

I

Introduction

Explaining China's International Behavior

China's rise as a global power over the last three decades means that, to an increasing extent, Chinese behavior can make or break international cooperation in a given issue area. For example, building and maintaining effective institutions to deal with the North Korean nuclear issue without active Chinese participation is hard to imagine. Likewise, the creation of robust institutions to manage global climate change almost certainly requires active "buy-in" from what is today the world's second largest economy and largest greenhouse gas emitter. Given China's growing importance, an expanding scholarly and popular discourse has considered what type of country China is and what type it is likely to become. Will China emerge as a responsible stakeholder, showing diplomatic leadership to *invest* in reviving and maintaining even those global regimes that it did not play a part in creating because it sees an interest in preserving global stability and prosperity? Will China be a revisionist state, a spoiler, threatening to *hold-up* global multilateralism if it cannot restructure international institutions more to its liking? Or will China simply be a free-rider, content to *accept* the existing rules but to let the United States and other established powers do the heavy lifting needed to maintain international order?

We argue that China has shown, and will continue to show, all three of these patterns of behavior in different issue areas at the same time. In some cases, Chinese actions have helped consolidate and expand international cooperation. To return to the examples used earlier, China's recent increasing willingness to reach international agreements on climate is among the most significant global developments in this issue area in recent years. Similarly, Beijing's efforts to facilitate a resolution to North

Korea's nuclear weapons program, though ultimately unsuccessful, were critical to fostering cooperative interactions on that issue during the 2000s. In these cases, a picture emerges of China as a responsible stakeholder, willing to invest in efforts to preserve and expand international cooperation. At other times, however, Beijing has shown a willingness to play the role of spoiler, to use its bargaining power to push for the restructuring of international institutions to better serve Chinese interests. China's willingness to stand firm in pressing for revisions to the institutional architecture of international financial regulation (most notably by demanding greater representation in International Monetary Fund [IMF] decision-making) serves as a clear example. And in other cases still, China has been content to sit on the sidelines and allow other countries to pay the costs of sustaining and deepening international cooperation. Consider, for instance, China's apparent disinterest in actively working to find a successful resolution in the Doha Round negotiations of the World Trade Organization (WTO), a decision that might come to be seen as an enormous missed opportunity for developing countries in particular.

China's approach to multilateral regimes is part of a more general issue: how rising powers – which in the future may include states beyond China, such as India and Brazil – approach global governance. When, and to what extent, do rising powers passively accept existing rules? When do they actively invest in and help strengthen existing institutional architecture? When do they obstruct or play hold-up with existing institutions? When do they construct new institutions? The way that emerging powers approach global governance issues will have enormous impact on the future of world order. China's decision, for instance, to demand changes to the IMF resulted in greater voice for it and other emerging economies in that body. Likewise, China's more recent decision to establish the Asian Infrastructure Investment Bank (which we discuss at length in this book's concluding chapter) has the potential to dramatically expand development finance in Asia. Understanding why rising powers make the choices they do concerning global governance, in short, will shed important light on the evolution of cooperation in different issue areas and the prospects for future cooperation.

Our thesis is that the strategic setting of a particular issue area will have a strong influence on whether and how a rising power will contribute to global governance. Although we argue that our theory applies in principle to any rising power, our empirical focus in this book is on China's approach to global governance in the post-Cold War world. We show that China's behavior has varied dramatically both over time and

across issues, and we use our theory to help make sense of this variation in ways that existing theories cannot. To be clear, we do not argue that other factors – such as Chinese political institutions, ideology, culture, or broader socialization into international institutions – are unimportant. Rather, we make the case that a focus on the strategic setting helps make sense of broad patterns in China's approach to global governance that might otherwise go unaccounted for or underexplored.¹ Our findings have important implications for how we understand not only Chinese behavior in global regimes but, more generally, the way other emerging powers are likely to approach global governance as their influence grows.

1.1 THE PUZZLE

Throughout most of the postwar era, China played a minor role in international governance; not only was the People's Republic of China (PRC) government primarily concerned with domestic issues, but China was also effectively marginalized in most multilateral regimes. Since the end of the Cold War, China's international influence has risen as its relative economic and military potential has grown, yet China remains an *inconsistent* player in multilateral settings. In the language of social science, its behavior varies. Three recent examples help illustrate this variation.

Consider, first, China's behavior within the multilateral trade regime. Beijing went to great efforts to get into the WTO at a time when the PRC was emerging as one of the world's largest exporters. China and the United States engaged in over a decade of on-again, off-again negotiations, culminating in a comprehensive agreement in 1999 that set the stage for the PRC's 2001 entry into the organization. Outside observers viewed China's WTO commitments as more extensive than those made by previous newly admitted members, and Chinese leaders faced substantial domestic criticism for the concessions they made to gain entry into the body.² Yet, despite these efforts, since entry China has been more passive within the WTO regarding efforts to revise the international trade

¹ To put it another way, our theoretical expectation is about the behavior of rising powers generally. We explore the practical implications of our theory using a set of observations about China in order to evaluate the theory on its own terms, because the Chinese experience is a good test case for the theory. To the extent that the evidence supports our theory, it should also inform our understanding of China specifically. Our claim is not that China is indistinguishable from every other rising state.

² On China's concessions, see, for instance, Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, DC: Brookings Institution Press, 2002).

regime: although Beijing has largely *accepted* and complied with existing rules, it has not played a constructive role in moving a new round of liberalizing rules forward.³ During Doha Round negotiations, for instance, China largely sat on the sidelines, even though some observers noted the PRC's unique ability to play a bridging role between developed and developing economies.

Second, China's behavior with regard to global financial governance has been different. As with trade, global financial institutions were created without input from the PRC, which only assumed membership in the IMF in 1980.⁴ And, like its behavior in the WTO, China – although compliant with IMF rules – was for many years relatively passive in its approach to governance issues within the IMF. But in recent years, China has been more active in trying to reshape the rules governing global finance. During the global financial crisis, given China's growing economic power, other countries increasingly viewed active PRC participation as critical if efforts to restructure global financial governance were to succeed. But China made its participation conditional on reforms to existing institutions, in particular with regard to voting rules that were stacked against developing countries like China. In other words, China after the financial crisis pursued a strategy of *hold-up* with regard to the international financial regime, conditioning active participation in regime maintenance on a set of concessions favorable to PRC interests.

The third example concerns Chinese behavior with respect to the North Korean nuclear issue. Here, as with the IMF case, Chinese behavior has varied over time. During the first North Korean nuclear crisis in the 1990s, China played a supportive – but mostly secondary and passive – role in managing the issue, largely deferring to Washington and Pyongyang to find a bilateral solution. However, when tensions on the Korean Peninsula spiked again during the second nuclear crisis in 2002–2003, China ended up playing a much more proactive role, ultimately *investing* time and effort in the creation of the Six Party Talks (6PT),

³ On China's behavior within the WTO in the years after accession, see Margaret M. Pearson, "China in Geneva: Lessons from China's Early Years in the World Trade Organization," in Alastair Iain Johnston and Robert Ross, eds., *New Directions in the Study of China's Foreign Policy* (Stanford University Press, 2006), pp. 587–644.

⁴ Although China was an original member of the IMF in 1945, the country was governed by the Republic of China at the time. When the Nationalists lost the Chinese Civil War and retreated to Taiwan in 1949, they retained membership in many international organizations, including the IMF.

a new multilateral dialogue that aimed to resolve the North Korean nuclear issue.

These three cases show that China's behavior in global governance, and in particular with regard to regime creation and maintenance, has exhibited considerable variation across cases and, often, over time within cases.⁵ At times, as in the WTO or in the early years of the PRC's entry into the IMF, Beijing behaves passively. In these cases, China was largely in compliance with the rules of the organizations and appeared, by and large, to accept the rules embodied by these organizations. At other times, such as in matters of global financial governance during the global financial crisis, China has played what might be termed a hold-up strategy, in which it tries to leverage its bargaining power to restructure rules so as to better suit its interests. And in other cases, China actively invests in the creation of new institutions or the maintenance of existing institutions, as with the PRC's creation of the 6PT. As we show in the empirical chapters to follow, China's behavior in a large number of settings can be characterized as one of these three types of behavior: accept, invest, or hold-up.

Many existing efforts to explain China's international behavior through the lens of international relations theory focus on the country's innate disposition. Drawing inspiration in particular from the Power Transition Theory literature, China is viewed as either a "status quo" power (likely to acquiesce to and integrate into US-led governance structures) or a "revisionist" state (dissatisfied with existing structures and aiming to change them as able).⁶ As we have observed, though, China's behavior since the end of the Cold War has varied greatly across issue areas; China does not approach international regimes with a single, ideologically fixed approach, as predicted by the dispositional theories. What is needed is an understanding of *when* a rising state like China will seek to revise or undermine existing rules, when it will accept them, and when it will actively invest in them.

⁵ On the point that China has played very different roles in different multilateral regimes, see Hongying Wang and Erik French, "China in Global Economic Governance," *Asian Economic Policy Review*, Vol. 9, no. 2 (2014), pp. 254–71.

⁶ For an excellent and critical discussion along these lines, see Alastair Iain Johnston, "Is China a Status Quo Power?" *International Security*, Vol. 27, no. 4 (Spring 2003), pp. 5–56. See also: Scott L. Kastner and Phillip C. Saunders, "Is China a Status Quo or Revisionist State? Leadership Travel as an Empirical Indicator of Foreign Policy Priorities," *International Studies Quarterly*, Vol. 56, no. 1 (March 2012), pp. 163–77; and Steve Chan, *China, the U.S., and the Power Transition Theory: A Critique* (New York: Routledge Press, 2008).

A number of prior excellent studies have examined China's behavior within regimes, focusing on the extent to which China behaves in accordance with the rules and norms of multilateral organizations ("compliance").⁷ Our question, in contrast, concerns China's willingness to go one level deeper by actively participating in the creation and maintenance of multilateral regimes – what Douglas Heckathorn has termed *second-order cooperation*.⁸ We seek to understand the conditions under which China will organize other states to contribute to a common aim and "invest" by compromising on its own objectives for the sake of broader agreement or, conversely, will complicate cooperative efforts, either by attempting to leverage its influence to restructure existing arrangements through "hold-up" or by passively choosing to "accept" existing regimes without contributing to their preservation.

1.2 THE ARGUMENT IN BRIEF

We theorize that the variation in an emerging great power's approach to regime production and maintenance (its second-order cooperation) is strongly influenced by two strategic variables: the balance of outside options the rising power and established powers face, and the degree to which contributions by the rising power are viewed as indispensable to regime success. Outside options are the alternatives – for both rising and established powers – to jointly investing in multilateral regimes. We posit first that a rising power is more likely to invest in new or existing regimes when the rising power's outside options are poor relative to those of established powers. When the rising state's outside options are better, we posit that its approach to multilateralism will depend on the second variable: the degree to which the rising state believes that established powers view contributions from the rising state as indispensable to the overall

⁷ E.g., Rosemary Foot and Andrew Walter, *China, the United States, and Global Order* (New York: Cambridge University Press, 2011); Elizabeth Economy and Michel Oksenberg (eds.), *China Joins the World: Progress and Prospects* (New York: Council on Foreign Relations, 1999); and Ann Kent, *Beyond Compliance: China, International Organizations, and Global Security* (Stanford, CA: Stanford University Press, 2007). Alastair Iain Johnston's focus on socialization processes applies, we believe, to both compliance and second-order cooperation (which we also define in this paragraph). We discuss socialization arguments at greater length in Chapter 2. See: Alastair Iain Johnston, *Social States: China in International Institutions, 1980–2000* (Princeton, NJ: Princeton University Press, 2008).

⁸ Douglas D. Heckathorn, "Collective Action and the Second-Order Free-Rider Problem," *Rationality and Society*, Vol. 1, no. 1 (July 1989), pp. 78–100.

1.2 *The Argument in Brief*

7

success of a regime. When a rising state's outside options are relatively good and when its contributions are generally seen as indispensable, it will possess the leverage to pursue hold-up, where it can extract concessions from established powers as the price of its contributions to regime success. On the other hand, when the rising power's outside options are good but it believes established powers view its cooperation as unnecessary, it will choose to passively accept existing rules, free-riding on the efforts of established powers to construct and maintain regimes.

After developing the theory and deriving testable implications, and following a brief presentation of contextual material concerning China's rise, we explore the utility of the theory in the context of four empirical cases relating to China:

- attempts by great powers to promote security in Central Asia,
- nuclear nonproliferation efforts globally and with respect to North Korea,
- management of the international financial system, and
- cooperation to mitigate climate change.

From the perspective of social science theory, we chose these cases carefully. Not only is there variation across the four cases, but there is also variation within each case. The cases also, of course, are of much contemporary interest. On each issue our analysis brings to light a perspective that is not found in other mainstream treatments of these topics. Our empirical analysis draws from a range of sources, including primary sources from China and original interviews in the United States and China.

Our approach bridges contemporary theories of multilateralism and institutional development with up-to-date research on Chinese foreign policy. Although a number of recent studies have fruitfully examined China's approach to multilateral regimes, these studies typically do not aim to develop generalizable propositions about rising power behavior.⁹

⁹ Recent examples include Thomas J. Christensen, *The China Challenge: Shaping the Choices of a Rising Power* (New York: W. W. Norton & Company, 2015); Chien-peng Chung, *China's Multilateral Cooperation in Asia and the Pacific: Institutionalizing Beijing's "Good Neighbor Policy"* (London and New York: Routledge, 2010); Gerald Chan, Pak K. Lee, and Lai-Ha Chan, *China Engages Global Governance: A New Order in the Making?* (Routledge, 2012); David Shambaugh, *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013); and Foot and Walter, *China, the United States, and Global Order* (New York: Cambridge University Press, 2011). Earlier examples include Kent, *Beyond Compliance*; Economy and Oksenberg, *China Joins the World*; Alastair Iain Johnston and Robert Ross, eds., *Engaging China: The*

At the same time, none of the best recent work on the strategic aspects of leadership and institutional development within international organizations¹⁰ is grounded in a detailed and specific empirical examination of decision-making within a rising state. Our hope is that our study makes a unique and important contribution, both to the literature on China's foreign relations and to the broader theoretical literature on international institutions.

1.3 PLAN FOR THE BOOK

We present our theoretical argument in Chapter 2, in which our aim is to provide a general theory of how rising powers approach global governance in a world where most institutions have been set up by established powers. We begin with an extensive discussion of our dependent variable, the strategy a rising power adopts with respect to second-order cooperation within a particular regime. We then develop our core theoretical argument (summarized earlier) in two steps: first by considering the impact of outside options on rising power behavior, and then by considering the impact of perceived indispensability. We show how these factors combine to create incentives for a rising state to pursue strategies of accept, hold-up, or invest. We also consider the possibility of dynamic conditions in which state leaders might try to manipulate their outside options. Finally, we present our research design, used to test the main hypotheses emerging from our theory.

A brief Chapter 3 provides a contextual and background discussion on the economic, security, and diplomatic dimensions of China's rise. We intend this to be useful to readers who are not as familiar with China's recent history. Chapters 4–7 then assess the utility of our theory by examining China's behavior in international regimes.

Management of an Emerging Power (New York: Routledge Press, 1999); and Marc Lanteigne, *China and International Institutions: Alternate Paths to Global Power* (London: Taylor and Francis, 2005). One key exception that does aim to generalize is Johnston, *Social States*.

¹⁰ See, for instance, Allison Carnegie, *Power Plays: How International Institutions Reshape Coercive Diplomacy* (New York: Cambridge University Press, 2015); Tana Johnson, *Organizational Progeny: Why Governments are Losing Control over the Proliferating Structures of Global Governance* (Oxford: Oxford University Press, 2014); Randall Stone, *Controlling Institutions: International Organizations and the Global Economy* (New York: Cambridge University Press, 2011); and Erik Voeten, "Outside Options and the Logic of Security Council Action," *American Political Science Review*, Vol. 95, no. 4 (December 2001), pp. 845–58.

The first two of the four case chapters focus on security issues. In Chapter 4, we consider China's approach to the problem of stability in Central Asia. Following a period in which China largely free-rode on Soviet and then Russian efforts to promote stable regional development, several factors led to an erosion in China's outside options by the mid-1990s. These factors included, most importantly, instability in Xinjiang (and the fear that instability in Central Asia could worsen conditions in Western China) combined with a sharp deterioration in Russian power in the region. After the mid-1990s, in turn, China played an active role in building regional security institutions, culminating in 2001 with the establishment of the Shanghai Cooperation Organization. Chapter 5 examines China's approach to nuclear nonproliferation. After being disengaged from the global nonproliferation regime until the early 1990s, China has since been a regular player, albeit a passive one. Broadly speaking, Beijing has been consistent in its acceptance of the existing regime but provides little affirmative leadership to maintain it. We argue that strong outside options help explain PRC behavior. We then explore in some detail a key exception, involving North Korea's nuclear program, in which China, beginning in 2003, actively invested in institution-building by organizing the 6PT. Discussion of this important exception illustrates and further tests our basic theory.

Chapter 6 shifts the focus to an economic issue, specifically China's approach to global financial governance since the early 2000s. After years of being largely passive, accepting the rules of the international financial regime, China by the late 2000s moved toward a policy of hold-up, whereby it threatened to spoil cooperation as a way to force changes in the IMF to better suit its interests. This shift occurred most notably in the aftermath of the global financial crisis, when there was a widespread perception that Chinese contributions were indispensable to continued effective global financial governance. We explore in detail China's move to hold-up cooperation, as it sought to influence the redistribution of vote shares in the IMF and to secure the inclusion of China's currency, the *renminbi*, in the basket of reserve currencies that constitute the IMF's Special Drawing Rights (SDR).

Chapter 7 considers China's approach to global climate change negotiations. We show that China played a role as spoiler in the 1990s and 2000s climate negotiations in an effort to hold-up cooperation and ensure that future agreements would give it more favorable terms. Though China continued, by and large, to play a hold-up strategy through the 2009 Copenhagen meetings, its approach to climate change negotiations

TABLE 1.1. *Cases and changing PRC behavior*

Case	Chapter	China’s behavior	Key institution
Central Asian Stability	4	Accept → Invest	Shanghai Cooperation Organisation
Nuclear Proliferation	5	Accept → Accept	Non-Proliferation Treaty
(North Korea)	5	Accept → Invest → Accept	Six Party Talks
Financial Governance	6	Accept → Hold-up	International Monetary Fund
Climate Change	7	Hold-up → Invest	UN Climate Negotiations

was beginning to change. By the mid-2010s, friction related to worsening environmental conditions within China, combined with the undesirability of an outcome in which the European Union (EU) and United States might proceed with an agreement without China, led to constructive Chinese engagement on climate and an increased willingness to invest in new institutional architecture. Table 1.1 summarizes our key empirical cases and China’s changing behavior in each.

Finally, Chapter 8 concludes the book. After summarizing our findings – which underscore the useful leverage that our theory provides in explaining China’s approach to global governance – we discuss implications for recent developments as China contemplates its approach to multilateralism with respect to other issues, such as development lending (with the Asian Infrastructure Investment Bank). The chapter ends with a discussion of recent events in the West, including the United Kingdom’s vote to exit the EU and the election of Donald Trump as US president. Though events are still unfolding, we speculate briefly on how a shift toward unilateralism in the West might affect China’s future approach toward global governance.