

Invest, Hold Up, or Accept? China in Multilateral Governance

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China has played an inconsistent role in multilateral governance, sometimes contributing to the creation and maintenance of international regimes, sometimes free riding or even threatening to undermine multilateral regimes to improve its position. We show that the strategic context of a particular issue of international concern affects China's approach to multilateralism and argue that our approach adds additional leverage to existing theories that rely on assumptions about its inherent disposition or socialization processes. An emerging global power will be willing to invest more in supporting a regime when its outside options are relatively poor. When its outside options are good, it will free ride on the efforts of more established states if it is not a necessary player in maintaining regimes, and if it is seen as indispensable it will threaten to hold up regime support as a way to win concessions. We show that these two factors, outside options and indispensability, can help explain changes in China's strategy with respect to the issue of North Korea's nuclear program and the regulation of international finance.

Throughout most of the postwar era China played a minor role in international governance, as it was effectively marginalized in most multilateral regimes and seldom assumed a leadership role on issues of global concern. Since the end of the Cold War China's international influence has risen as its

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relative economic and military potential has grown, and yet China remains an inconsistent player in multilateral settings. At times China has worked cooperatively within established organizations and even shown leadership by organizing multilateral cooperation, while at other times it has worked to revise the rules governing existing international organizations (IOs) or passively accepted existing governance institutions without either challenging them or contributing to their development. For instance, China was widely credited with taking a leadership role in helping to organize both the Six Party Talks (6PT), a multilateral forum that in 2003 became the locus of negotiations over North Korea's nuclear weapons program, and the Shanghai Cooperation Organization (SCO), a multilateral security institution in Central Asia. In the World Trade Organization, in contrast, China has chosen not to lead actively in the Doha Round negotiations—though some have noted the potential for China to play a role bridging developed and developing countries—while in global financial governance China has actively pushed for revisions to existing institutions that enhance China's influence within these regimes.

How does a rising state like China approach international governance institutions put into place by existing great powers? A number of studies have examined China's behavior within regimes—the extent to which China behaves in accordance with the rules and norms of multilateral organizations—but our question concerns China's willingness to go one level deeper: by actively participating in the creation and maintenance of multilateral regimes.¹ This is sometimes called second-order cooperation.² Under what conditions will China organize other states to join new or revitalized regimes, induce or coerce other states to contribute to a common aim, and invest by compromising on its own objectives for the sake of broader agreement? Conversely, under what conditions will China complicate cooperative efforts, either by attempting to leverage its influence to restructure existing arrangements (hold up) or by passively choosing to accept existing regimes but without contributing to their preservation?

We argue 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.

¹ For example, see Alastair Iain Johnston, *Social States: China in International Institutions, 1980–2000* (Princeton, NJ: Princeton University Press, 2008); 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); Ann Kent, *Beyond Compliance: China, International Organizations, and Global Security* (Stanford, CA: Stanford University Press, 2007).

² On second-order cooperation, see Douglas D. Heckathorn, "Collective Action and the Second-Order Free-Rider Problem," *Rationality and Society* 1, no. 1 (July 1989): 78–100.

Outside options are the alternatives, for both rising and established powers, to jointly investing in multilateral regimes on a given issue. We posit first that rising powers are 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 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 a strategy of 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.

Though our argument is a general one, our core interest is China in particular. We focus on contemporary China given the obvious relevance of China's evolving role in multilateral governance and the widely shared view of China as rising to great power status.³ Furthermore, China's participation in global governance represents a useful laboratory in which to test our hypotheses, because China is becoming more active in a world already saturated with multilateral governance institutions, and the nature of China's participation in these institutions exhibits considerable variation across different issue areas.

Our study also speaks to a broad literature that considers the implications of a newly empowered China for the stability of the U.S.-led international order and the prospects for future global cooperation. Much of this literature places considerable weight on the type of power China is likely to be: either a status quo "responsible stakeholder" that is generally satisfied with and willing to contribute to existing global governance arrangements, or a revisionist state intent on changing the rules of the game.⁴ These studies conclude that Chinese leaders value (or oppose) global multilateralism

³ Not surprisingly, in most of the cases we consider (including our two in-depth case studies), the United States is the relevant established power.

⁴ This focus on revisionist versus status quo preferences draws inspiration from the power transition literature, in which the rising state's type is an important factor determining whether a transition will be peaceful. For an early conceptualization of China as a rising power, see Randall L. Schweller, "Managing the Rise of Great Powers: History and Theory," in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert S. Ross (New York: Routledge Press, 1999), 1–32. For a good collection of essays applying power transition theory to the rise of China, see Robert S. Ross and Zhu Feng, eds., *China's Ascent: Power, Security, and the Future of International Politics* (Ithaca, NY: Cornell University Press, 2008). See also Naazneen Barma and Ely Ratner, "China's Illiberal Challenge," *Democracy: A Journal of Ideas* 2 (Fall 2006): 56–68; Steve Chan, *China, the U.S., and the Power-Transition Theory: A Critique* (New York: Routledge Press, 2008); Alastair Iain Johnston, "Is China a Status Quo Power?" *International Security* 27, no. 4 (Spring 2003): 5–56; Scott L. Kastner and Phillip C. Saunders, "Is China a Status

due to dispositional factors rather than the broader strategic setting. Yet the observed variation in China's behavior across different institutional settings suggests that more than just disposition may be at work. China, we show, does not approach international regimes with a single, ideologically fixed approach. Rather, Chinese foreign policy since the end of the Cold War has been flexible in global regimes. Our findings also complement and extend existing studies of international regimes by focusing on the particular pathways through which multilateral regimes are affected by rising powers.

The following section develops our theoretical argument and outlines our expectations. We then present detailed case studies on Chinese participation in regimes addressing two issues: North Korean nuclear proliferation and global financial governance. The final section concludes and offers suggestions on further research.

ANALYTIC EXPECTATIONS: OUTSIDE OPTIONS AND INDISPENSABILITY

When do rising powers choose to contribute to regime creation and maintenance? In this section, we develop a general theoretical argument. We begin with the assumption that national leaders choose whether and how to support or revise a regime based at least in part on their beliefs about what kinds of benefits they will receive from participation in the regime. The benefits states expect to get from a regime stem not merely from the presence or absence of gains from cooperation but from the distribution of those gains, giving states incentives to bargain hard over multilateral governance.⁵ After briefly elaborating on the scope of our theory we trace our analytic argument in two steps: focusing first on outside options and second on perceptions of indispensability.

A Note on Scope: Rising Powers and Second-Order Cooperation

Multilateral regimes include both formal institutions and informal procedures that countries use to coordinate their actions on a given issue. States have two kinds of decisions to make about how to behave in a regime. First,

Quo or Revisionist State? Leadership Travel as an Empirical Indicator of Foreign Policy Priorities," *International Studies Quarterly* 56, no. 1 (March 2012): 163–77; Yves-Heng Lim, "How (Dis)Satisfied is China? A Power Transition Theory Perspective," *Journal of Contemporary China* 24, no. 92 (March 2015): 280–97. The term "responsible stakeholder" comes from Robert B. Zoellick, "Whither China? From Membership to Responsibility," (Remarks to the National Committee on US-China Relations, 21 September 2005), https://www.ncuscr.org/sites/default/files/migration/Zoellick_remarks_notes06_winter_spring.pdf.

⁵ For a detailed description of the logic of distributional conflicts within international organizations, see Johannes Urpelainen, "Unilateral Influence on International Bureaucrats: An International Delegation Problem," *Journal of Conflict Resolution* 56, no. 4 (August 2012): 704–35.

they must choose whether to live up to the letter and spirit of an agreement they have made by making substantive policies that are in line with commitments; this issue is sometimes referred to as “compliance” or first-order cooperation.⁶ Our focus in this article, however, is on a second kind of decision: states must choose what kinds of efforts to make on behalf of the regime itself. Following Heckathorn we refer to this as “second-order” cooperation.⁷ Second-order cooperation involves a state punishing other members of a regime who fail to follow through on their commitments, enticing new members to join a regime, putting one’s own reputation on the line, and sacrificing some of its goals by accepting that other states will need a voice in regime governance as well, all in order to enhance the operation of a regime generally. Second-order cooperation can also entail investing in the construction of new institutions to help solve problems left un- or under-addressed in extant regimes. And in instances where no extant regime exists to address a particular problem, second-order cooperation entails investing in the creation of a new regime to manage the issue.

In the theory developed below, we consider the conditions under which rising powers will contribute to second-order cooperation in the context of existing or new regimes. Emerging powers typically face a set of international regimes constructed by established great powers—with the interests of those established powers in mind. But as emerging countries become more powerful economically, politically, and militarily their approach to multilateral regimes can be increasingly consequential to how those regimes operate. And in some cases they will find that existing regimes leave unaddressed problems that are important to the rising power. We thus ask: when will rising powers choose to invest—that is, to engage in second-order cooperation—in either existing or new regimes? When will they seek instead to change the rules put in place by existing great powers? And when will they passively accept existing regimes, essentially free riding on the second-order cooperative efforts of established powers?

For our purposes in this article, a rising power refers to a country that in the past has played a minor role in contributing to second-order

⁶ For example, see Lisa Martin, “Against Compliance,” in *Interdisciplinary Perspectives on International Law and International Relations: The State of the Art*, ed. Jeffrey L. Dunoff and Mark A. Pollack (New York: Cambridge University Press, 2013), 591–610.

⁷ Heckathorn, “Collective Action.” For other ways of defining first- and second-order cooperation see Christine Horne’s discussion of meta-norms, *The Rewards of Punishment: A Rational Theory of Norm Enforcement* (Palo Alto, CA: Stanford University Press, 2009); on second-order free riding, see Todd Sandler, *Global Collective Action* (Cambridge: Cambridge University Press, 2004). On a similar distinction regarding U.S. postwar trade policy, see Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca, NY: Cornell University Press, 1993).

cooperation on a particular issue but that is an increasingly consequential actor within that issue-area. Thus, what constitutes a rising power in any given case will depend on the context of the particular issue. For instance, India can be thought of as an emerging power in the context of global climate change, since rapid industrialization means that India is an increasingly significant contributor to greenhouse gas emissions, though India previously has played a secondary role in the construction and maintenance of international climate change regimes. But India exerts little influence on security issues in northeast Asia, and so it makes little sense to think of India as a rising power in that context. In the global context, with respect to many issues of contemporary concern, China clearly meets our definition of a rising power. While our focus in the empirical sections is on China's behavior, our theory could also apply to other emerging powers in today's world or to historical cases such as the United States or Germany at the turn of the twentieth century; we draw on other cases like these as we build our theory and return to some other contemporary applications outside of China in the conclusion. For simplicity, in the theoretical argument that follows, we refer to a single rising state and a single established power.

Finally, while we aim to construct a generalizable argument about how rising powers approach second-order cooperation, we do not claim that our theory explains all variation in rising power behavior relating to second-order cooperation. Certainly other factors, such as domestic politics or international socialization, also shape state behavior in important ways. Our more modest claim is that variables relating to bargaining power matter in important ways independent of these other factors. We return to alternative explanations, and how we handle these in our case studies, at the end of this section when we discuss how we evaluate our argument.

Outside Options

The relevant outside option for our analysis is a government's expectation about what would happen if it were to stop cooperating with other states to promote or maintain a multilateral regime. Outside options are important because they give states leverage in their negotiations over distributions of costs and benefits. A rising state can negotiate better terms for itself if it can convince the established power that it is willing to run the risk of a regime collapse. Collapse is not a goal in itself, but by claiming that it can tolerate a collapse if one were to come the rising state can induce the established power to pay a greater share of the costs of regime maintenance or shift the policy outputs of the regime to better suit the rising state's preferences. Here, it is the balance of outside options among states that matters and not a state's individual outside options in an absolute sense; a state only has more leverage when its outside option is better than that of its partner.

Outside options—the opportunity costs of cooperation—are a core feature of most contemporary understandings of how cooperation works in international organizations and regimes generally.⁸ Each side's outside option is its “best alternative to a negotiated agreement” against which it compares existing or proposed deals; as its best alternative improves, the value of any one particular compromise diminishes, putting it in a better position from which to demand more concessions or simply walk away.⁹ Scholars have shown that this ability to walk away—a state's “go it alone” power—is a resource it can use to reshape agreements to suit its interests in a variety of contexts.¹⁰ Outside options have been used, for example, by the United States when it threatens unilateral military action in order to win a United Nations Security Council resolution more to its liking, by NATO members when they use their willingness to accept inaction in a security crisis as a means to shift military burdens to other members, or by Japan when it uses its lack of dependence on the Asian Development Bank as a means to win support for its positions in the UN.¹¹

From the rising state's perspective, two factors determine the balance of outside options: the stakes and the impact on the rising state of the established power's unilateral option. The stakes are the importance of the issue for the rising state's leaders, specifically the prospective cost the rising state faces to unilaterally adjusting to a world in which no one supports multilateral cooperation. For instance, when the end of multilateralism would substantially raise the rising state's risk of war or economic depression, the stakes for the rising state would be high. The stakes would be lower if the rising state gains little from some multilateral endeavor, or if the rising state's leaders

⁸ Allison Carnegie, “States Held Hostage: Political Hold-Up Problems and the Effects of International Institutions,” *American Political Science Review* 108, no. 1 (February 2014): 54–70; Leslie Johns, “Servant of Two Masters: Communication and the Selection of International Bureaucrats,” *International Organization* 61, no. 2 (Spring 2007): 245–75; Phillip Y. Lipsky, “Explaining Institutional Change: Policy Areas, Outside Options, and the Bretton Woods Institutions,” *American Journal of Political Science* 59, no. 2 (April 2015): 341–66; Christina J. Schneider, “Weak States and Institutionalized Bargaining Power in International Organizations,” *International Studies Quarterly* 55, no. 2 (June 2011): 331–55; Randall W. Stone, *Controlling Institutions: International Organizations and the Global Economy* (New York: Cambridge University Press, 2011); Urpelainen, “Unilateral Influence on International Bureaucrats”; Daniel Verdier, “The Dilemma of Informal Governance with Outside Option as Solution,” *International Theory* 7, no. 1 (March 2015): 195–229.

⁹ Roger Fisher and William Ury, *Getting to Yes: Negotiating Agreement without Giving In* (New York: Penguin Books, 1981).

¹⁰ Lloyd Gruber, *Ruling the World: Power Politics and the Rise of Supranational Institutions* (Princeton, NJ: Princeton University Press, 2000).

¹¹ On the UN Security Council, see Erik Voeten, “Outside Options and the Logic of Security Council Action,” *American Political Science Review* 95, no. 4 (December 2001): 845–58; on NATO, see Songying Fang and Kristopher W. Ramsay, “Outside Options and Burden Sharing in Nonbinding Alliances,” *Political Research Quarterly* 63, no. 1 (March 2010): 188–202; on Japan, see Daniel Yew Mao Lim and James Raymond Vreeland, “Regional Organizations and International Politics: Japanese Influence over the Asian Development Bank and the UN Security Council,” *World Politics* 65, no. 1 (January 2013): 34–72.

believe the gains from multilateral cooperation could readily be replaced by some other arrangements (such as a series of bilateral agreements).

The second factor is the rising state's perceptions of the established power's unilateral option. What does the rising state expect the established power to do were the rising state to choose not to contribute to support multilateralism? Would the established power take action to solve the underlying problem? Would that solution suit the rising state's interests? The established power will be willing to independently pay the costs of regime maintenance when it has a large enough stake in the outcome that the private benefits it receives from effective multilateralism outweigh the costs of organizing and maintaining a regime. Such an expectation draws directly from the logic of hegemonic stability. To the extent that an established power (or a hegemon) benefits from global public goods directly, as when global economic growth benefits the established power's trade and investment, or indirectly, as when political stability and economic prosperity in the established power's allies deters revisionism, it will have an interest in paying at least some of the costs of supporting institutions that organize the provision of those public goods. Recent extensions of the logic of hegemonic stability with empirical applications to the period of 20th century American primacy suggest that this kind of leadership may have structural roots. If the leading state knows that basic security institutions will fail in the absence of a contribution that only it can provide, its outside option will be poor, and it will take action to create and support basic global regimes.¹²

However, some unilateral solutions to problems that an established or hegemonic power might take would be more to the rising power's liking than others. That is, apart from the question of whether a public good is provided there is the question of how it is provided. A global multilateral trade regime might be liberal or mercantilist, international legal norms might privilege universal human rights or national sovereignty, and security institutions might empower regional powers or subordinate them to a global power. These kinds of choices about how order is provided can themselves be critically important to the players.

When the rising power's outside options on an issue are poor—when the stakes are high and when the established power is unlikely to act unilaterally in a way that suits the rising power's interests—the rising power has a greater incentive to invest in regime maintenance by contributing to the costs of promoting and extending multilateralism. This is because the rising state has the most to lose if cooperation fails, and as such other states can

¹² G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars* (Princeton, NJ: Princeton University Press, 2009); David A. Lake, *Hierarchy in International Relations* (Ithaca, NY: Cornell University Press, 2009); Randall W. Stone, Branislav L. Slantchev, and Tamar R. London, "Choosing How to Cooperate: A Repeated Public-Goods Model of International Relations," *International Studies Quarterly* 52, no. 2 (June 2008): 335–62.

more credibly walk away from cooperation than can the rising state. Even though many of the actions states must take if they are going to create and sustain a multilateral regime are costly, they may be less costly than the alternative of doing nothing, especially when the costs of noncooperation are lower for other, more established states who can threaten to free ride or to act unilaterally in ways contrary to the interests of the rising power. In this situation, the rising state will be more willing to sacrifice other diplomatic objectives, and may even be willing to make substantive policy concessions to its partners, in order to achieve broad support for an agreement on joint action. The logic of this strategy is the same whether or not a formal international organization already exists. Where the rising power's outside options are bad and an IO already exists then the rising power will help make it function better; if an IO does not exist, then the rising power will build one.

Germany's role within Europe illustrates the point that leadership in preserving and extending a regime can entail sacrificing other policy goals. Germany's interests in European political integration—the stakes—are high, as Germany receives large economic and foreign policy benefits from integration and as a result stands to gain more than most of its partners do from political reforms that streamline the efficiency of decision making in European Union institutions.¹³ Furthermore, Germany's outside option to effective EU governance is especially poor, since its history makes the unilateral option for European governance a nonstarter. Consequently, Germany at times ends up paying the costs of effectively maintaining the regime. When negotiations over what eventually became the Lisbon Treaty stalled in 2005, the impasse broke when Germany made a number of concessions on voting weights in the council.¹⁴ In the empirical sections to follow we argue that China (PRC) made a similar choice in 2003 with respect to the Korean nuclear crisis, but it did not in 2009 with respect to international financial governance when the PRC's outside options were better.

Conversely, when a rising power's outside options are better it is in a stronger position at the margins to try to negotiate meaningful international cooperation on its own terms without having to pay, itself, the costs of establishing or maintaining a regime. Where possible, a rising state will try to ensure that the established power or others pay these costs—in effect, arranging for others to play the role that Germany played in the negotiations over the Lisbon Treaty. We expect the rising state's strategy about how to

¹³ William E. Paterson, "The Reluctant Hegemon? Germany Moves Centre Stage in the European Union," *JCMS: Journal of Common Market Studies* 49 (September 2011): 57–75.

¹⁴ Jonathan B. Slapin, "Bargaining Power at Europe's Intergovernmental Conferences: Testing Institutional and Intergovernmental Theories," *International Organization* 62, no. 1 (January 2008): 131–62. Robert Thomson, *Resolving Controversy in the European Union: Legislative Decision-Making Before and After Enlargement* (Cambridge: Cambridge University Press, 2011), 2.

do that, however, to depend on a further factor in the strategic environment: the rising state's assessment of whether other powers view the rising state's contributions as indispensable to the formation and maintenance of a regime.

Perceptions of Indispensability

With better outside options, there are two different ways that a rising power can try making its partners pay for producing regimes. First, it can show leadership maintaining a regime but demand compensation for it, either through concessions on other issues or through greater control of the regime itself. That is, it can hold up contributions in exchange for concessions. Second, it can passively accept regimes produced by other states and free ride off their second-order investments. We argue that a rising power will be more likely to adopt the first approach—hold up—when it is widely perceived as having a critical role to play in regime construction, and, like a monopolist, demands a high price for its services.

Size alone can make an emerging great power seem indispensable as a contributor to the creation and maintenance of international regimes. For example, if a state's active participation on first-order cooperation is critical to regime success, other states are likely to view that state's active cooperation on second-order issues as crucial. It is inconceivable, for instance, that efforts to revamp the global trading regime would be undertaken without active participation from the United States. As the world's largest economy, the regime depends on some level of U.S. "buy in"; as such, other countries should reasonably demand active U.S. participation in regime construction so as to have some reassurance that the United States will comply with the new rules.

States may also appear indispensable when their distinct preferences make them necessary, politically, for a multilateral coalition to have credibility. When a hegemonic state (like the United States) tries to entice smaller partners to join it in cooperation—for example, when it exercises second-order leadership—it can face a credibility problem if smaller states suspect it is likely to abuse its leading position in the regime. Having a second state, one skeptical of the hegemon's broader aims, cooperate on second-order issues can create more confidence in the ultimate aims of the regime. Even relatively weaker secondary powers can therefore be indispensable if the regime works as a dual-key system in which smaller states are more willing to make investments in cooperation when even states with distinct goals agree on the aims of the regime. For example, some of NATO's political effectiveness has been attributed to the diversity of opinion among member states, so that unanimous actions taken by an organization with a diverse

membership have enhanced credibility.¹⁵ For similar reasons, American security officials were highly motivated during the Cold War to ensure that the Soviet Union was seen as an equal partner in efforts to prevent nuclear proliferation, since Soviet acceptance would serve as a strong signal that the regime would not simply be a fig leaf for American aggrandizement.¹⁶

A rising state that is perceived by other major players as indispensable to effective regime maintenance will be in a position to threaten to withhold cooperation unless it secures concessions on the structure of the regime itself. Such a state would have a monopoly on a critical component for the regime to the point where everyone else's contributions would by themselves be insufficient without the state's cooperation. If the state's outside options were good, it would be able to threaten to withhold cooperation unless it were compensated so that it would be able to cooperate at a profit. The profit it seeks need not be financial—an indispensable state might be able to ensure, for instance, that it had a disproportionate influence in the governance of the regime, or it might demand side payments through other, linked regimes. The logic here was first developed to describe relations among firms in a supply chain, where one firm with a monopoly on a component critical to a finished product has an incentive to be a bottleneck—the more it slows up production with “unanticipated delays,” the more it can extort increased payments from its partners.¹⁷

The evolution of the Lisbon Treaty in Europe illustrates a way in which partners that, albeit smaller, are perceived as indispensable and thus have used their leverage to restructure regimes to serve their interests. During the final round of negotiations in 2007, Polish leaders adopted a high public-profile-blocking agreement on the new voting system. Poland's size, combined with its preferences that were distinct from Germany's but that resonated with other smaller central European states, made it indispensable in the later negotiations in which Poland won a voting system better suited to its interests.¹⁸ In a similar vein, we note in the case study on international finance that China is seen as increasingly indispensable in global financial governance; this has given it the leverage to revise aspects of International Monetary Fund (IMF) governance.

¹⁵ Lawrence S. Kaplan, *NATO Divided, NATO United: The Evolution of an Alliance* (Westport, CT: Greenwood Publishing, 2004), 20.

¹⁶ Bernhard G. Bechhoefer, “Negotiating the Statute of the International Atomic Energy Agency,” *International Organization* 13, no. 1 (1959): 38–59.

¹⁷ Benjamin Klein, Robert G. Crawford, and Armen A. Alchian, “Vertical Integration, Appropriable Rents, and the Competitive Contracting Process,” *Journal of Law and Economics* 21, no. 2 (October 1978): 297–326.

¹⁸ Paterson, “The Reluctant Hegemon?” On the ways small European states have used bargaining leverage, see also Stefanie Bailer, “Bargaining Success in the European Union: The Impact of Exogenous and Endogenous Power Resources,” *European Union Politics* 5, no. 1 (2004): 99–123.

What about situations in which the rising state is not perceived as indispensable? Here, the rising state has little independent incentive to devote resources to supporting the regime—second-order cooperation—even though it may engage in first-order cooperation.¹⁹ In such cases rising states will passively accept existing institutional rules while relying on larger established states to make efforts to build and maintain the regime themselves. This follows the simple logic of free riding, in which each state has an incentive to play along with an existing regime but has no incentive to expend effort to maintain it (by punishing cheaters, working to build a consensus around extensions to the regime, or by attempts to modify it to better suit changing circumstances). To be sure, a rising state that has a good outside option and that is not perceived as indispensable will have no particular reason to actively undermine multilateralism—although it may be inclined to stretch the rules when its own interests are at stake, even if that makes it harder for established leaders to maintain the regime.²⁰ But it does not have a strong motivation to take care, itself, that the regime is well-tended, as it knows that others will do that work.

For instance, the global trade regime in the early 1900s is a classic example of second-order free riding by rising powers. Britain, the established leading state, invested heavily in a regime but most middle and rising powers such as the United States refrained from acting to support the regime even as they accepted its rules and benefited from the growth and stability it fostered. Prior to the collapse of world trade in the 1930s, leaders from the United States (a classic rising state) understood that they benefitted from the openness that Britain maintained among its colonies and allies, even as Americans did little to reproduce norms of economic openness. The British example demonstrates the central importance of perceptions as well, since the key factor affecting outcomes was the common view (rather than the reality) that none of the rising middle powers were themselves indispensable to the maintenance of the regime.²¹

In summary, our theory entails two steps, detailed in Figure 1. The rising state has either a favorable or an unfavorable outside option, relative to the outside option of the established state. If the rising state's outside option is poor, we expect it to show leadership, devoting time and energy to building and maintaining an international regime. If the rising state's outside option

¹⁹ Neal G. Jesse et al., "The Leader Can't Lead When the Followers Won't Follow: The Limitations of Hegemony," in *Beyond Great Powers and Hegemons: Why Secondary States Support, Follow, or Challenge*, ed. Kristen P. Williams, Steven E. Lobell, and Neal G. Jesse (Stanford, CA: Stanford University Press, 2012).

²⁰ David A. Lake, *Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887–1939* (Ithaca, NY: Cornell University Press, 1988).

²¹ John A. C. Conybeare, "Public Goods, Prisoners' Dilemmas and the International Political Economy," *International Studies Quarterly* 28, no. 1 (March 1984): 5–22. For details of turn-of-the-century trade policy, focusing on British attempts to build institutions despite rampant free riding, see Steven E. Lobell, *The Challenge of Hegemony: Grand Strategy, Trade, and Domestic Politics* (Ann Arbor, MI: University of Michigan Press, 2003).

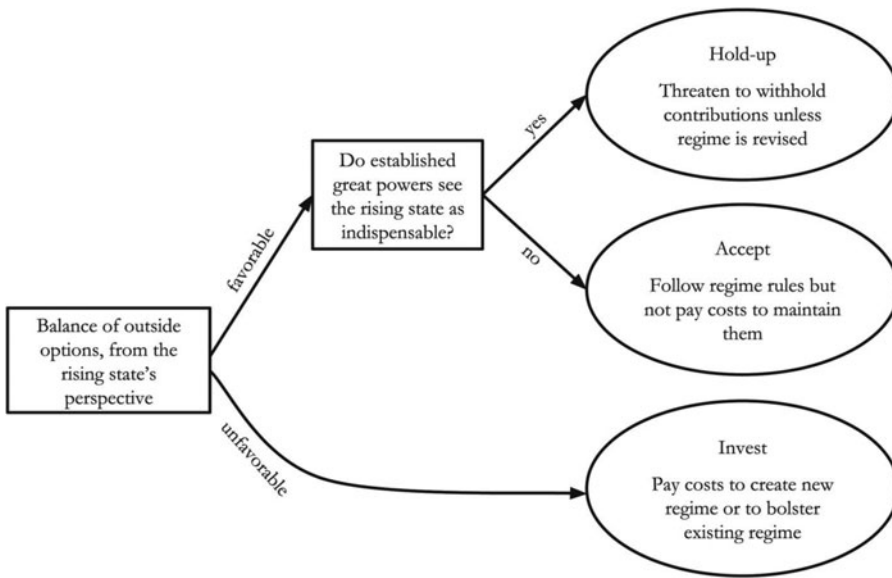


FIGURE 1 Summary of Expectations: Strategy Rising State Will Adopt.

is good, then its strategy will depend on the extent to which the emerging state believes the established power views the rising state's contributions as indispensable to a regime. When there is a perception of rising-state indispensability, the rising state will play a strategy of restructuring through hold up, only lending support to a regime in exchange for concessions from the established power. Where the rising state is not seen as indispensable, it will accept an established state-led regime but will not invest heavily in building or maintaining it.

Case Selection and Evaluating the Argument

In the following two empirical sections, we explore the explanatory power of our argument in the context of two in-depth case studies relating to China's approach to North Korea's nuclear weapons program and China in global financial governance. We chose these cases in order to maximize the variation we could obtain on the independent variables of interest, outside options and indispensability, which exhibit variation across the two cases. Critically, they also show exogenous variation within each case. That is, within each case a series of political changes that were not themselves connected to China's foreign policy stance led to observable changes in the balance of outside options and perceptions of indispensability, creating a kind of natural experiment to test the theory. Likewise, the cases show variation on our dependent variable—a rising power's (in our cases, China's) investments in second-order cooperation. In the Korea case, China's behavior

shifted from passive acceptance to proactive leadership, while in the financial governance case it shifted from passive acceptance to hold up. Because the dependent variable varies over time within cases, we control for the impact of potentially important competing explanatory variables that are time invariant, such as whether an issue is regional or global in scope, or—in the Korea case—country-specific factors such as China's considerable influence in, and historical ties to, North Korea. Finally, we have chosen one security and one economic issue, so as to assess whether our theory is useful in both domains. Our cases likewise include one regional issue and one global issue.

Our theory, like all theories of political behavior, greatly simplifies complex realities. In practice, for instance, both outside options and perceptions of indispensability vary continuously rather than dichotomously; our dependent variable, the rising power's strategy, can likewise vary by degrees. In the case studies that follow, we therefore describe changes in China's outside options and changes in China's perceptions of its indispensability as gradations, and examine how these changes are linked to changes in its foreign policy strategy at the margins.

Chinese decision making in the cases we have selected has undoubtedly been shaped by factors that lie outside of our theoretical framework. Our theory, for instance, abstracts away from domestic political dynamics within China, even though factors such as public and elite opinion and bureaucratic interests at times have influenced Beijing's approach to international regimes.²² Likewise, some scholars have pointed to the role of ideology and strategic culture in shaping China's approach to multilateralism. For instance, Rosemary Foot, drawing in part from Alastair Iain Johnston, argued that a realpolitik strategic culture may have served as a constraint on China's willingness to engage in "multilateralist behavior" during the 1990s.²³ Evan S. Medeiros and M. Taylor Fravel, meanwhile, argue that broad shifts in China's approach to international affairs ("China's new diplomacy") contributed to an increased willingness to engage with international institutions after the late 1990s.²⁴ And other scholars have shown that multilateralism may shape state behavior in more subtle ways than the simple power politics we describe, as regimes may socialize leaders of states or the very states themselves.²⁵ In the

²² See the chapters in David M. Lampton, ed. *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978–2000* (Stanford, CA: Stanford University Press, 2001).

²³ Rosemary Foot, "China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought," *Asian Survey* 38, no. 5 (May 1998): 425–40. Alastair Iain Johnston, *Cultural Realism: Strategic Culture and Grand Strategy in Chinese History* (Princeton, NJ: Princeton University Press, 1995).

²⁴ Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs* 82, no. 6 (November/December 2003): 22–35.

²⁵ David H. Bearce and Stacy Bondanella, "Intergovernmental Organizations, Socialization, and Member-State Interest Convergence," *International Organization* 61, no. 4 (Fall 2007): 703–33; Judith Kelley, "International Actors on the Domestic Scene: Membership Conditionality and Socialization by International Institutions," *International Organization* 58, no. 3 (Summer 2004): 425–57.

case of China, Johnston shows that socialization has at times played an important role in shaping PRC behavior in international security institutions.²⁶ Allen Carlson, meanwhile, attributes subtle shifts in the PRC's approach to sovereignty and intervention over the course of the 1990s in part to the influence of changing international norms regarding humanitarian intervention and the impact of these changing norms on the thinking of Chinese scholars and—eventually—China's broader foreign policy community.²⁷ These broader effects of multilateral regimes are not inconsistent with our thesis, as we simply argue that the structural factors we identify have an effect on a rising state's approaches to regimes as well.

In the cases that follow, we show that our theory can take us quite far in making sense of Chinese behavior relating to North Korea's nuclear weapons program and China's involvement in global financial governance. We also point out where our theory appears to offer more leverage than alternative explanations rooted in domestic politics or international socialization. Throughout, we show evidence of the motivations of Chinese policymakers when it is possible to do so.

NORTH KOREA'S NUCLEAR PROGRAM: FROM ACCEPT TO INVEST

China's diplomatic behavior relating to international attempts to rein in North Korea's nuclear program has varied substantially since the 1990s. During the first nuclear crisis (1993–94) China adopted a passive role, which continued until the eruption of the second nuclear crisis in 2002. In 2003, however, Beijing played a more proactive, institution-building role in the establishment of the Six Party Talks as a forum for finding a solution to the issue. In this section, we show that China's changing outside options, combined with its dispensability in the earlier period, were important factors driving this variation; in particular, as China's outside options worsened in 2002–03, the PRC made the decision to invest in building institutions.

The First Nuclear Crisis (1993–94)

The first North Korean nuclear crisis evolved from tensions between the United States and North Korea over the questions of whether the North possessed nuclear weapons and whether the International Atomic Energy Agency (IAEA) had authority to carry out inspections. Encouraged by the United States, the two Koreas agreed to the North–South Denuclearization

²⁶ Johnston, *Social States*.

²⁷ Allen Carlson, "More than Just Saying No: China's Evolving Approach to Sovereignty and Intervention Since Tiananmen," in *New Directions in the Study of China's Foreign Policy*, ed. Alastair Iain Johnston and Robert S. Ross (Stanford, CA: Stanford University Press, 2006): 217–41.

Declaration in 1991, and North Korea subsequently signed a safeguards agreement with the IAEA. Yet, when IAEA inspections revealed significant discrepancies with North Korea's declaration, Pyongyang refused to grant inspectors access to additional sites and shortly thereafter withdrew from the Nuclear Non-Proliferation Treaty (NPT). The announcement triggered a crisis that appeared resolved with the signing of the 1994 Agreed Framework between the United States and North Korea.²⁸

The United States stood at the center of the largely informal regime seeking to resolve this crisis, and bargaining over the terms of an agreement took place primarily in bilateral negotiations between the United States and North Korea. Three formal rounds of talks were held, supplemented by informal diplomatic contacts; the 1994 Agreed Framework was ultimately a product of bilateral U.S.–North Korea negotiations, though the United States coordinated its negotiating stance with its regional allies South Korea and Japan.²⁹ China stayed largely on the periphery of this regime, though it was represented in the organizations charged with enforcing the NPT, including the IAEA and the UN Security Council (UNSC).

As we are focused on second-order cooperation, the balance of outside options in this case refers specifically to Beijing's expectations of what would happen both to China and to the United States if China declined to invest in institutions to manage North Korea's nuclear program. How bad would China's nonparticipation in this regard be for China relative to the outside options of the United States? U.S. exit options appeared to be quite bad; U.S. officials were clearly alarmed that North Korea was moving rapidly to acquire nuclear weapons capabilities, the Clinton administration was under enormous domestic pressure to resolve the issue, and it was clear that a military option would be tremendously costly.³⁰ The United States thus had strong incentives to invest in the construction of new institutions to manage North Korea's nuclear program; these institutions, of course, ultimately took the form of the Agreed Framework. Given its preference for stability, China certainly would have had reason to welcome the creation of new institutions on the Korean Peninsula that would lead to a reduction of tensions.³¹ Yet China's outside options were quite favorable during the crisis.

²⁸ On the crisis, see Don Oberdorfer, *The Two Koreas: A Contemporary History* (New York: Basic Books, 2001); Scott Snyder, *China's Rise and the Two Koreas: Politics, Economics, Security* (Boulder, CO: Lynne Rienner Publishers, 2009).

²⁹ For a good overview of the rounds, see Joel S. Wit, Daniel B. Poneman, and Robert L. Gallucci, *Going Critical: The First North Korean Nuclear Crisis* (Washington DC: Brookings Institution Press, 2004).

³⁰ Oberdorfer, *The Two Koreas*; Wit, Poneman, and Gallucci, *Going Critical*.

³¹ Most analysts view China's primary goal relating to North Korea as stability, meaning the absence of military conflict on the peninsula and the continued functioning of the North Korean regime. See, for example, Avery Goldstein, "Across the Yalu: China's Interests and the Korean Peninsula in a Changing World," in *New Directions in the Study of China's Foreign Policy*, ed. Johnston and Ross, 131–61; Jeremy Paltiel, "China and the North Korean Crisis: The Diplomacy of Great Power Transition," in *North Korea's Second Nuclear Crisis and Northeast Asian Security*, ed. Seung-Ho Joo and Tae-Hwan Kwak (Hampshire,

First, Chinese leaders appear to have doubted whether North Korea even had a serious nuclear weapons program, which suggests that China viewed the stakes as being limited.³² Moreover, some evidence suggests that China viewed a U.S. military strike on North Korea as being unlikely at the time, which in turn would limit the costs to China of possible U.S. unilateralism.³³ Finally, Chinese leaders had every reason to suspect that not only did the

England: Ashgate, 2007), 94–109; John S. Park, “Inside Multilateralism: The Six-Party Talks,” *Washington Quarterly* 28, no. 4 (Autumn 2005): 83; Andrew Scobell, *China and North Korea: From Comrades-in-Arms to Allies at Arm’s Length* (Carlisle, PA: US Army War College Strategic Studies Institute, 2004), also available at <http://www.strategicstudiesinstitute.army.mil/pubs/display.cfm?PubID=373>; Snyder, *China’s Rise and the Two Koreas*; Anne Wu, “What China Whispers to North Korea,” *Washington Quarterly* 28, no. 2 (Spring 2005): 36–37; Feng Zhu, “Flawed Mediation and a Compelling Mission: Chinese Diplomacy in the Six-Party Talks to Denuclearise North Korea,” *East Asia* 28, no. 3 (September 2011): 207, 214.

³² Robert G. Sutter notes, for instance, that during the 1990s “Chinese officials adopted a stance that assumed North Korean nuclear weapons development was unlikely or remote.” Robert G. Sutter, *Chinese Foreign Relations: Power and Policy Since the Cold War* (Lanham, MD: Rowman and Littlefield, 2008), 249. In public statements, PRC leaders at times expressed doubts (or at least uncertainty) over whether North Korea was pursuing nuclear weapons. Premier Li Peng, for example, emphasized in June 1994 that China needed more information as its “knowledge was incomplete.” Foreign Minister Qian Qichen noted in April 1994 that China was “not well-informed” about North Korea’s program. See “Li Peng Seeks Data from IAEA on DPRK Nuclear Program,” *Hong Kong Agence France Presse*, 13 June 1994 (in *Foreign Broadcast Information Service (FBIS)-China*, 13 June 1994, 3); “Qian Qichen: China ‘Not Well-Informed’ on North Korean Nuclear Development,” *Kyodo News Service*, 30 April 1994 (reported by *BBC Summary of World Broadcasts*, in *LexisNexis*, 2 May 1994). After meeting with Chinese officials in April 1994, Australian Foreign Minister Gareth Evans came away with the impression that “China does not think North Korea has developed the capability to build nuclear weapons.” “Australian FM: PRC Thinks DPRK Has No Nuclear Capability,” *Melbourne Radio Australia*, 2 April 1994 (in *FBIS-China*, 4 April 1994). And a Japanese news service reported in July 1994—based on an internal Chinese Communist Party document—that Chinese high-ranking officials believed that North Korea’s nuclear program did not constitute a significant threat. “Beijing Reportedly Believes Pyongyang’s Nuclear Programme Poses No Real Threat,” *Kyodo News Service*, 3 July 1994 (reported by *BBC Summary of World Broadcasts*, in *LexisNexis*, 4 July 1994). Meanwhile, numerous Chinese analysts and editorials were openly skeptical of US claims of a North Korean nuclear weapons program. For example, see Gao E., “Lengzhanhou de Chaoxian Bandaο xingshi” [The Post-Cold War Situation on the Korean Peninsula], *Yafei Zongheng* 1994, no. 3: 12–14; Guo Wen, “Chao Mei hezhengduan de lailongqumai” [The Origins and Development of the US-North Korea Nuclear Dispute], *Guoji Zhanwang* 1994, no. 13: 11–13; Tian Zhongqing, “Fengyun bianhuan de Chaoxian Bandaο jushi” [The Constantly Changing Situation on the Korean Peninsula], *Guoji Zhanwang* 1993, no. 7 (1993): 9–11; “Delicate ‘Nuclear Inspection’ Diplomacy of [the] United States and North Korea,” *Wen Wei Po*, 13 July 1993 (in *FBIS-China*, 26 July 1993, 1); Zhang Liangui, “Chaoxian Bandaο hewenti zongheng tan” [A Broad Discussion of the Korean Peninsula Nuclear Issue], *Guoji Shehui yu Jingji* 1994, no. 9: 1–5.

³³ For instance, an article in the PRC-affiliated Hong Kong daily *Hsin Wan Pao* discounted the possibility of war on the peninsula, noting that the DPRK “cannot afford a war” given its backward state, while emphasizing as well that the United States lacked resolve: “Clinton is full of worries and dares not make any decision, even when thinking for a long time about dispatching troops to Haiti to deal with the 7,500-strong Haitian armed forces, who are equipped only with obsolete firearms dating back to World War II, so he certainly will not provoke the DPRK troops.” “Daily Discounts War Possibilities in DPRK, Bosnia,” *Hsin Wan Pao*, 15 June 1994 (in *FBIS-China*, 15 June 1994). Zhang Liangui, a leading Chinese expert on North Korea, also downplayed the likelihood of a US attack in 1994 (though the most intense phase of the crisis had already passed when he wrote the article). Zhang, “Chaoxian Bandaο hewenti zongheng tan” [A Broad Discussion of the Korean Peninsula Nuclear Issue], 4. To be clear, these data points are only suggestive, and it is hard to know how widely shared these views were among PRC foreign policy elites. But it is worth noting that these sentiments dovetail with Thomas J. Christensen’s findings concerning Chinese elite views of U.S. willingness to intervene in the event of a conflict in

United States have a disproportionate incentive to reach a stabilizing settlement, but it also had the ability to find a solution without extensive Chinese assistance—that is, Chinese leaders did not appear to view Chinese participation as indispensable for regime success in this case. Chinese officials, for instance, were insistent throughout the crisis that they saw it as a matter to be dealt with by North Korea, the United States, the IAEA, and South Korea.³⁴ Beijing, moreover, seemed to believe that its influence over North Korea was relatively limited.³⁵ Our theoretical framework thus predicts mostly passive Chinese behavior, which we term accept. That is, Beijing, with a favorable balance of outside options and facing widely held expectations that China's participation was not indispensable for cooperation to succeed, would take a back seat to a country (the United States) with more to lose in the event cooperation failed. Broadly speaking, this prediction is consistent with actual Chinese behavior during the crisis.

This is not to suggest that Chinese behavior was counterproductive; indeed, it at times was supportive of U.S. efforts. China, for instance, often served as a conduit for U.S. messages to North Korea, and Chinese officials appear to have pressed North Korea to bargain in good faith with the United States.³⁶ More concretely, in March 1994, China agreed to support a UNSC presidential statement that called on North Korea to allow the IAEA to complete inspections in the country; the statement did not threaten sanctions, but it did warn of future UNSC consideration if needed.³⁷

Still, despite some behind the scenes efforts to facilitate a solution during the crisis as an intermediary,³⁸ China's behavior was largely passive and secondary to the more central bargaining occurring between the United States and North Korea.³⁹ China's reluctance to play a more central role

the Taiwan Strait. Based on a number of interviews conducted in the late 1990s, Christensen found a widespread skepticism of U.S. resolve to intervene decisively in the Taiwan Strait, a view grounded in a belief that Americans were casualty-averse. Thomas J. Christensen, "Posing Problems without Catching Up: China's Rise and Challenges for U.S. Security Policy," *International Security* 25, no. 4 (Spring 2001): 5–40, esp. 17.

³⁴ See, for instance, comments made by Foreign Ministry spokesman Wu Jianmin on 13 May 1993, in "On DPRK Nuclear Inspections," *Zhongguo Xinwen She*, 13 May 1993 (in *FBIS-China*, 13 May 1993, 2). See also remarks by Jiang Zemin in "China Opposes Sanctions on DPRK," *Tokyo NHK General Television Network*, 10 June 1994 (in *FBIS-China*, 13 June 1994, 1).

³⁵ Snyder, *China's Rise and the Two Koreas*. See also Samuel S. Kim, "The Making of China's Korea Policy in the Era of Reform," in Lampton, ed. *The Making of Chinese Foreign and Security Policy*, 393.

³⁶ See especially Wit, Poneman, and Gallucci, *Going Critical*, 198. The authors describe China's role as "nuanced—but ultimately helpful." China wanted to avoid siding too closely with North Korea but also did not want to "openly 'gang up' on them."

³⁷ Wit, Poneman, and Gallucci, *Going Critical*, 159.

³⁸ As Scott Snyder emphasizes, Beijing worried about further damaging its relationship with North Korea, already strained following China's diplomatic recognition of Seoul in 1992. *China's Rise and the Two Koreas*, 117.

³⁹ For a similar characterization of PRC behavior in 1994 as largely "hands-off," see Park, "Inside Multilateralism," 81. Snyder also sees North Korea as playing a "passive role in managing the crisis." *China's Rise and the Two Koreas*, 117.

was again confirmed when the United States and North Korea ultimately signed the Agreed Framework that ended the crisis: Beijing declined to join the international consortium (the Korean Peninsula Energy Development Organization, or KEDO) charged with supplying North Korea with light-water reactors to replace its graphite reactors. China had less to lose than other key players—particularly the United States—if cooperation over the North's nuclear program fell apart. To be clear, Beijing could have dealt with the crisis in other ways. For instance, the PRC might have taken a more active role in negotiations, leveraging its historical ties with North Korea to push the DPRK toward an agreement. China might also have contributed more actively to the construction of institutions that might help keep the peace on the Korean Peninsula after the crisis was defused in 1994, perhaps linking such efforts to U.S. concessions on other issues like Taiwan (hold up). But PRC policy during 1993–94 most closely resembles our category of passive acceptance.

Because we cannot observe Chinese decision making directly, it is admittedly difficult to determine decisively how important outside options were as a factor motivating China's behavior during the 1993–94 crisis. We have provided evidence to suggest that China likely viewed its outside options as strong relative to the United States, and that it did not view its contributions as indispensable to successful resolution; we then demonstrated that observed PRC behavior during the crisis is consistent with our theoretical expectations of how China should have behaved given this configuration of strategic variables. But other factors outside of our theory were likely salient as well. For instance, China had only established diplomatic ties with South Korea in 1992, and Samuel Kim notes that normalization of relations with Seoul met considerable resistance from conservatives in Beijing.⁴⁰ This resistance, in turn, likely contributed to Beijing's pained efforts to appear balanced in its approach to the two Koreas in subsequent years—that is, to avoid any appearance of ganging up on North Korea.⁴¹ We return to a consideration of alternative explanations in the conclusion to this section, but first we turn to the second nuclear crisis that erupted on the Korean Peninsula in early 2003.

The Second Nuclear Crisis and the Establishment of the 6PT (2003)

As a new crisis over North Korea's nuclear program arose in early 2003, China's outside options had worsened considerably in comparison to the 1993–94 crisis. In contrast to the early 1990s, by 2003 Chinese officials and analysts had become more convinced of the seriousness of North Korea's

⁴⁰ Kim, "The Making of China's Korea Policy in the Era of Reform."

⁴¹ Snyder, *China's Rise and the Two Koreas*, 117.

nuclear weapons program.⁴² Particularly after North Korea announced in April 2003 that it had nuclear weapons, some prominent Chinese analysts became increasingly worried about the implications of a nuclear North Korea for stability in the region, including the possibility of a regional arms race.⁴³ Moreover, the expected costs to China of U.S. unilateralism were substantially higher than in 1993–94, because this time a potentially highly destabilizing U.S. military strike was seen as a significant possibility, with many Chinese analysts believing the crisis had the potential to escalate violently.⁴⁴ Some analysts pointed in particular to the hawkish views of some officials within the Bush administration, along with the Bush administration's embrace of a doctrine of preventive war, as causes for concern.⁴⁵ While there was a general sense that the war in Iraq (beginning in March 2003) acted as a constraint on U.S. actions in North Korea in the short run, some analysts worried that the United States would turn its attention to North Korea as military operations in Iraq drew to a close.⁴⁶ Finally, China became more reliant on foreign

⁴² Sutter writes that, "[b]eginning in late 2002, Chinese officials appeared more convinced by US and other evidence that North Korea had indeed developed nuclear weapons and was determined to build more." *Chinese Foreign Relations*, 249. This view is reflected in the work of some Chinese analysts writing in 2003. See, for instance, Xu Weidi, "Chaoxian Bandao hewei de huajie yu bandao zouchu lengzhan" [Resolving the Korean Peninsula Nuclear Crisis and Moving Beyond the Cold War on the Peninsula], *Shijie Jingji yu Zhengzhi* 2003, no. 9: 59–64; Zhang Liangui, "Chaohe wenti youyao shengji?" [Will the Korean Nuclear Issue Intensify Once Again?], *Shijie Zhishi* 2003, no. 12: 22–23.

⁴³ See, for instance, Zhang, "Chaohe wenti youyao shengji," 22; Zhang Liangui, "Coping with a Nuclear North Korea," *China Security* 4 (2006): 2–18. See also comments by Yu Meihua in: Luo Jie, "Zhongguo weishenme jiji chucheng liufang huitan: fang Chaoxian Bandao wenti zhuanjia Yu Meihua" [Why China Actively Facilitated the Six Party Talks: An Interview with Korean Peninsula Expert Yu Meihua], *Shijie Zhishi* 2003, no. 18: 25. Other accounts that emphasize this concern include Mike Chinoy, *Meltdown: The Inside Story of the North Korean Nuclear Crisis* (New York: St. Martin's Press, 2008), 164; Scobell, *China and North Korea*, 12; Susan L. Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2007), 123. On North Korea's announcement, see David E. Sanger, "North Korea Says It Now Possesses Nuclear Arsenal," *New York Times*, 25 April 2003, 1.

⁴⁴ See, for example: Zhang, "Chaoxian wenti youyao sheji"; Zhang Liangui, "Chaoxian de hewuqi yu Meiguo de jingcha jue" [North Korea's Nuclear Weapons and America's Role as Policeman], *Zhanlue yu Guanli* 2003, no. 5: 65–77; Lu Yousheng, "Can the US Win Two Wars Simultaneously?" *Liaowang*, 27 January 2003 (in *World News Connection*, 14 February 2003); Shi Yinhong, "Weixian he xiwang: Yilake Zhanzheng beijingxia de Chaoxian he wenti" [Danger and Hope: The North Korean Nuclear Issue against the Backdrop of the Iraq War], *Jiaoxue yu Yanjiu* 2003, no. 5: 50–53; Sun Cheng, "Dierci Chaoxian hewei" [The Second North Korean Nuclear Crisis], *Guoji Wenti Yanjiu* 2003, no. 3: 15–19. Note that many analysts—even if highlighting the danger of U.S. military action—also acknowledged some of the constraints on a U.S. military strike (such as opposition from U.S. allies in the region and high potential casualties). See, for example, Lu, "Can the US Win Two Wars Simultaneously?" See also Zhu Feng, "Bush zhengfu de bandao zhengce yu Chaoxian hewei" [The Bush Administration's Peninsula Policy and the North Korean Nuclear Crisis], *Xiandai Guoji Guanxi* 2003, no. 2: 1–7. For a more skeptical view on the US willingness to escalate, see "The North Korean Nuclear Crisis Escalates Again," *Ta Kung Pao*, 3 January 2003 (in *World News Connection*, 8 January 2003). For a concurring view see Snyder, *China's Rise and the Two Koreas*, 150.

⁴⁵ See, for example, Shi, "Weixian he xiwang," and Cheng, "Dierci Chaoxian hewei." See also "If the Foreign Powers Neglect the Position of the DPRK, the DPRK Will Reveal Its Own Strength," *Wen Wei Po*, 19 July 2003 (in *World News Connection*, 24 July 2003).

⁴⁶ For example, see Lu, "Can the US Win Two Wars Simultaneously?" See also "Ta Kung Pao Article Says DPRK to Go Nuclear if War Erupts with US," *Ta Kung Pao*, 6 March 2003 (in *World News Connection*,

direct investment (FDI) to achieve its economic goals in the years after the first nuclear crisis; in turn, Chinese leaders were more sensitive to external instability—including instability on the Korean Peninsula—that could put FDI flows at risk.⁴⁷ In short, there is reason to think that China's outside options in 2003 were considerably worse than they were during the 1993–94 crisis.

China, of course, could conceivably have adopted a relatively hands-off approach to the 2003 nuclear crisis, as it had in 1993–94. Yet this time China instead pursued a policy of investing in institutions to manage the nuclear issue. After concluding that the Bush administration would continue to rule out the bilateral (U.S.–DPRK) talks demanded by North Korea to deal with the crisis, China—which had previously balked at the notion of a trilateral dialogue involving the PRC—coaxed North Korea to attend a trilateral meeting (the United States, China, North Korea) in Beijing in April 2003.⁴⁸ When talks went poorly, and the United States insisted that future meetings include Japan and South Korea, China again took the lead in convincing North Korea to take part in a larger forum, the Six Party Talks, which commenced in August 2003, in Beijing.⁴⁹ Beijing's efforts in these regards carried significant risks: most importantly, Beijing risked harming the long-standing “lips and teeth” alliance with North Korea. In the years immediately after 2003, China's behavior as 6PT host continued to be proactive—at least to some extent. PRC officials often pushed the United States to be more flexible in its approach in the 6PT and sometimes offered solutions when the talks reached an impasse. Over the course of the various rounds, all adopted texts were drafted by Beijing.⁵⁰ China played an important role in facilitating the declaration agreed to after the fourth round of the 6PT on 19 September 2005, as PRC officials drafted several different versions of the agreement and pushed

10 March 2003). Shi notes that since the “United States achieved a quick victory at little cost in the Iraq War,” that this would lead to some increased calls for the use of force vis-à-vis North Korea. “Weixian he Xiwang,” 51. Zhu, writing before the start of the Iraq war, saw the coming war in Iraq as something that would make military action on the Korean Peninsula much more difficult for the United States. But he also notes in conclusion that the second nuclear crisis (compared to the 1993–94 crisis) had a much greater chance of ending badly (“dierci Chao heweiji jiu qi xingzhi he keneng fasheng de xiaoji houguo er yan yijing yuanyuan chaoguole diyici”), and that the potential for military conflict could not be ruled out. “Bushi zhengfu de bandao zhengce yu Chaoxian heweiji,” esp. 7 on the second nuclear crisis comparison.

⁴⁷ See esp. Park, “Inside Multilateralism,” 81–82, on this point. See also John S. Park, “North Korean Crisis: China Shows the Way to Pyongyang,” *International Herald Tribune*, 14 May 2004. Based on interviews in Beijing, Park argues that Chinese leaders analyzed the post-2002 nuclear crisis primarily from a “cost-benefit standpoint in terms of how the crisis” was impacting economic objectives.

⁴⁸ Chinoy, *Meltdown*.

⁴⁹ Chinoy writes that China promised North Korea that China would play a mediating role in talks, would increase aid to North Korea, and would encourage the United States to pledge nonaggression in exchange for nuclear disarmament. *Meltdown*, 179.

⁵⁰ That China decided on procedures in the 6PT is significant, because at other times when playing host, notably of the APEC meetings held in Shanghai in 2001, China left the agenda up to the United States.

North Korean and American officials to compromise.⁵¹ In sum, by initiating the Six Party Talks in 2003, Beijing played a central role in restructuring the basic institutional framework dealing with the North Korean nuclear issue, and China in the years thereafter continued to invest some effort in finding a lasting solution to the North Korean nuclear issue within the 6PT framework.

A number of factors likely contributed to Beijing's decision to invest in the creation of the Six Party Talks, ranging from a desire to improve China's image abroad to the desire to improve the relationship with Washington following bilateral turbulence at the start of the George W. Bush administration.⁵² But numerous PRC analysts emphasized the downside risks of staying on the sidelines (in other words, they stressed China's worsening outside options noted above) as being a critical factor. Zhang Liangui, for instance, describes the establishment of the 6PT as a "crucial step in the process of solving the North Korean nuclear problem though the use of peaceful means," and as constituting "the last opportunity for avoiding war."⁵³ Korea expert Yu Meihua likewise emphasizes that China was motivated first and foremost by concerns about regional stability, and notes that since trouble on the Korean Peninsula would influence China's security, Beijing could not simply "sit back and watch."⁵⁴ Beijing's worsening outside options, in short, appear to have been important to its decision to invest in the Six Party Talk process, though other factors were certainly relevant.

China's more recent behavior on the nuclear issue also appears consistent with our theoretical expectations. By the mid-2000s, China's outside

⁵¹ PRC officials also actively sought to narrow the gaps between the U.S. and North Korean positions, for instance, by crafting language that helped the two sides overcome disagreements about whether denuclearization should include peaceful nuclear programs in North Korea. Chinese officials likewise found a way to address last-minute U.S. concerns about the use of the term "peaceful coexistence" in the declaration without losing North Korean support. Chinoy, *Meltdown*, 243–49. A consistent analysis is Avery Goldstein, "Power Transitions, Institutions, and China's Rise in East Asia: Theoretical Expectations and Evidence," *Journal of Strategic Studies* 30, no. 4–5 (2007): 639–82.

⁵² Jeremy Paltiel, for instance, argues that a changed conception among PRC leaders of China's international role was critical; Chinese leaders increasingly embraced the notion of a "responsible great power" and North Korea served as a useful "test case of solving security problems through dialogue and through seeking 'win-win' solutions." See Paltiel, "China and the North Korean Crisis," 99. On the potential for the 6PT to improve China's image as a "responsible great power," see also Jiang Zhajiu, "Zhongguo diqu duobian anquan hezuo de dongyin" [Motivations for China's Regional Multilateral Security Cooperation], *Guoji Zhengzhi Kexue* 2006, no. 1:21. On stable U.S.–China relations as a factor, see Gilbert Rozman, *Strategic Thinking about the Korean Nuclear Crisis: Four Parties Caught between North Korea and the United States* (New York: Palgrave, 2007), 104.

⁵³ Zhang, "Chaoxian de hewuqi yu Meiguo de jingcha juece," 76.

⁵⁴ Yu uses two idioms to emphasize this point, noting that China could not "fold its arms and look on" (xiushou pangguan) or "watch the fire from the other side of the river" (gean guanhuo), implying that China's outside options were bad. See Luo, "Zhongguo weishenme jiji chucheng liufang huitan." See also Jiang Zhajiu's analysis, which highlights the possibility of a U.S. attack on North Korea and the instability and challenges it would generate as the primary factor leading China to invest in the 6PT. "Zhongguo diqu duobian anquan hezuo de dongyin," 18. And see Shirk, who quotes a Chinese expert on America as suggesting that the United States or North Korea "might go crazy. This would cause big problems for China. So China had to do something." *China: Fragile Superpower*, 123.

options were improving. The threat of a unilateral U.S. military strike declined as the United States became more deeply mired in protracted conflicts in Afghanistan and Iraq; that the United States did not respond militarily to North Korea's 2006 nuclear test confirmed this. The North Korean nuclear test likewise did not give rise to a new regional arms race, helping to alleviate some of the PRC's anxieties about the possible risks associated with a nuclear North Korea. Thus, when the Six Party Talks collapsed in early 2009, China's behavior was much more passive than was the case at the height of the second nuclear crisis in 2002–03. For Beijing, the stakes of nuclear proliferation on the Korean Peninsula were simply lower than they once were.

Conclusions and Alternative Explanations on North Korea

Our theory offers a good deal of leverage in explaining differences in Chinese behavior during the 1993–94 and 2002–03 crises on the Korean Peninsula. During the 1990s, China's outside options were reasonably strong and the PRC did not appear to believe that Washington viewed active PRC participation as indispensable for cooperation to succeed. Our argument predicts passive behavior in such a case. In fact, Beijing mostly adopted a low profile at the time, though it did occasionally play a quietly constructive role in U.S.–North Korean negotiations. By 2003, China's outside options had worsened considerably; failure to find a credible negotiated settlement threatened to greatly destabilize the region. At this time, China played a more proactive role, most notably by choosing to invest in the construction of the 6PT mechanism. Beijing, that is, took the lead in reforming the institutional structure addressing the North Korean nuclear weapons issue.

To be clear, other factors have likely influenced PRC behavior toward North Korea, as we have highlighted above, and we can point to alternative explanations that also provide some leverage in explaining the shift in PRC behavior from passive acceptance during the 1993–94 crisis to proactive investment during the 2002–03 crisis. One straightforward alternative explanation centers on broader shifts in China's approach to international affairs. As Medeiros and Fravel write, by the late 1990s and early 2000s China had “begun to take a less confrontational, more sophisticated, more confident, and, at times, more constructive approach toward regional and global affairs.” This “new diplomacy” was reflected in increased PRC engagement with regional institutions, increased willingness to accept global nonproliferation norms, and increased pragmatism in dealing with territorial disputes with neighboring countries.⁵⁵ Medeiros and Fravel trace these shifts to a number of factors, some domestic (such as institutional reforms and aggressive

⁵⁵ Medeiros and Fravel, “China's New Diplomacy,” 22. On these changes, see also Shirk, *China: Fragile Superpower*; Johnston, *Social States*; M. Taylor Fravel, *Strong Borders, Secure Nation: Cooperation and*

foreign ministry training programs) and some international (such as socialization processes as PRC scholars and analysts increasingly interacted with international experts).⁵⁶ In short, China's more proactive approach to North Korea in 2003 may have been a reflection of a more general reorientation in the PRC's diplomatic behavior.⁵⁷

Still, our strategic focus on outside options offers some additional explanatory power to help make sense of shifting PRC policies relating to North Korea. Most importantly, China did not assume a proactive role until its outside options deteriorated precipitously in the spring of 2003; to paraphrase Christoph Bluth, it was Beijing's worsening outside options that served as the catalyst for China's more proactive approach in this instance.⁵⁸ Moreover, by later in the decade the PRC appeared to be resuming a more passive approach to the North Korean nuclear issue, a shift that can be readily attributed to improving outside options as the likelihood of a unilateral U.S. military strike declined sharply.

CHINA'S PARTICIPATION IN GLOBAL FINANCIAL GOVERNANCE: FROM ACCEPT TO HOLD UP

As in the North Korea case, China's behavior with regard to global financial governance issues has evolved markedly over the past two decades. Through the early 2000s, Beijing was largely content to accept a passive stance on second-order cooperation over global financial governance, that is, it was a relatively passive actor in the IMF and other international financial mechanisms such as the Basel Accords. We see this tendency to passive acceptance as a function of China's perception that its outside options were favorable, and that its participation was widely viewed as not indispensable for regime maintenance. Since 2008, in contrast, China has been willing to participate, at times quite actively, in discussions on second-order rules governing the global financial system. For instance, prominent Chinese economists such as

Conflict in China's Territorial Disputes (Princeton, NJ: Princeton University Press, 2008); Evan S. Medeiros, *Reluctant Restraint: The Evolution of China's Nonproliferation Policies and Practices: 1980–2004* (Stanford, CA: Stanford University Press, 2007).

⁵⁶ On socialization, see Johnston, *Social States*.

⁵⁷ In addition to Medeiros and Fravel, "China's New Diplomacy," other scholars also view China's proactive role in setting up the Six Party Talks as part of a more general pattern toward a more proactive, or "responsible," foreign policy. See, for example, Shirk, *China: Fragile Superpower*, chap. 5; Christoph Bluth, *Crisis on the Korean Peninsula* (Washington DC: Potomac Books, 2011), 181.

⁵⁸ More specifically, Bluth highlights the danger of instability that a unilateral U.S. attack would provoke as being the catalyst behind the establishment of the Six Party Talks, while emphasizing broader background conditions like a more stable domestic environment in China and general shifts in PRC diplomacy around the turn of the century. *Crisis on the Korean Peninsula*, 181–82.

Li Daokui have noted China's interest in becoming actively involved in the negotiations to rebuild the international financial system.⁵⁹

But even with this greater post-2008 activism—and in contrast to China's proactive role in establishing the 6PT mechanism—China has not actively invested in the construction of new institutions of global financial governance to wholly replace or supersede the existing institutions. Indeed, Beijing's participation often has been prodded by other actors (principally the United States). More important, Beijing has demanded significant concessions in return, most notably on the important second-order issue of increasing developing countries' voices, through increasing their vote shares, within the IMF. In other words, China has pursued a hold up strategy, made possible by its strong outside options and a growing sense among other key actors, primarily the United States, that China's participation in global financial governance has become indispensable.

China and Global Financial Governance through the Early 2000s

When the PRC took over the China seat in the IMF in 1980, membership in the organization required virtually no commitment of resources from Beijing. Nor was China in fact tempted to borrow funds, although it did respond favorably to extensive IMF advice on current account convertibility and internal pricing matters.⁶⁰ This rather muted involvement contrasts with Beijing's interests in the World Bank, in which China quickly became a major borrower and was widely perceived to be an ideal client.⁶¹

Through the early 2000s, Beijing kept a low profile in the IMF not just in terms of borrowing but also in terms of voting power and other second-order governance issues. While Beijing participated in the organization in terms of posting officials to IMF headquarters in Washington, DC, it remained on the sidelines of policy debates. As a U.S. Treasury Department official responsible for East Asian affairs indicated in the early 2000s, there was little interaction between Chinese officials and IMF staff at the working level, and at the

⁵⁹ Li Daokui, "Zuwei yige xinxing daguo, zhongguo ying jiji canyu guoji jinrong tixi gaige" [China Should Actively Participate in International Financial System Reform as an Emerging Power], *Zhongguo yu Shijie Guancha* 2009, no. 1. A recent treatment of China's negotiations over IMF capital control policy is Jeffrey M. Chwieroth, "Controlling Capital: The International Monetary Fund and Transformative Incremental Change from Within International Organisations," *New Political Economy* 19, no. 3 (2014): 445–69. On the global context surrounding renegotiations over influence within the IMF see Ayse Kaya, *Power and Global Economic Institutions* (Cambridge: Cambridge University Press, 2015).

⁶⁰ Nicholas R. Lardy, "China and the International Financial System," in *China Joins the World*, ed. Oksenberg and Economy, 206–30; International Monetary Fund, *At a Glance: China and the IMF* (Washington DC: International Monetary Fund, 2004), also available at <http://www.imf.org/external/country/chn/rr/glance.htm>.

⁶¹ Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: University of Michigan Press, 1990).

board level China “usually keeps quiet.”⁶² Beijing’s behavior on issues in global financial governance could best be described as passive acceptance.

How can we explain this passive role? China’s outside options during this period appeared strong. Key issues pertaining to international financial governance were low priorities in Beijing. China, more broadly, was content to seek deeper integration into the current system. Chinese leaders had worked hard to join the organization, believing that membership would impart both international and domestic legitimacy on the reform government.⁶³ Indeed, Beijing was quite supportive of the IMF; as leading Chinese international relations scholar Yu Yongding noted in 2004 with regard to global financial institutions generally: “China has long regarded the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO)/the General Agreement on Tariffs and Trade (GATT) as the three pillars of the world economic order. China has maintained a very good relationship with the IMF and the WB, especially with the latter, due to these two international organizations’ sympathetic attitudes towards China’s reform and opening up since the early 1980s.”⁶⁴

Nor did Beijing have serious disagreement with the United States over IMF governance policies, or with global financial governance systems in general, before about 2006.⁶⁵ For example, while China’s position was that the IMF should increase surveillance of developed countries to the level carried out for developing countries, these calls were not prominent in deliberations at the institution’s working or decision-making levels.⁶⁶ In short, Beijing had little reason to worry that outcomes contrary to its interests would likely arise were it to decline to participate actively in governance issues within the IMF. At the same time other established powers—principally the United States—did not see China’s participation as indispensable for cooperation on second-order issues. As Gregory T. Chin states: “For the decade prior to the global crisis, the major emerging countries kept a low profile or minimized their engagement in the Bretton Woods institutions, did not bear significant costs in maintaining the global architecture, and could channel

⁶² When China’s representatives did speak, it was on behalf of first-order issues involving developing countries, such as increasing technical assistance. Interview with author, 20 August 2002.

⁶³ See Jacobson and Oksenberg, *China’s Participation in the IMF, the World Bank, and GATT*; Sutter, *Chinese Foreign Relations*, 114.

⁶⁴ Yu Yongding, “The G20 and China: A Chinese Perspective,” *The G20 at Leaders’ Level?* (Ottawa: International Development Research Centre, 29 February 2004), <http://dspace.cigilibrary.org/jspui/bitstream/123456789/17390/1/The%20G20%20and%20China%20A%20Chinese%20Perspective.pdf?1>.

⁶⁵ The main exception was that China, in concert with many of its Asian neighbors, was dismayed over perceived IMF missteps following the 1997–98 Asian financial crisis.

⁶⁶ Zhou Xiaochuan, “Statement by the Hon. Zhou Xiaochuan, Governor of the Fund for the People’s Republic of China, at the Joint Annual Discussion” (Washington DC: International Monetary Fund, 3 October 2004), <http://www.imf.org/external/am/2004/speeches/pr32e.pdf>.

their resources instead to fostering hedging options.”⁶⁷ Given China’s strong outside options and the belief among great powers that the value of China’s active participation was marginal, Beijing was able to adopt a passive role on second-order issues within the IMF.

Mid 2000s through the Global Financial Crisis

This picture began to change after the mid-2000s; the period leading up to and through the global financial crisis of 2008–09 was for Beijing a formative time for executing a new strategy toward participation in global financial governance. Prior to the onset of the crisis, Beijing was becoming more active in global financial issues. Uncomfortable with the G8 mechanism, at which it had merely observer status, China actively participated in the expansion of the G20 process.⁶⁸ China raised the issue of expanding developing country representation (including that of China) in global financial institutions.⁶⁹ As China’s economy grew rapidly, its continued very low percentage of vote shares in the IMF vastly underrepresented its growing economic prowess. This disconnect began to create dissatisfaction in Beijing over the IMF and the U.S.-dominated international financial system more generally.⁷⁰ Chinese officials involved in international financial matters also began in 2006 to voice criticism that loose U.S. monetary and fiscal policy was creating instability in the world economy, and more generally that a dollar-dominated international financial order allowed the United States too much power over the global system. Moreover, China, along with other emerging powers such as Brazil and India, invested considerable energy into building linkages among developing countries.⁷¹

While growing dissatisfaction with the global financial regime should have had the effect of raising the stakes for Beijing (and thus made its outside options worse), other trends served to enhance China’s outside options. More specifically, Beijing by the late 2000s had become enmeshed in a range of institutional arrangements that could, with substantial investment, potentially serve as an alternative to the IMF in future crises. The Asian financial crisis had deeply disturbed many governments in the region and called into

⁶⁷ Gregory T. Chin, “The Emerging Countries and China in the G20: Reshaping Global Economic Governance,” *Studia Diplomatica* 63, no. 2 (November 2010): 105–23, esp. 109.

⁶⁸ Interview with U.S. government official involved in G-20 process, Washington, DC, 13 May 2009.

⁶⁹ As noted below, China was insistent upon the elevation of the issue of its underrepresentation in the IMF in the Strategic and Economic Dialogue with the U.S. in 2009. Interview with author, 20 August 2009.

⁷⁰ This dissatisfaction is expressed, for instance, in Li Xiangyang, “Guoji jingji guize de xingcheng jizhi” [The Formation Mechanism of International Economic Rules], *Shijie Jingji yu Zhengzhi* 2006, no. 9: 69–78.

⁷¹ Chin, “The Emerging Countries and China in the G20.”

question IMF credibility.⁷² This disenchantment, in turn, helped to inspire the 2003 founding by the Association of Southeast Asian Nations (ASEAN) Plus Three (APT)⁷³ of the Chiang Mai Initiative (CMI)—a network of bilateral swap arrangements to provide foreign currency reserves to ASEAN nations facing a reserve currency crisis.⁷⁴ Although in its provisions for conditionality and surveillance the CMI follows standards set by the IMF, it was designed explicitly to provide an alternative source of crisis funds to the IMF. As William W. Grimes states, it “creates the institutional basis for a more credible challenge to IMF management in the next regional crisis. Thus, it increases APT states’ leverage over the IMF by creating a credible threat of regional exit from the global regime.”⁷⁵ At the global level, China later in the decade became involved in the BRIC (Brazil, Russia, India, and China) forum. After substantial preparation, Russia hosted the first BRIC summit in 2009. It would be an exaggeration to claim that the BRICs make a tight-knit unified advocacy group, as interests among the countries often diverge considerably. Moreover, as with the CMI, China for a while at least remained reluctant to attempt to fully use this alternative emerging venue and has softened other members’ efforts to more openly challenge the IMF. Nevertheless, the BRIC meetings would become a key venue during the global financial crisis for pressuring the IMF to give a greater voice to BRIC countries.⁷⁶ We believe that, on balance, the emergence of these alternative institutions helps to enhance China’s outside options by offering the prospect—if still remote—of bypassing existing regimes in the event of future crises. For China, these alternative institutions did not immediately constitute viable options that could replace the IMF’s value, of course. However, Chinese initial investments in groups like the CMI can be viewed as down payments on the development of outside options over the long run.

Interestingly, Beijing in 2014–15 further extended its efforts to influence global financial governance by establishing two new global financial bodies that exclude U.S. participation: the New (formerly BRICs) Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). The New Development Bank, established in 2014 and headquartered in Shanghai, gained substantial commitments of funding and also established voting rules for members that contrast with those of the World Bank and IMF: one country, one vote, and no veto. Its main aim is to fund large infrastructure projects.

⁷² See William W. Grimes, *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism* (Ithaca, NY: Cornell University Press, 2008).

⁷³ The APT includes the ten ASEAN countries plus China, Japan, and South Korea.

⁷⁴ Most of the swaps thus far have used dollar reserves, though increasingly they involve currencies of member countries, and China alone has insisted on exclusive use of local currencies in its bilateral agreements. See Grimes, *Currency and Contest in East Asia*, 82, 85; Eswar Prasad and Lei (Sandy) Ye, *The Renminbi’s Role in the Global Monetary System* (Washington, DC: Brookings Institution, 2012), 71.

⁷⁵ Grimes, *Currency and Contest in East Asia*, 81.

⁷⁶ Michael A. Glosny, “China and the BRICs: A Real (but Limited) Partnership in a Unipolar World,” *Polity* 42, no. 1 (January 2010): 100–29.

The AIIB, driven strongly by China's actions and funds, and headquartered in Beijing, was founded by a pan-Asian membership in October 2014 to fund infrastructure projects in Asia. The establishment of these two organizations appears to be a more robust attempt than has been made with the CMI to construct alternatives to the U.S.-created global financial institutions.⁷⁷ We return in the conclusion to the prospect that the construction of new institutions in the global financial arena is a deliberate attempt to enhance China's outside options.

With the onset of the global financial crisis in the fall of 2008, then, China's outside options on balance remained favorable. Yet it is clear that the United States was quickly coming to see China's participation in a solution to the crisis as indispensable. As the venue for addressing global financial issues shifted from the G8 to the G20, China was frequently called out—along with the United States—as a critical actor that needed to be brought into and assent to a solution. The most obvious sign of the new attitude came from statements that the crisis needed to be resolved by a de facto “Group of 2,” or “G2.”⁷⁸

As noted, the onset of the crisis brought an uptick in criticism from China about the international financial system, with some of the most pointed criticism coming in comments by the People's Bank of China's Governor Zhou Xiaochuan in 2009: “A half century after its founding, it is clear that the IMF has failed in its mission.”⁷⁹ Beijing's concerns centered not so much on policy outputs of the IMF or the workings of the global system, however, as much as on two issues tied to status: China's underrepresentation in the IMF given the size and importance of the Chinese economy and the dominance of the dollar as a reserve currency and the legacy benefits this brings to the U.S. economy and government.⁸⁰

⁷⁷ For representative commentary on these new institutions from a U.S. perspective, see Evan A. Feigenbaum, “The New Asian Order and How the United States Fits In,” *Foreign Affairs*, 2 February 2015, <https://www.foreignaffairs.com/articles/east-asia/2015-02-02/new-asian-order>; Ellen L. Frost, “Rival Regionalisms and Regional Order: A Slow Crisis of Legitimacy,” *NBR Special Report # 48* (Seattle: National Bureau of Asian Research, 2014).

⁷⁸ The G2 concept was first floated by Washington-based economist C. Fred Bergsten. Although Beijing preferred to downplay this designation, the idea that China was the key (indispensable) player along with the United States in helping to ward off global recession was clear in the G20 talks that took place surrounding the crisis. C. Fred Bergsten, “Two's Company,” *Foreign Affairs* (September/October 2009), <http://www.foreignaffairs.com/articles/65232/c-fred-bergsten/twos-company>. An earlier sign of China's growing importance was the appointment in 2008 of Justin Yifu Lin, one of China's top academic economists, as chief economist at the IMF.

⁷⁹ Zhou is quoted in Ren Xiao, “A Reform-Minded Status Quo-Power? China, the G20, and Changes in the International Monetary System,” *RCCPB Initiative on China and Global Governance* (Bloomington, IN: Indiana University RCCPB, 2012), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2169845.

⁸⁰ Typical expressions of dissatisfaction in Chinese journals include: Zhang Ming, “Cidai Weiji dui dangqian guoji huobi tixi de chongji” [“The Impact of Sub-prime Crisis to International Monetary System”], *Shijie Jingji yu Zhengzhi* 2010, no. 6: 74–80; Shi Bin, “Zhixu zhuanxing, guoji fenpei zhengyi yu xinxiang daguo de lishi” [Order Transition, International Distributive Justice and Historical Responsibility of the

It was in this environment that China pressed the issue of IMF vote shares. Major decisions in the IMF require an 85% supermajority; the 16.7% voting share held by the United States during this period made it the only country with effective veto power. The IMF adjusts voting-share allocations periodically and conducts a scheduled review every five years.⁸¹ Shares have been reallocated slightly several times in recent years, including in 2006 (in Singapore, at which time China's share was 2.98%), with further adjustments committed to in 2008 and 2010.⁸²

China's favorable outside options, combined with perceptions of its indispensability on issues of global financial governance, provided China with the wherewithal to pursue a hold up strategy—a strategy by which China could make its cooperation conditional on concessions from other actors. Beijing pursued several interrelated actions, lobbying throughout 2009 for a redistribution of quotas toward emerging economies. First, Beijing officials pressured U.S. officials to take a major lead in pressing China's reform agenda. Indeed, Chinese diplomats, possessing new leverage over the United States, spent significant energy behind the scenes to press for U.S. support for its position. U.S. officials who have engaged with China in the G20 report that, in the May 2009 bilateral Sino–U.S. Strategic and Economic Dialogue, Chinese diplomats repeatedly asked U.S. negotiators to lobby the EU about the vote shares issue on China's behalf.⁸³ Beijing also used its position in alternative emerging country meetings to lobby vocally for international monetary system reform, including reform of representation in the IMF. For example, the PRC representative at a summer 2009 meeting of five leading emerging economies called for increased representation of emerging economies in the IMF, a demand repeated at the first BRIC Leader's Summit in June 2009.⁸⁴

Beijing's calls for greater developing country representation in the IMF was a strong thread throughout the September 2009 G20 Leader's Summit in Pittsburgh. A centerpiece of the summit was the directive to the IMF (also a G20 member) to accelerate its quota shares review process to give greater voice to emerging economy countries and, concretely, shift at least 5% of

Emerging Powers], *Shijie Jingji yu Zhengzhi* 2010, no. 12: 69–100. We do not explain the sources of China's dissatisfaction, a topic covered in detail elsewhere.

⁸¹ In its reviews, the IMF technically adjusts members' quota shares, which in turn determines a country's financial commitment (measured in Special Drawing Rights (SDRs)) and voting power/shares.

⁸² Under these reforms, the allocation of voting shares among member countries in the IMF is as follows: the EU countries hold approximately 32% (individual EU member countries are the holders of shares but tend to vote as a block), the United States has 16.7% and Japan 6%, compared with China's 3.7% and India's 1.9%. See IMF, *Quota and Voting Shares* (2011), 1, http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf.

⁸³ Interview with U.S. Treasury official, Washington, DC, 26 June 2009.

⁸⁴ Reported in "China Urges Actions to Reform Global Financial System," *Xinhua News Agency*, 9 July 2009, http://news.xinhuanet.com/english/2009-07/09/content_11681665.htm; Andrew E. Kramer, "Emerging Economies Meet in Russia," *New York Times*, 16 June 2009, <http://www.nytimes.com/2009/06/17/world/europe/17bric.html?ref=business>.

shares from overrepresented to underrepresented countries. This review and reform was completed ahead of schedule in 2010. If implemented, it would shift more than 6% of total shares to emerging economies and developing countries, with the bulk of the vote shares coming at the expense of shares held by European countries. Most significant, the proposed reforms allocated China 6.071% of IMF vote shares, still quite a bit less than the slightly reduced U.S. share of 16.5%, but surpassing those held by Germany, France and the UK, all of whose shares are to be cut.⁸⁵ With its quota share raised, China of course would be required to increase its subscription commitment of funds. It also would gain increased access to IMF funds, though Beijing has little apparent need to draw on them. More important, the reallocation of shares to Beijing would make it the third largest holder of vote shares and would enhance its status in the institution to a considerable degree. In December 2015, after a long delay, the U.S. Congress approved the reform, and hence the redistribution of vote shares in China's favor. China's strategy can therefore be claimed to be effective over the long term, and supports our theory.⁸⁶

Conclusions and Alternative Explanations on Global Financial Governance

Much as Poland's indispensability to Germany in negotiations over the 2007 Lisbon Treaty allowed it to block agreement on the new voting system until its demands were met, China was able to use its favorable outside options and post-2008 U.S. perceptions of PRC indispensability to pursue a hold-up strategy. China's leaders did have the option of continuing to acquiesce in the existing voting rules—in other words, continuing to accept its underrepresentation. But instead, and consistent with our prediction, they used their increased leverage to ramp up pressure for increased IMF representation and to implicitly threaten to withhold its cooperation in the G20 process that was at the center of solving the global crisis. China's willingness to cooperate on second-order issues relating to international finance was therefore conditional: as a price for increased participation, China demanded increased voice in decision making and pushed the IMF to consider issues that address long-term Chinese concerns like the global role of the dollar. As predicted by our theory, China pursued a strategy of hold up.

⁸⁵ These changes were made in the "14th General Review" in December 2010. As a result of these reforms, the four BRIC countries each will be elevated to among the ten largest shareholders in the IMF. See IMF, *Quota and Voting Shares*; *IMF Factsheet 2011*.

⁸⁶ On options for how the IMF might move forward with governance reforms, see Edwin M. Truman, "What Next for the IMF?" *Peterson Institute for International Economics Policy Brief* no. PB 15-1 (Washington, DC: Peterson Institute for International Economics, January 2015).

Our analysis of China's hold-up posture with regard to IMF voting is counter to behavior that would be predicted by theories emphasizing China's socialization into international regimes. Although, as we suggest above, socialization seems a potent explanation for China's behavior toward the IMF up through the mid-2000s, a unidirectional socialization process does not account for China's challenge to the IMF voting rules following the global financial crisis. At the same time, however, our explanation based on strategic considerations is not inconsistent with (and, indeed, in the previous discussion to some degree incorporates) an alternative explanation emphasizing domestic trends. The mid-2000s saw a pronounced turn among intellectuals and the Chinese populace toward greater nationalism with regard to the global financial system, although dissatisfaction had been sparked by the Asian financial crisis in the late 1990s. This increased dissatisfaction was accompanied by the view that China's government should stand up for Chinese interests against American hegemony, including in the international financial system. The onset of the global financial crisis, which in China was largely blamed on U.S. excesses and advantages of a dollar-dominated monetary regime, furthered the view that China should "stand up."⁸⁷ However, despite the importance of these domestic trends, we show that any nascent desire for change in China's actual policy toward its representation in the IMF was not acted on until Beijing's perceptions of its indispensability to a solution were transformed during the global financial crisis. In other words, while domestic trends toward nationalism are important, we gain significant additional leverage from analysis of Beijing's assessment of its strategic context as provided by our theory.

CONCLUSIONS, EXTENSIONS, AND SUGGESTIONS FOR FURTHER RESEARCH

China's behavior in international regimes has exhibited considerable variation, both over time and across cases. To help make sense of this variation, we developed a general theoretical framework that considers how emerging great powers like China will approach international governance institutions in a particular issue area that were put in place by established great powers. Our argument focuses on two variables: the balance of outside options and the perceived indispensability of the emerging power's participation in a particular institutional setting. We hypothesize that the rising power will be most likely to contribute actively to second-order cooperation—to invest in the maintenance of existing regimes and the creation of new ones—when

⁸⁷ Wang Yong and Louis Pauly, "Chinese IPE Debates on (American) Hegemony," *Review of International Political Economy* 20, no. 6 (December 2013): 1165–88.

the rising power's outside options are unfavorable relative to those of established powers. But if the rising power's outside options are more favorable, then its behavior will hinge on whether established great powers view the rising power's participation in a particular institutional setting as critical to regime success. If established powers see the rising power as indispensable, then it will have considerable bargaining power and hence the capacity to hold up cooperative efforts—that is, to make its cooperation conditional on a restructuring of regimes to better reflect the rising power's interests. If the rising power is not viewed as indispensable, on the other hand, it will lack bargaining power and will tend to adopt a more passive approach to regime maintenance. We show that this framework helps us make sense of Chinese behavior in two important cases. In the North Korea case, China's worsening outside options contributed to a more proactive PRC approach to the North Korean nuclear issue, culminating with the establishment of the Six Party Talks in 2003. In the global finance case, Beijing's relatively strong outside options, combined with the increasing indispensability of Chinese participation in global financial governance, contributed to a shift in PRC strategy from passive acceptance to hold up, as China conditioned its participation in the IMF's response to the global financial crisis on reforms in voting power.

Other factors certainly influenced Beijing's decisions in our two cases, and in both we considered alternative explanations for Chinese behavior. For instance, more general changes in China's approach to international affairs starting in the late 1990s—a generally more proactive approach to foreign relations that Evan Medeiros and M. Taylor Fravel term “China's new diplomacy”—likely contributed to Beijing's willingness to invest in the creation of the Six Party Talks. But even as China was adopting a more proactive approach to second-order cooperation on the North Korean nuclear issue starting in 2003, it continued to play a passive role in the IMF for several more years. Our focus on the broader strategic environment provides additional leverage in explaining differences in Chinese behavior across these two cases: while Chinese outside options deteriorated sharply on the Korean Peninsula as the second nuclear crises erupted in late 2002, Beijing's outside options in the arena of global financial governance remained much stronger at the time. Our theory, in turn, predicts more proactive investment in the former case than would be expected in the latter.

More broadly, our approach offers a new way of thinking about the determinants of Chinese behavior in multilateral settings. First, unlike much of the literature which focuses on Chinese compliance with existing rules or socialization into existing norms, our focus instead centers on regime construction and maintenance—second-order cooperation.⁸⁸ Our article advances the

⁸⁸ For examples of such literature, see Kent, *Beyond Compliance*; Johnston, *Social States*; Carlson, “More than Just Saying No”; Foot and Walter, *China, the United States, and Global Order*.

goalposts by offering a novel conceptualization of the dependent variable, the different types of behavior relating to second-order cooperation (which we have termed invest, hold up, and accept). Efforts to advance understanding of Chinese second-order cooperative efforts are especially relevant to contemporary international politics, as the PRC becomes more active in institution building and maintenance in a wide range of issue areas—ranging from development finance (the AIIB), to climate change (recent U.S.–China breakthrough agreements on climate issues), to regional security (such as the Shanghai Cooperation Organization (SCO)).⁸⁹

Second, we construct a novel and generalizable theoretical argument that highlights the role of the strategic environment, and in particular the factors that shape a state's bargaining power in a given context, in driving rising power behavior in multilateral settings. Our article thus departs from what we have termed dispositional approaches, where Chinese behavior is a consequence primarily of factors internal to China, such as institutions, ideology, or public opinion.⁹⁰ And while our focus on the international environment to a certain degree dovetails with some of the literature on socialization, which also highlights the importance of structurally shaped external factors, we depart from this literature by focusing on the importance of bargaining power as a determinant of Chinese behavior.⁹¹

⁸⁹ Other recent studies that explore Chinese motivations in these sorts of undertakings include Zheng Wang, "China's Alternate Diplomacy" *Diplomat*, 30 January 2015, <http://thediplomat.com/2015/01/chinas-alternative-diplomacy/>; Joel Wuthnow, Xin Li, and Lingling Qi, "Diverse Multilateralism: Four Strategies in China's Multilateral Diplomacy," *Journal of Chinese Political Science* 17, no. 3 (September 2012): 269–90. Wuthnow, Qi and Li, like we do, construct a typology of different possible Chinese behaviors in different institutional contexts and classify behaviors based on the degree of PRC revisionism and assertiveness. For example, when both assertiveness and revisionism are high, "shaping" behavior results, which includes efforts to revise existing institutions. Their typology includes elements of both first- and second-order cooperation. For another recent study exploring Chinese second-order cooperation (in particular, the degree to which China can be thought of as a free rider in this regard), see Andrew B. Kennedy, "China and the Free-Rider Problem: Exploring the Case of Energy Security," *Political Science Quarterly* 130, no. 1 (Spring 2015): 27–50.

⁹⁰ On the impact of elite and popular public opinion on the PRC's behavior in multilateral settings, see Joseph Fewsmith and Stanley Rosen, "The Domestic Context of Chinese Foreign Policy: Does 'Public Opinion' Matter?" in Lampton, ed. *The Making of Chinese Foreign and Security Policy*, 151–87; Margaret M. Pearson, "The Case of China's Accession to GATT/WTO," in Lampton, ed. *The Making of Chinese Foreign and Security Policy*, 337–70. For studies that consider the role of popular nationalism as an influence on China's foreign policy behavior more broadly, see Yinan He, *The Search for Reconciliation: Sino-Japanese and German-Polish Relations Since World War II* (New York, NY: Cambridge University Press, 2009); Shirk, *China: Fragile Superpower*; Jessica Chen Weiss, *Powerful Patriots: Nationalist Protest in China's Foreign Relations* (New York: Oxford University Press, 2014). On changing elite views as a factor driving China's increased interest in multilateralism after the late 1990s, see Medeiros and Fravel, "China's New Diplomacy"; Shirk, *China: Fragile Superpower*, esp. chap. 5. On domestic institutions see Lu Ning, "The Central Leadership, Supraministry Coordinating Bodies, State Council Ministries, and Party Departments," in Lampton, ed. *The Making of Chinese Foreign and Security Policy*, 39–60. To be clear, many studies that highlight internal factors also consider the international environment, or consider interactions between international and domestic factors (for example, Weiss, *Powerful Patriots*).

⁹¹ On socialization see, for example, Johnston, *Social States*; Carlson, "More than Just Saying No."

Future research should build off of our findings in this article in several ways. First, future studies should explore the degree to which our argument about outside options and perceived indispensability can be generalized to explain PRC behavior in other issue areas. An initial analysis of other issue areas suggests that our argument may prove useful. For instance, akin to China's behavior on the Korean Peninsula, China's investment in the creation of the SCO appears to be a good illustration of our theory's invest dynamic. The stakes for China from increased cooperation in central Asia rose through the 1990s, as Beijing saw a growing threat from Uighur separatists in Xinjiang, tied to Central Asian nationalism.⁹² Meanwhile, U.S. (and Russian) unilateral options for dealing with regional insecurity and for tapping into the region's economic potential would likely have ignored Chinese economic and security interests.⁹³ In short, China's outside options became more unfavorable over this period. Accordingly, China led in the establishment of the SCO by inducing regional states to sign on to an agreement that broadly reflected PRC foreign policy principles.⁹⁴

Likewise, China's role in international climate negotiations at the 2009 Copenhagen summit appears consistent with our logic of hold up. China's outside options appeared quite strong at the time, since although China has in recent years recognized the dangers of climate change Beijing nevertheless continued to view economic development—and the necessary coal dependence continued development entails—as taking precedence. Active Chinese participation in climate negotiations was increasingly viewed by other key participants, however, as indispensable given China's rapidly growing emissions. Consistent with our thesis, at the December 2009 summit in Copenhagen Beijing's strategy was widely perceived outside of China as holding up a negotiated solution and, indeed, a reason the resultant nonbinding Copenhagen Accord was relatively weak.⁹⁵ China's actions

⁹² Chin, "The Emerging Countries and China in the G20," Medeiros, *Reluctant Restraint*, 134. On post-1990 unrest in Xinjiang representing an "internal threat to the territorial integrity of the PRC," see Fravel, *Strong Borders, Secure Nation*, 151.

⁹³ According to one view, "one of the unstated purposes of the SCO was to function as a Sino-Russian condominium to safeguard both Chinese and Russian economic interests in Central Asia, a region with abundant natural resources" Chien-peng Chung, "The Shanghai Co-operation Organization: China's Changing Influence in Central Asia," *China Quarterly* 180 (December 2004): 1000.

⁹⁴ Chin, "The Emerging Countries and China in the G20," Bates Gill, *Rising Star: China's New Security Diplomacy* (Washington DC: Brookings Institution Press, 2007), 39; Sutter, *Chinese Foreign Relations*, 316. Though note that China tailored the organization to appeal to the regional states it has sought to cultivate as when, for example, Beijing felt pressure to scale back some of its regional economic ambitions for the sake of the credibility of the SCO itself. Stephen Aris, *Eurasian Regionalism: Shanghai Cooperation Organisation* (Basingstoke: Palgrave Macmillan, 2011).

⁹⁵ Jonathan Watts, Damian Carrington, and Suzanne Goldenberg, "China's Fears of Rich Nation 'Climate Conspiracy' Revealed," *Guardian*, 11 February 2010, <http://www.theguardian.com/environment/2010/feb/11/chinese-thinktank-copenhagen-document>.

were likely attributable to the recognition that China's indispensability gave Beijing leverage to extract a high price for its cooperation, pushing the costs of a potential regime to other members. Until recently, Beijing has made its participation in a post-Kyoto treaty conditional on gaining concessions on issues about which it is particularly sensitive: maintaining a distinction under any agreement between the responsibilities of developed and developing countries, avoiding binding commitments and verification requirements for developing countries, and relaxing intellectual property restrictions on clean energy technology.⁹⁶ Although the current status of the climate regime is unresolved, China's willingness in the lead-up to Copenhagen to play hold up in search of an agreement maximally suited to its interests appears consistent with our argument.

Second, we have suggested that the logic of the argument applies not just to a rising China but to any rising state as it becomes a more relevant player in regional or global regimes. As such, future research should assess our argument's power to explain the behavior of other rising powers. Some other prominent cases appear consistent with our theory's predictions. For example, throughout the 1980s and 1990s Japan was particularly active in seeking a revision to the global security regime that would give Japan (and other states as well) a permanent seat on the United Nations Security Council (UNSC). However, with an existing architecture (in which its ally the United States played a critical role) that largely protected Japanese core interests and without any widespread perception that Japanese contributions were indispensable to the functioning of the regime, Japan was in no position to back up its demands. Consistent with our argument, when existing UNSC members chose not to advance proposed reforms Japan accepted the regime as it was currently constructed.⁹⁷

An alternate example is India's successful de facto revision to the global nonproliferation regime. Largely outside the regime since the 1970s when it chose not to join the Nuclear Non-Proliferation Treaty and to keep its own nuclear arsenal, India continued developing both civilian and military nuclear capabilities as its economy grew, and it sought alternatives to coal.⁹⁸ At the same time, Western leaders watched India's nuclear development with

⁹⁶ On intellectual property and clean energy, see Hengwei Liu and Dapeng Liang, "A Review of Clean Energy Innovation and Technology Transfer in China," *Renewable and Sustainable Energy Reviews* 18 (February 2013): 486–98.

⁹⁷ Barry O'Neill, "Power and Satisfaction in the United Nations Security Council," *Journal of Conflict Resolution* 40, no. 2 (June 1996): 219–37; Erik Voeten, "Why No UN Security Council Reform? Lessons for and from Institutional Theory," in *Multilateralism and Security Institutions in an Era of Globalization*, ed. Dimitris Bourantonis, Kostas Ifantis, and Panayotis Tsakonias (London: Routledge Press, 2007): 288–305.

⁹⁸ M. V. Ramana, *The Power of Promise: Examining Nuclear Energy in India* (London: Penguin Books, 2012).

concern, since as an outsider to the regime it was subject to few international safeguards and controls. So, with a favorable outside option and a rising perception of indispensability, India used its leverage to conclude an agreement with the United States that effectively revised the system to permit India's integration into the formal international nuclear supply chain coupled with regular inspections.⁹⁹ While these examples are cursory, they are nevertheless suggestive of our argument's broader applicability; future research should further probe these and other non-Chinese cases.

Finally, future research should also consider further refinements to our theoretical framework. In this article we considered situations in which the balance of outside options and perceptions of indispensability were exogenous—that is, they were not subject to easy manipulation by the relevant states. However, our analysis suggests that states have strong incentives to manipulate their outside options. A rising state that improves its outside options will not only be able to extract greater benefits from the day-to-day operation of a multilateral regime (a product of bargaining over the distribution of benefits from first-order cooperation that is well understood¹⁰⁰), but it will also be able to shift the burden of second-order provision to established states. Future work could specify the conditions under which rising states will find it profitable to invest in their future outside options, such as by developing their own unilateral options or alternate regimes. Indeed, some scholars have pointed to China's investment in the AIIB as an example of this sort of dynamic.¹⁰¹

In conclusion, we find evidence to support our thesis that, all else equal, rising states are most likely to play leadership roles in upholding or creating global multilateral regimes when they have relatively poor outside options—when they have more to lose from the failure of multilateral regimes than existing powers. When their outside options are better, and cooperation from rising states is generally seen as indispensable to the success of the regime, they can use their leverage to remake regimes to better serve their own interests. With better outside options but lacking the leverage that comes with indispensability, rising states are more likely to accept regimes as they are without necessarily investing heavily in their maintenance. While certainly not the only factor that can explain China's approach to multilateral regimes, the strategic environment—outside options and indispensability—can shed light on some important variation in China's international behavior.

⁹⁹ Harsh V. Pant, "The US–India Nuclear Pact: Policy, Process, and Great Power Politics," *Asian Security* 5, no. 3 (August 2009): 273–95.

¹⁰⁰ Gruber, *Ruling the World*.

¹⁰¹ See, for instance, Wang, "China's Alternate Diplomacy." For an earlier argument along these lines (though not in reference to the AIIB per se), see Naazneen Barma, Ely Ratner, and Steven Weber, "A World without the West," *National Interest* 90 (July/August 2007): 23–30.

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