsy (2017); Daßler et al. (2019); Chan et al. (2021); He et al. (2021).
5. For institutional balancing see He (2009).
6. Without nuclear deterrence, states can certainly use military force to challenge institutional leadership and rules. For example, Japan challenged the authority (rules) of the League of Nations by withdrawing from the League in 1933 after it invaded Manchuria in 1931.
7. The concept of 'involution' introduced by anthropologist Clifford Geertz refers to the process by which a group or organization is internally constrained by the existing modes of operation. It will lead to the loss of creativity and competitiveness for this group or organization. One way to avoid involution is to bring in competition from the outside so that this group or organization will have to change the old mode of operation. See Geertz (1963). For applications of this concept in political science, see Lu (2000); Bell (2006).
8. For the debate over China and revisionism, see Johnston (2003); Feng (2009); Chan et al. (2019).

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