

# China's Rise and the Struggle over International Order: Great power conflict and the provision of global goods

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Abstract: What does a struggle between the US and China over international institutions and the provision of global public goods look like? What strategies do the players use to provide favorable outcomes for themselves? And do the strategies they use matter for how the world is governed, and for the provision of global public goods in particular? To answer these questions, we outline a theory of great power competition over the provision of public goods that predicts the form that US-China competition over institutions will take in any given issue area, that anticipates the variance in strategies, and that offers insights into the consequences of that type of competition.

NOTE: VERY PRELIMINARY DRAFT, COMMENTS WELCOME

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As US-China relations have deteriorated over the past decade, and competition between the two countries across a wide-range of issue areas has intensified, many analysts and policy-makers have describes the relationship as a new Cold War.<sup>1</sup> Despite clear differences between the two countries, however, they haven't divided the world into exclusive blocs and have not presented rival ideologies. And with respect to an important area of competition between the US and China – the struggle for control over the multilateral institutions that shape many aspects of the international order – current US-China competition is unfolding in a very different environment than the US-Soviet competition during the original Cold War.

Two key differences between the US-Soviet Cold War and the current US-China rivalry over multilateral institutions stand out. First, whereas the Second World War destroyed most preexisting international institutions, leaving the major powers including the US and the Soviet Union to rebuild an international order after the war effectively from scratch, China's recent rise happened in a context of existing institutions that were not destroyed or discredited through a collapse of systemic order. China has been rising into a network of international organizations that it, largely, did not have a hand in creating.

Second, however, this overall picture may not necessarily be contrary to China's perceived interests. While the Soviet Union was never autarkic, it at least attempted to separate itself from the rest of the world economy. In contrast, China today continues to integrate itself into and rely on the world economy, seeking to reap the benefits of the system that international multilateral institutions such as the World Bank, IMF, and WTO were designed to uphold. China's leaders seem to recognize that an open international economy sustains export manufacturing employment in China and is therefore a critical element of the very survival of the current regime. So, China is at least as heavily invested in the international economic order as any other status quo power.

Although both China and the United States benefit from the existence of multilateral institutions that underlie the existing international order, there could still be fierce competition over what that order should look like and who should lead it, as

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<sup>1</sup>Mackenzie Ryan, "Rubio: US Barreling Toward a New Cold War," *Des Moines Register* Oct 2, 2015, at <https://www.desmoinesregister.com/story/news/elections/presidential/caucus/2015/10/02/rubio-us-barreling-toward-second-cold-war/73235760/>; Richard K. Betts, "Old Cold War and New," in Evan S. Medeiros (ed), *Cold Rivals: The New Era of US-China Strategic Competition* (Washington, DC: Georgetown University Press, 2023); and Hal Brands & John Lewis Gaddis, (19 October 2021). "The New Cold War: America, China, and the Echoes of History". *Foreign Affairs* at <https://www.foreignaffairs.com/articles/united-states/2021-10-19/new-cold-war>. However, some have been reluctant to use the term, in part because they want to highlight key differences between contemporary US-China competition and the US-USSR competition that defined the original Cold War. See Thomas J. Christensen (24 March 2021). "There Will Not Be a New Cold War." *Foreign Affairs* at <https://www.foreignaffairs.com/articles/united-states/2021-03-24/there-will-not-be-new-cold-war>; and Joseph Nye, "There's No Cold War With China," *New York Times*, Nov 6 2021, A20.

leaders of both the US<sup>2</sup> and China<sup>3</sup> recognize. In a world where many global challenges are addressed through multilateral institutions, and where these institutions can produce policy decisions that privilege the interests of those states that have more influence over them, the US and China have struggled with each other for control over key institutions, from the conflicts over the International Monetary Fund in the 2000s to the conflicts over the cross-border payments system (SWIFT) today.

Although scholars have generally noted the overall pattern of rising, observable conflict over control of institutions, less attention has been paid to the precise ways this competition unfolds, and why the form these conflicts take varies across different issue areas. In some issue areas, China has moved aggressively to provide common goods outside of established multilateral institutions, either by constructing new mini- or multi-lateral institutions or, in some cases, doing so unilaterally. The US, in turn, tends to both defend extant institutions, and to pursue behaviors that parallel China's. In some cases, both countries try to undermine (or at least discredit) the other great power's initiatives. For example, global multilateral institutions still govern development finance and trade, at least in principle, but they have been weakened in the face of US-China competition. The core institutions of the World Trade Organization drift even as both sides create deeper regional organizations, and each side has created one or more institutions focusing on development, running in parallel to the World Bank – China's BRI and the much weaker US-led PGII.

In other issue areas, competition is similarly fierce, but primarily centers on the nature of rules governing existing or emerging global apex institutions. China may set up alternative multilateral or unilateral measures to provide the good in question, but these measures appear to do little to dent the apex institution's dominance. Examples here include the International Monetary Fund, where China has successfully renegotiated its voting rights while chafing at the dollar's status as a reserve currency, and the SWIFT system of cross-border settlements, which persists despite China's ongoing dissatisfaction. And in yet other areas, US-China competition is arguably less fierce, and each side is sometimes willing to cede ground to the other, even to the extent that major

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<sup>2</sup> The Obama administration's "pivot to Asia" reflected in large part this competition, as noted by Secretary of State Clinton. See Hillary Clinton, "America's Pacific Century," *Foreign Policy*, October 11, 2011, at <https://foreignpolicy.com/2011/10/11/americas-pacific-century/>. The Trump administration's 2017 NSS formulated this view of competition: National Security Strategy of the United States of America (Washington, DC: The White House, December 2017, <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>), a theme largely continued by the Biden administration – if even more urgently. See Antony J. Blinken, "A Foreign Policy for the American People," speech, Department of State, Washington, DC, March 3, 2021, available at <https://www.state.gov/a-foreign-policy-for-the-american-people/>.

<sup>3</sup> Xi Jinping has presented a vision for a "reformed" global order in major speeches and initiatives. See, e.g.: PRC Ministry of Foreign Affairs, The Central Conference on Work Relating to Foreign Affairs was Held in Beijing: Xi Jinping Delivered an Important Address at the Conference, Dec. 28, 2023, at [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202312/t20231228\\_11214416.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202312/t20231228_11214416.html). Xi Jinping's "3 Initiatives" – Global Development Initiative, Global Security Initiative, and Global Civilizational Initiative" also put forth competing visions.

issues can go unaddressed, as with the lethargic multilateral efforts to distribute covid vaccines to less-developed countries in 2021-22.

What does a struggle between the US and China over international institutions and the provision of global public goods look like? What strategies do the players use to provide favorable outcomes for themselves? And do the strategies they use matter for how the world is governed, and for the provision of global public goods in particular? To answer these questions, we outline a theory of great power competition over the provision of public goods that predicts the form that US-China competition over institutions will take in any given issue area, that anticipates the variance in strategies, and that offers insights into the consequences of that type of competition. We begin in the following section with a brief elaboration as to why we believe such a theory is needed.

### Theorizing Great Power Competition over the Provision of Global Goods

How can we understand variation in the nature of competition between the US and China over global public goods provision?<sup>4</sup> Why, on some issues, does neither state seek the lead, but rather competition seems primarily a contest in buck-passing—where both states hope the other will pay the costs to address the challenge? The recent case of attacks on shipping in the Red Sea, for instance, appeared to take this form, where both powers had reason to want to see the issue addressed but neither was eager to pay the costs associated with securing the sea lanes in the area. Why, in other cases, do the two powers struggle for control of key institutions tasked with managing a particular issue or providing a particular good, as when China worked to increase its sway in key institutions like the International Monetary Fund? And why in others yet do the two sides appear to construct competing institutions to address particular challenges, as we see in the realm of development finance?

Although much has been written on the provision of global public goods and the construction of international institutions, there are two important questions much of the current literature doesn't address deeply. First, although many prior works have sought to explain variation in *whether* great powers compete over control of institutions, fewer examine variation in *how* they compete for control.<sup>5</sup> Our own previous work sought to understand China's behavior toward global governance arenas, but did not consider fully the nature of global competition.<sup>6</sup> Other studies examine competition in specific domains,

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<sup>4</sup>Although our theory is a general one, for simplicity we refer throughout to the United States and China since the theory is motivated by contemporary Sino-American competition.

<sup>5</sup>Much of this literature focuses on the conditions in which states will use their outside options – their willingness to walk away from international cooperation – as a threat that gives them leverage to renegotiate the terms of cooperation. Stone, Randall W. *Controlling institutions: International organizations and the global economy* (Cambridge University Press, 2011).

<sup>6</sup>Scott L. Kastner, Margaret M. Pearson and Chad Rector, *China's Strategic Multilateralism: Investing in Global Governance* (New York: Cambridge University Press, 2019). In that book, we sought to explain the conditions in which China was willing to devote more time and energy to renegotiate the terms of multilateral cooperation, but we did not try to explain why China seemed to use different specific strategies in different situations.

but do not seek to theorize across different domains.<sup>7</sup> Studies that do generalize across domains are primarily focused on control over institutions, not the *nature* of competition over public goods provision per se, which often occurs outside of specific institutions.<sup>8</sup>

Second, the current global power transition, where China has rapidly emerged to superpower status (though still lagging in many ways behind the United States), has idiosyncratic features that are likely to have significant impact on the nature of great power competition over global goods provision. As Ikenberry points out, the current transition is unique in the degree to which the rising power is ascending into a densely institutionalized global order, one that is still dominated by apex institutions that to a considerable extent were constructed to privilege the interests of the United States.<sup>9</sup> The extent to which extant institutions privilege the interests of the United States is likely, in turn, to play a critical role in shaping the nature of US-China competition over global public goods provision in a particular area. Moreover, both the US and China are heavily integrated into *global* markets, unlike the Cold War-era division into two rival blocs. Thus, we believe it important that our theory be contextualized to the realities of contemporary international politics: an institutional landscape that in many ways privileges the interests of the incumbent superpower, the US; a rapidly rising challenger, China, that seeks and benefits from integration into global markets; and a rivalry characterized by intensifying security competition but where the world is not neatly divided into competing blocs. In the sections that follow, we seek to construct such a theory.

## Scope

Our theory is about situations in which there is a public good that can benefit many countries at once, and that can be provided (even if not exclusively) through

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<sup>7</sup> E.g., on the United Nations, Courtney J Fung and Shing-hon Lam (2021), “Staffing the United Nations: China’s motivations and prospects.” *International Affairs* 97(4):1143–1163; on the global currency system Eswar Prasad, *Gaining Currency: The Rise of the Renminbi* (New York: Oxford University Press, 2017); and on the IMF, Arias, S. B., Clark, R., & Kaya, A. (2024). Proxy Representation: Power and Voice at the IMF at [https://static1.squarespace.com/static/65d64df20aab017d8f9f03e6/t/65d8eda58c0d6e4dc8bbd054/1708715429794/Arias\\_Clark\\_Kaya\\_Feb\\_2024.pdf](https://static1.squarespace.com/static/65d64df20aab017d8f9f03e6/t/65d8eda58c0d6e4dc8bbd054/1708715429794/Arias_Clark_Kaya_Feb_2024.pdf).

<sup>8</sup> Phillip Y. Lipsky, P. Y., *Renegotiating the world order: Institutional change in international relations*. (Cambridge University Press, 2017); Allison Carnegie, *Power Plays: How International Institutions Shape Coercive Diplomacy* (Cambridge University Press, 2015). An exception is Lugg, who theorizes that dissatisfied states “recontract” international organizations and establish alternative “linked inter-governmental organizations.” See Andrew Lugg, “Re-contracting intergovernmental organizations: Membership change and the creation of linked intergovernmental organizations,” *Review of International Organizations* (2024). <https://doi.org/10.1007/s11558-024-09533>. On the prospects for regional orders that divide along preferences over different goods, see Aiyar, Shekhar, et al. *Geo-economic fragmentation and the future of multilateralism*. International Monetary Fund, 2023.

<sup>9</sup> G. John Ikenberry, “The Rise of China and the Future of the West: Can the Liberal System Survive,” *Foreign Affairs* Vol. 87, no. 1 (2008), 23-37.

multilateral institutions. The formal definition of a public good is one that is *nonrival* and *nonexcludable*, where a nonrival good is one that is not diminished as more people consume it and a nonexcludable good is one that, once produced, cannot be kept from anyone. The classic example is a lighthouse that warns ships away from dangerous rocks, since one vessel's use of the lighthouse does not mean there is less of the lighthouse left for everyone else and the lighthouse cannot be illuminated for only some vessels but not others.

In the international context, public goods include things like ameliorating risk, such as by preventing the spread of diseases, stopping the proliferation of unconventional weapons, disrupting organized crime and terrorism, and preventing financial crises. In a broader sense, the positive externalities that stem from the provision of development finance and expertise, efforts to promote regional political stability, and actions to maintain the flow of trade are public goods as well.<sup>10</sup> All of these public goods are costly to produce - to the point where only major powers, like the US or China, are realistically able to produce them - but they can create benefits for many countries all at once, where the widely-shared benefits do not diminish as more countries enjoy them. For example, if the spread of an infectious disease is stopped, it benefits all of the people who have not been infected; each additional person who benefits does not reduce the ability of others to benefit.<sup>11</sup>

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<sup>10</sup> In a narrow sense, foreign aid to promote economic development in a particular country is not a public good – aid is rival (more aid sent to, for example, Sri Lanka means there is less aid available for other potential recipients) and excludable (a donor may decide to direct aid away from Sri Lanka if it chooses). However, the positive externalities that stem from these projects are public goods. If aid to a country reduces the risk of war by promoting political stability, reduces refugee flows by averting humanitarian disasters, promotes trade by deepening economic development, or ameliorates a challenge to shared values by lessening human rights abuses, then everyone in the world benefits from those positive externalities, which are neither rival nor excludable. Cornes, Richard, and Todd Sandler. "The comparative static properties of the impure public good model." *Journal of public economics* 54, no. 3 (1994): 403-421.

<sup>11</sup> As a practical matter, many international public goods are produced through multilateral institutions in which groups of countries work together to accomplish a common objective. Examples of such institutions include global institutions like the World Bank and International Monetary Fund, as well as regional institutions like the Organization of American States or the Economic Community of West African States. Although there is no reason in principle why these institutions are necessarily *only* created by great powers, as a practical matter many of the most significant multilateral institutions are created under the leadership of a leading state with a disproportionate interest and a disproportionate ability to get countries organized. And most existing global institutions were originally organized by the United States, with rules that give the US substantial influence in their operations. (On the global trade system, for example, see Soo Yeon Kim, *Power and the Governance of Global Trade: From GATT to the WTO* [Ithaca: Cornell University Press, 2010].) Finally, it is worth noting that many multilateral institutions have overlapping functions. For example, the World Trade Organization (WTO) covers rules governing trade near-universally as a “peak” or “apex” institution, while the European Union or the North American Free Trade Agreement are regional institutions that to some extent duplicate the function of the WTO but go much further in terms of integration - that is, the regional institutions go deeper in providing a public good locally, while they by definition cover fewer participants.

Finally, our theory applies to instances where the global system is characterized by two superpowers that view each other as major security threats and rivals, but where each has a strong stake in global stability and, thus, the provision of global public goods.

The dependent variable - the intensity and modality of great power competition over global public goods provision

The provision of global public goods often involves issues where, even as the US and China can both be made better off by cooperating, there are different ways they could cooperate that might be more favorable to the interests of one of them or the other. For example, a climate agreement that meaningfully addresses carbon emissions, benefitting both sides, might be more structured around carbon tariffs, which would leave China paying more of the costs of adopting clean energy, or might be structured around a global green energy development fund, which would involve significantly more contributions from the US. So, although the two states get the same joint benefits (assuming the total benefits of a green energy transition outweigh the total costs), it is possible for them to decide, together, to allocate those gains between them in different ways. Our interest is in how they compete with each other over this allocation.<sup>12</sup>

Our unit of analysis, then, is a particular issue area that involves the provision of global public goods. Examples include protection of the global environment (including addressing issues like climate change); securing safe passage in international waterways; serving as a lender of last resort and minimizing the risk of international financial crises; providing the infrastructure to sustain open international trade; managing the risks of global pandemics; financing international development; and so on.

Our dependent variable is the tools the states use to fight that conflict. On the surface, we can think of conflict over control of an institution as being more or less costly. After all, countries in conflict over control of an institution devote time and resources to ensuring that a particular good is being provided in a way that privileges their own interests, and that time and those resources all have opportunity costs. At one extreme, both countries might be pouring material and diplomatic resources to court support from other states in a particular institution, while at another extreme they might be passively trying to free-ride on the efforts of the other power to provide a particular

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<sup>12</sup> This part of our argument rests on a partial assumption that it admittedly contested within studies of multilateral institutions. That is, we assume that institutions are shaped in ways that make them at least partly responsive to the interests of the countries that have more influence in them, and that this influence is persistent and predictable. Some scholars, of course, argue that although national governments might have substantial influence in the operation of the international organizations that they created, these organizations are in many ways autonomous and often respond to their own, internally-generated goals. For an argument about how this independence can even structure changes in the institutions themselves, see Kaya, Ayse. *Power and global economic institutions*. Cambridge University Press, 2015. See also Johnson, Tana. *Organizational progeny: Why governments are losing control over the proliferating structures of global governance*. Oxford University Press, USA, 2014.

good. And conflict will appear non-existent if one state simply decides to provide the good while the other free-rides, or if the two sides quickly reach an agreement on distribution of the costs of good provision. That doesn't mean, of course, that conflict is not present; it simply means that the two sides are managing their conflict in a way that minimizes the costs of the conflict itself.

For example, the United States might invest heavily in the provision of a particular good like safe passage of shipping in the Red Sea. But if China is not devoting resources to contest how that good is provided, then we would say the two sides are not engaged in a costly conflict over the provision of that good. On the other hand, if the two sides are actively advancing alternative visions concerning how safe passage should be attained—each offering a vision more in line with its particular interests—then conflict is more costly since the conflict itself entails opportunity costs, since they could have spent those diplomatic efforts on other pursuits. Similarly, if the two sides are engaged in a game of brinkmanship—where both sides are essentially sitting aside waiting for the other to address the problem first—conflict is more costly because here the two sides are allowing the costs of good non-provision to accumulate in an effort to get a better bargain.

The costs of conflict, however, are themselves a product of something deeper: the *modality* of conflict over the provision of global goods. That is, there is substantial variation in *how* the US and China compete – the “modality” of conflict. Here we highlight four inter-related ways in which the modality of conflict varies across issue areas.

First, there is variance in the degree to which the two great powers compete over control of existing or emerging apex institutions. By “apex institution” we mean the highest-level global multilateral institution designed to coordinate international cooperation on an issue. So, for example, the World Trade Organization is the apex institution for trade, while other institutions such as the United States-Mexico-Canada Agreement and other regional organizations are not.

The clearest way for states to gain control over an international institution is by leveraging their outside options to negotiate for more control. A state's outside option – sometimes called its best alternative to a negotiated agreement – is what it would expect to get by exiting a cooperative arrangement. If a state's outside option is relatively good, from its perspective, then it can credibly threaten to leave an institution if it does not get a greater say in its governance; having a greater say in its governance, in turn, would allow it to get a greater share of the gains from cooperation. And having a better outside option also makes it easier for a state to resist demands from its erstwhile partners for more concessions as well. Conversely, a state with very poor outside options, relative to its partners, will find itself getting a worse and worse bargain over time.<sup>13</sup>

One way for states to improve their outside options is to invest in internal resilience, making them less dependent on international cooperation generally.<sup>14</sup> A state

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<sup>13</sup> This is the underlying assumption driving most of the work on the struggle for control over global institutions; see Carnegie (2015), Lipsky (2017), and Stone (2011).

<sup>14</sup> Groom, Ben, J. Rupert Gatti, Timo Goeschl, and Timothy Swanson. "Bargaining over Global Public Goods." Brousseau, Eric, Tom Dedeurwaerdere, Pierre-André Jouvét, and Marc Willinger, eds. *Global*



could build up large currency reserves to give it a strong outside option to international financial agreements, coastal fortifications to make it less dependent on international climate cooperation, or industrial policy to make it less dependent on trade. But a great power can also enhance its outside options by building an alternate institution that allows for cooperation among a smaller set of partners that are easier to manipulate into accepting the policy outputs that it prefers. This will help a state get more bargaining leverage within the legacy apex institution, and can also act as insurance by reducing the downside risks if multilateral cooperation sought via the apex institution were actually to end.

This, in turn, leads to a second way the modality of conflict varies across issue areas: the degree to which the two great powers invest in the creation of alternative institutions that provide a particular global good. In some issue areas the US and China have aggressively moved to construct alternatives, such as competing multilateral bodies to promote regional development finance like the Asian Development Bank, which is heavily influenced by the US and its allies, and the Asian Infrastructure Investment Bank (AIIB), which is more under Chinese influence. States might invest in the construction of alternative institutions as a way to enhance their outside options relating to an apex institution. But they might also do so for reasons that have nothing to do with enhancing bargaining power in the context of an apex institution; in development finance, for example, it is not clear that either China's Belt and Road Initiative or the AIIB were primarily gambits to enhance China's bargaining power in the World Bank.<sup>15</sup>

A third way that the modality of conflict varies across issue areas centers on the degree to which the two sides actively try to undermine efforts by the other power to provide a particular good. Sabotage can take several different forms. States might try to sabotage the other state's outside option by undermining the credibility or effectiveness of the other state's alternate institution. The straightforward benefit of this is that it reduces the other state's bargaining power by reducing the other state's ability to threaten to leave. Sabotage can also take the form of efforts to delegitimize the other state's efforts, by trying to show how the multilateral institution favored by the other side violates some key international norms.<sup>16</sup> Unlike actions to enhance the state's own outside options, however, the US's actions to sabotage China's alternative institutions, for example, do not necessarily lead the US to be better off than it otherwise would be if cooperation actually does end. Actions taken by the US to stifle the growth of the AIIB might be examples of this.

Finally, a fourth way countries might act in the presence of conflict over control of institutions is to strategically retreat. When China, for example, acquiesces to a US-led

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*environmental commons: Analytical and political challenges in building governance mechanisms*. Oxford University Press, 2012.: 126.

<sup>15</sup> On motivations for the BRI, see Min Ye, *The Belt Road and Beyond: State-Mobilized Globalization in China, 1998-2018* (Cambridge University Press, 2020). On AIIB, see, Natalie Lichtenstein, *A comparative guide to the Asian Infrastructure Investment Bank*. (Oxford University Press, 2018).

<sup>16</sup> Hodzi, Obert. "Delegitimization and 're-socialization': China and the diffusion of alternative norms in Africa." *International Studies* 55.4 (2018): 297-314.

effort to ensure the security of shipping in the Red Sea, or the US-led SWIFT global payments system, this is not evidence that no conflict exists. Rather, it is a sign that Chinese leaders have concluded that the opportunity costs of devoting time and effort into fighting that conflict with the US are unlikely to outweigh the potential benefits. This kind of acquiescence – whether permanent or temporary – can take the form of free-riding on US-led provision of the public good, as we noted in our earlier book.<sup>17</sup>

### Preferences - what do the US and China want?

We assume that the US and China have at least four interests at stake when they are deciding how to approach multilateral institutions and the provision of global public goods.

First, there are gains from cooperation stemming from encompassing interests. Although global public goods benefit all countries, the US and China each benefit more than most countries because they have the largest economies and so have the most, in absolute terms, to gain from more effective international cooperation. So, although every country benefits from the provision of the good, the US and China, as bigger countries, benefit the most. Because they have these encompassing interests, they will be more motivated than other countries in investing the effort in organizing a multilateral agreement.

Second, as we noted earlier, public goods benefit everyone but they can be produced in ways that benefit some countries more than others. As a result, the US and China will have differences over how to set up institutions; each would ideally prefer to have more influence in a multilateral institution.

Third, given that the US and China are in a situation of mutual distrust, at least some aspects of their relationship - in particular those connected to military and security policy - are zero-sum. That is, each side will be particularly motivated to do things that increase its own security advantage over the other, or at the very least advance its own security without helping the other's. This echoes the motivations of great powers to pursue relative gains, in particular in their security relations.<sup>18</sup>

Finally, both the US and China seek to establish some broad international legitimacy for their global leadership. That is, each side would ideally prefer to be seen by other, smaller states as exercising global leadership in the provision of common goods. This desire for broad legitimacy stems in large part from the security rivalry between the two superpowers. By showing constructive international leadership, both

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<sup>17</sup> Kastner, Pearson, and Rector (2019).

<sup>18</sup> On the logic of the US and China shifting to each focus on relative gains in an era of heightened competition, see Nye Jr, Joseph S. "Power and interdependence with China." *The Washington Quarterly* 43, no. 1 (2020): 7-21.

superpowers hope to increase their global influence, and to counter efforts by the other superpower to enhance its own global influence.<sup>19</sup>

### The independent variables - characteristics of issues

Our theory is about how two rival superpowers - who have some interests in common but who also see each other as long-term adversaries - will compete over control of global multilateral institutions that provide a global public good. Public goods provided through the creation and maintenance of a multilateral institution benefit many countries at a time. Our argument is that the strategic logic of how they interact with each other depends on some of the characteristics of the problem that the countries are trying to solve, with the characteristics being two different ways in which the public good itself can vary.

Two variables that describe how the techniques for solving common problems differ from each other are important here. The first is whether contributions to the joint effort are *additive* or *best shot*, and second is the extent to which playing a leading role in setting up a multilateral institution to provide the good can provide the state that plays that role a *private, security-related benefit*.

*Additive and best-shot goods.* Whether the benefits from a public policy stem from additive or best-shot contributions refers to the relationship between the contributions that get made to the good and the benefits that the public good produces.

A classic example of an additive good is financial contributions to a charitable fund - each additional dollar contributed to the fund increases, proportionally, the amount of charitable good the fund is able to provide.

A project with additive benefits is one where every individual contribution matters, so that all that really matters is the total contribution regardless of what entity provides it. Infrastructure development programs that target poor countries, assuming they are reasonably well-designed, produce more benefits for the rest of the world the more total investment gets made; if the total amount contributed is the same, it makes little difference whether the contributions all came from one donor or from several. Where the issue area is additive - where the total amount of contributions is what matters - multiple countries or institutions trying to address the problem are complementary.

In contrast, a best-shot public good is one where all that matters is the quality of the single-best attempt to solve the problem.<sup>20</sup> Classic examples include scientific work

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<sup>19</sup> Goddard, Stacie. *When right makes might: Rising powers and world order*. Cornell University Press, 2018. See also: Parlar Dal, Emel, and Samiratou Dipama. "Rising powers' quest for increased legitimacy through IOs in an era of loose multilateralism." *Contemporary Politics* 28, no. 5 (2022): 558-586.

<sup>20</sup> Hirshleifer, Jack. "From weakest-link to best-shot: The voluntary provision of public goods." *Public choice* 41, no. 3 (1983): 371-386. On how "aggregation technologies" – such as additive, best-shot, and others – can influence the strategic logic of public goods provision, see Buchholz, Wolfgang, and Todd Sandler. "Global public goods: a survey." *Journal of Economic Literature* 59, no. 2 (2021): 488-545.

to discover a vaccine or policework to eliminate a criminal syndicate. Once the first-best vaccine or criminal prosecution is completed, there is normally little additional benefit to the second-best effort.

Where the policy has a best-shot property, what matters is not the total amount of contributions between the US and China. Instead, the distribution of efforts matter much more. In a pure *best shot* public good, the value of the policy depends on the efforts made by the one supplier who does the most to produce the policy. Classic examples here include regulating a global reserve currency or setting a standard for scientific collaboration or financial transactions - only one policy, once established, is necessary. A second (or third) is at best redundant and provides little additional value.<sup>21</sup>

*Private security benefits.* Global public goods, by definition, benefit every country at least to some extent. One of the critical attributes of a public good is that everyone benefits from it whether or not they contribute to making it. However, sometimes the process of creating a public good provides a benefit just to the country that created it. So, the country that produces the good can still get a private benefit from it.

A private benefit is a consequence of organizing the creation of a public good that is retained only (or disproportionately) by the state that takes the lead in organizing it. It is distinct from the public benefits that the provider also enjoys. For example, when the United States organized the establishment of an electronic global payments system, SWIFT, to provide the public good of a global standard for fast, reliable, and secure interbank financial transactions, the US, like everyone else, benefited economically from the increased ease of capital movements. That was the public benefit, which every other country got as well. However, the US, uniquely among countries, also got a private benefit: since the US effectively controls the system, it can use the threat of removing a country's access to it as a tool of coercion that it can use to win other, unrelated policy concessions.<sup>22</sup>

There are at least three attributes of an issue that can influence the extent to which the provision of the related public good provides a private security-related benefit: the degree to which the issue involves sensitive information, whether or not the provision of the public good involves at least some benefits that can be made excludable, and the

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<sup>21</sup> Another kind of public good, in principle, is a "weakest link" good in which the value of the good depends on the contribution of the member that makes the lowest-value investment. In most multilateral contexts, however, this kind of good reduces to either a best-shot or additive good because a great power will have an interest in supporting or coercing smaller states into compliance, making that support or coercion the public good itself, which can then be either additive or best-shot. On weakest-link goods see: Caparrós, Alejandro, and Michael Finus. "Public good agreements under the weakest-link technology." *Journal of Public Economic Theory* 22, no. 3 (2020): 555-582.

<sup>22</sup> If a public good has "additive" qualities and the state that organizes the provision of the good can get private, security-related benefits, then by definition it can get those private benefits whether or not the good is additive or best-shot. If both states set up rival multilateral institutions to provide a public good with additive qualities, they can each get those private benefits. However, if a state is a second-best provider of a best-shot good, the private benefits will be extremely limited.

extent to which the issue implicates internal divisions within smaller countries that can be used as levers of influence.

Providing a public good can lead to the accumulation of sensitive information in a variety of ways. Sometimes producing a public good involves the accumulation of specific technical expertise, such as when nuclear inspectors monitor technology that could have a military application to verify that a country is living up to an arms control or nuclear nonproliferation commitment. Inspectors that have access to sites could, at least in principle, collect information and transfer it clandestinely to governments with which they are friendly. Even if one state would be willing to forgo the ability to use the provision of the public good for espionage, it cannot be certain that other states will show restraint, so each state has an interest in seeking control of the public good even if only for defensive reasons, if nothing else.<sup>23</sup>

The excludability of at least some of the benefits of a public good gives the country that provides the good the opportunity to selectively withhold it from particular countries, giving it a form of leverage. Since even the threat of excluding a country can be a source of power, excludability gives the state that provides the good (and that controls the institution that provides it) the ability to extract concessions from any other country that values the good, even if those concessions are connected to unrelated other issues. The American control of the SWIFT interbank payments system illustrates excludability, since the US can (and, in the case of Russia after its 2022 invasion of Ukraine, did) exclude states from the system as punishments. Here, the broader positive externalities from provision still accrue to all states, but some of the direct benefits can be made more exclusive.

Public goods may also affect the balance of political power within states, yielding additional influence for public goods providers. As a smaller state starts to benefit from the external provision of a public good, actors within that state who benefit disproportionately from continued access to the good become, in effect, lobbyists for good relations with the outside power - China or the US - that provides that good. Scholars often find these kinds of internal political shifts following a sustained growth in trade relations or financial integration. This would be especially likely in situations where the provision of the public good leads to the development of specialized assets within a smaller state that are relationship-specific - that is, they are valuable only as long as the state retains an ongoing relationship with a particular set of outside powers. This is particularly common in development finance, where, for example, a road or port might be designed around serving a particular export market niche.

### Argument - characteristic of the public good influence how conflict unfolds

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<sup>23</sup> For more examples of this sort of “weaponized interdependence” see Farrell, Henry, and Abraham L. Newman. “Weaponized interdependence: How global economic networks shape state coercion.” *International Security* 44, no. 1 (2019): 42-79.

The way the US and China fight for control of multilateral institutions depends on the nature of the issue area. The logic of strategies around the provision of public goods suggests that when the issue at stake is *additive* then one or both sides will seek to build alternate institutions to the legacy regime, while when the good is a *best shot* good there will be more of an incentive for them to focus on a single global apex institution. Meanwhile, the intensity of the conflict and the kinds of investments each side will make depends on the extent to which providing the good yields *private security benefits* to the side that provides it. These two variables interact, as we summarize in Figure 1.<sup>24</sup>

Figure 1 – Modalities of conflict depend on characteristics of the public good

	Additive	Best shot
No private security benefits	<p><i>Competition, undersupply</i></p> <p>US and China build weak alternate institutions, limited in scope</p> <p>Example: public health, covid vaccines</p>	<p><i>Buck passing</i></p> <p>US and China each shirk, showing leadership only when other commits to free-riding</p> <p>Example: sea lanes</p>
Large private security benefits	<p><i>Competing alternate institutions, peak drift</i></p> <p>US and China build multiple effective alternate institutions and undermine each other’s projects</p> <p>Examples: trade, development</p>	<p><i>Resilient peak institutions, shadow alternatives</i></p> <p>China plans long-term alt peak institutions and builds internal resilience</p> <p>Example: payments</p>

<sup>24</sup> Note that, by assumption, we are considering an issue where there is *already* a US-led global multilateral institution. In situations where there is not already such an apex institution, we expect an extremely high-stakes race between China and the US as each tries to develop an apex multilateral institution that it would control. Struggles over a 5g technology standard or a set of regulations on AI research might be contemporary examples.

Our expectations are based on the characteristics of the issue areas themselves, along with what we see as some of the broader strategic goals that powers like the US and China have, which include the perceived need to win broad international support for their agendas in a world where reassurance about a powerful state's intentions can go a long way toward solidifying its alliances and securing its future influence. There are four possibilities, which we now describe in more detail, depending on whether supplying the public good yields large or no private security benefits, and whether contributions to the public good matter additively or whether all that matters is the one best mechanism to provide the good.

*No private security benefits, Additive – Moderately intense competition and undersupply.* With an issue where new institutions are complementary both with each other as well as with pre-existing apex institutions, there is no intrinsic practical barrier to creating new institutions to help in providing the public good. States like the US and China that aspire to be recognized as playing leadership roles have an interest in being seen to be making investments in new and existing institutions in order to establish legitimacy as leaders. In addition, as actors with encompassing interests in global stability and prosperity, they each have an interest in at least some investment in public goods. However, without a substantial private benefit - and, in particular, without a reason why making the investment helps it secure an advantage over its main rival - neither state will be highly motivated to make huge investments in multilateral institutions. That is, they will tend to build freestanding, *ad hoc* institutions from time to time, and those institutions might make meaningful contributions to providing some public goods, but they will not necessarily be sustained over time.

In this situation, we expect the two sides to create separate institutions on their own, that to some extent overlap in functions, and these institutions will be likely to make meaningful contributions to a global public good but will not be the subject of sustained, costly investment. We therefore expect that, all else equal, these goods will tend to be undersupplied.

Because both the US and China (and everyone else in the world) benefits at least to some extent when each side builds more institutions, it will be difficult for either side to sustain a policy of sabotaging the other's alternate institution. Each additional institution will provide at least some benefits to both parties, not just the one that created it. Furthermore, these alternate institutions will provide broad benefits to the world as a whole, so a state concerned about its broad legitimacy of its international leadership will be reluctant to be seen to sabotage it, since that would undermine its claim to exert power in the interests of the global community generally.

Possible examples in this category include international monitoring or R&D institutions that provide critical information globally, but that are set up in a way that doesn't provide the leading state with any sort of unique security benefit. Consider, for instance, the pandemic early warning system. A major international effort to update global health coordination, or pandemic preparedness, was made in 2005 in the form of

revised International Health Regulations (IHR), which required governments to disclose crucial information on the identification and detection of new viruses.<sup>25</sup> It was an “additive” system in that the public good would be more fully realized as each additional country contributed. The system was put to the test by the H1N1 outbreak of 2009. Although the 2009 outbreak proved relatively moderate (especially compared to the 2003 SARS outbreak in China that had motivated the upgrading of IHR coordination), it revealed weaknesses in the system that were not easily corrected – in particular, the reliance on individual national capacities and lack of an established forum for sharing sensitive information.<sup>26</sup> While the George W. Bush administration supported the formation of this mechanism in 2005, and the Obama administration supported its updating in 2016, it was abandoned in 2018 by the Trump administration.<sup>27</sup> Soon thereafter, rapid, essential coordination among countries was found badly wanting during the early days of the Covid-19 pandemic, with devastating impact. The World Health Organization (WHO) has taken blame in many quarters, but we interpret this as a classic undersupply of public goods provision.

Other plausible examples include the Global Seismographic Network that seeks to provide warnings of earthquakes and tsunamis, shared research and development of carbon sequestration technologies and operations, and regional clearinghouses of carbon offsets.

*Large private security benefits, Additive – High intensity competition, competing alternate institutions, peak drift.* As before, new institutions are complementary, so each additional institution produces broadly-shared benefits. These efforts will not be “wasted” from the perspective of the state that makes them - they both improve its outside options (enhancing its bargaining position within the legacy institution) and also make it better off overall.

However, when the new institutions also enhance the security interests of the state that provides them, they not only provide an additional incentive for states to create new institutions; they also create an incentive for states to undermine the alternate institutions their rivals have created. Although undermining these other institutions hurts a state since it loses the broad benefits the institution provided and because it can lose legitimacy in the eyes of international audiences, those losses can be more than offset by the security gains from stopping its rival from securing an advantage through its own institution.

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<sup>25</sup> World Health Assembly. Revision of the International Health Regulations (2005), WHA58.3, May 23, 2005, at [https://apps.who.int/gb/ebwha/pdf\\_files/WHA58/WHA58\\_3-en.pdf](https://apps.who.int/gb/ebwha/pdf_files/WHA58/WHA58_3-en.pdf).

<sup>26</sup> Katz, Rebecca, and Julie Fischer. "The revised International Health Regulations: a framework for global pandemic response." *Global health governance* 3.2 (2010).

<sup>27</sup> On the 2005 US efforts, see Homeland Security Council (US). *National strategy for pandemic influenza*. Homeland Security Council, 2005. The 2016 Obama administration “playbook” for pandemic response is at: <https://s3.documentcloud.org/documents/6819268/Pandemic-Playbook.pdf>. US government efforts were focused on both national systems for pandemic warning and on international coordination.



Because of the large security benefits that it would get for running an institution itself, the US and China will each be generally unwilling to cede any control within the institution to the other. And since the benefits are additive, there is little drawback to building parallel institutions rather than investing in a global one. So we therefore expect that existing global apex institutions will be less important to each state's strategy. While no one will have an incentive to eliminate these institutions entirely, neither the US nor China will see the point in working to strengthen them or to update them to meet changing needs, leaving them adrift and neglected.

Regional trade agreements and separate development banks are examples of alternate institutions that the US and China have each built up even as the World Trade Organization and the World Bank have languished for lack of high-profile investments in either resources or leadership from either major power.

*No private security benefits, Best shot – Low intensity competition, buck passing.* In this situation, all that matters is the one best global institution, so creating a new separate institution would be redundant. Neither China nor the United States will have an incentive to build a new institution from scratch if one already exists. However, because they both benefit from the supply of the public good regardless of how much they individually contribute to it, and since there is no private security benefit to creating the public good, each one has an incentive to free ride on basic regime creation and maintenance and each will only play a leadership role if it is clear that the other will not.

We expect, in this case, the creation and maintenance of an apparent global multilateral institution, but we do not expect either the US or China to make major investments in actually ensuring its strength and effectiveness. This kind of hollow, Potemkin multilateralism follows from the free-rider problem with public goods generally. When an institution already exists it will be relatively weak from underinvestment, like global public health initiatives such as the WHO had atrophied before the Covid pandemic, and when new problems arise for which global multilateralism would in principle be useful the US and China might create an institution but leave it underfunded and ineffective. The enforcement of open access to sea lanes, and in particular interdicting piracy or attacks on container ships, is a straightforward example. Each country, the US and China, would ideally prefer that the other one pay the military and diplomatic costs of, for example, stopping attacks on ships transiting through the Red Sea. In turn, the case turned into a buck-passing competition where eventually, when disruptions became large enough, the US buckled and attempted to address the problem largely unilaterally (with cooperation of some US allies).

*Large private security benefits, Best shot – Moderate to high intensity competition, resilient peak institutions, shadow alternatives.* Here, large private security benefits, combined with the best shot nature of the good, means that each great power will have strong incentive to be the one to provide the good so that it can reap the private security benefits. In turn, a single apex institution will emerge, one that is effectively controlled by one of the states. Given that the United States has a longer history of global

leadership, the global institution that provides the public good is likely to be controlled by the US in most issue areas. Since a best-shot public good is one where multiple additional institutions are redundant and provide no extra additional value, the focus of struggle will be on who controls the single global institution. A byproduct of their competition will be that the institution will be relatively well-financed and well-managed, as the state that controls it tries to harness whatever legitimacy it can get from the perception of effective leadership to maintain control of the institution.

How will the other leading state - in most instances, China - respond? It will not be in China's interest to build an entire alternate institution to displace the US-led one, since as long as the US-led institution provides a global public good there is little reason for any other country to jump to a Chinese-led alternative. And since it is a best-shot public good, any efforts China makes to build an alternative will provide no additional benefit to either China or anyone else in the world, unless the Chinese-led institution actually succeeds in supplanting the US-led one.

However, the private security benefits associated with providing the good ensure that conflict intensity over good provision will nevertheless be quite high. In instances where the US controls the apex institution, China will have an interest in developing outside options in two ways. First, China will lay the groundwork for an eventual alternative, waiting in the wings in the event that the US-led institution suddenly collapses. This kind of shadow institution will mostly exist on paper or only marginally developed, with just enough investment from China to keep it viable in case an opportunity arises but with the expectation that under normal circumstances it will mostly go unused. A prime example is the Chinese alternative to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) system of international financial transactions, the Cross-Border Interbank Payment System (CIPs). China's central bank (the People's Bank of China, PBoC) launched CIPs in 2015, as a new element in its longer-term strategy of renminbi internationalization (RMBI).<sup>28</sup> When offered as a clearing mechanism by central banks, CIPs offers businesses the prospect of relatively frictionless transactions compared to commercial banks: faster movement of funds faster, minimal fees, and less documentation yet ease of tracking. For states, as well as businesses, trade transactions can avoid being threatened or made more costly by sanctions that currently are monitored through SWIFT. And banks from sanctioned countries can be banned from using SWIFT, as Iranian banks were 2012 and again in 2018, and Russian banks were in 2022.

CIPs is a "shadow" alternative to SWIFT, insofar as it thus far relies on SWIFT's core product – an interbank messaging system – and is consistent with SWIFT standards.<sup>29</sup> It also goes beyond messaging, as it completes actual funds transactions between banks. Its use was exemplified by the completion of a \$13 million digital

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<sup>28</sup> CIPS also is a Chinese version of the US Clearing House Interbank Payments System (CHIPS), the messaging and payments mechanism for electronic transactions denominated in US Dollars. See [https://www.fincen.gov/sites/default/files/shared/Appendix\\_D.pdf](https://www.fincen.gov/sites/default/files/shared/Appendix_D.pdf).

<sup>29</sup> <https://www.csis.org/analysis/sanctions-swift-and-chinas-cross-border-interbank-payments-system>

currency transaction between China and the UAE in February 2024 (via China's mBridge project linking China, Hong Kong, Thailand and UAE banks).

Second, China will develop an internal ability to operate without access to the public good that the US-led institution provides, without necessarily building a multilateral institution, to reduce its individual exposure to US attempts to use its control of a global institution to extract concessions from China. For example, China's unilateral currency reserves - even if they were accumulated for macroeconomic reasons not primarily related to being an outside option from the IMF or SWIFT - serve the purpose of giving China the ability to operate outside of the US-led international financial system, albeit at a cost, if China's leaders ever decided to.<sup>30</sup>

## Conclusion

The nature of US-China competition over global public goods provision clearly varies across different issue areas. In some cases, we see low-intensity competition that might take the form of buck-passing, such as in the case of addressing attacks on shipping in the Red Sea. In other cases, competition is more intense and revolves around control over legacy apex institutions, such as current competition about the system for international financial transactions. And in other cases we see the US and China constructing competing institutions (and sometimes sabotaging the other's initiatives), as in the case of development finance. This paper represents an initial effort to construct a theory that helps to explain this variation in the modality of US-China competition.

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<sup>30</sup> Note that, by assumption, we are considering an issue where there is *already* a US-led global multilateral institution. In situations where there is not already such an apex institution, we expect an extremely high-stakes race between China and the US as each tries to develop an apex multilateral institution that it would control. Struggles over a 5g technology standard or a set of regulations on AI research might be contemporary examples.