

When Issues Matter? Global Imbalances, Issue Heterogeneity, Outside Option, and the International Order^{*}

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Abstract How do potential issues of an international order manifest? I examine persistent global imbalances amid globalization backlash and the U.S.-China rivalry between the world's largest external deficit and surplus states. Global imbalances, rooted in the U.S.-led order but involving China, are complex and consequential; statistics show their correlations with long-term development performance, among other known impacts. Building on rational-choice institutionalism and power transition theory, I show that the discontent by lasting imbalances causes disengagement from the U.S.-led order and support for Chinese leadership. This, however, depends on the focal issue and outside option: First, by differentiating finance and trade, states' embracing attitudes become ambivalent when facing China's controversial trade practices vis-à-vis financial appeal. Second, issues matter heterogeneously: By conceptualizing "helpless" issues – critical, systemic ones individual states can't resolve alone (e.g., global imbalances), I argue that only these issues may trigger disengagement. Multiple methods with further tests on UNGA general votes and support for Russia's war validate my theories, shedding light on understanding globalization backlash, rising China, and the liberal international order.

1 Introduction

In the 1980s, China, running a trade surplus of over \$1 trillion today, frequently complained to trading partners. Chen Yun, then Chinese economic czar, abhorred the ballooning trade deficits; the nation had to cut

*See [here](#) for the latest version.

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back scarce investments to trim the deficits that threatened balance-of-payment sustainability (Feeney 1989; Zweig 2002). Decades later, both the United States and the European Union imposed tariffs on China with which they incur the largest bilateral deficits, while China's intensified mercantilism triggers more worldwide backlash.¹

Globalization backlash is coupled with the intensification of geopolitics, notably between the United States and China. With a nearly \$1 trillion trade deficit, the United States is competing "dollar-for-dollar" with China², behind which is a broader order competition. Decades of surpluses have transformed China from a prudent spender to a country with massive public investments and \$3-6 trillion in reserves, half of which came from trading with the U.S.³ Similarly, China also maintains surpluses with most countries (see Figure 1).⁴



Figure 1. *Bilateral Trade Between Trading Partners and China* (source: World Bank). Exports/imports data is reported by trading partners.

These global political developments relates to external imbalances, making understanding its role impor-

¹"Xi's Solution for China's Economy Risks Triggering New Trade War," Bloomberg, 7-January-2024. Note that pursuing surpluses is one mercantilist goal.

²Such as the Partnership for Global Infrastructure and Investment (PGII) for global infrastructure financing, and the Indo-Pacific Economic Framework for Prosperity (IPEF) for economic engagement.

³Half of China's reserves are reportedly hidden overseas. See "China Has \$3 Trillion of Hidden Currency Reserves," Bloomberg, 29-June-2023.

⁴As explained in the next section, the persistent deficits of some, including the U.S., are partly impacted by China through channels of mercantilism and the "saving glut."

tant.⁵ While most economists do not consider bilateral imbalance a problem, qualification exists: *Persistent, aggregate* external deficits may reflect structural issues such as deindustrialization or over-indebtedness and pose threats to economic development and stability (Obstfeld and Rogoff 2009). Economists have studied a related issue in the current international order: *global imbalances*, where roughly half of the countries have experienced almost persistent external deficits for decades (see Figure 2) (Blanchard and Milesi-Ferretti 2009; Chinn and Ito 2022).

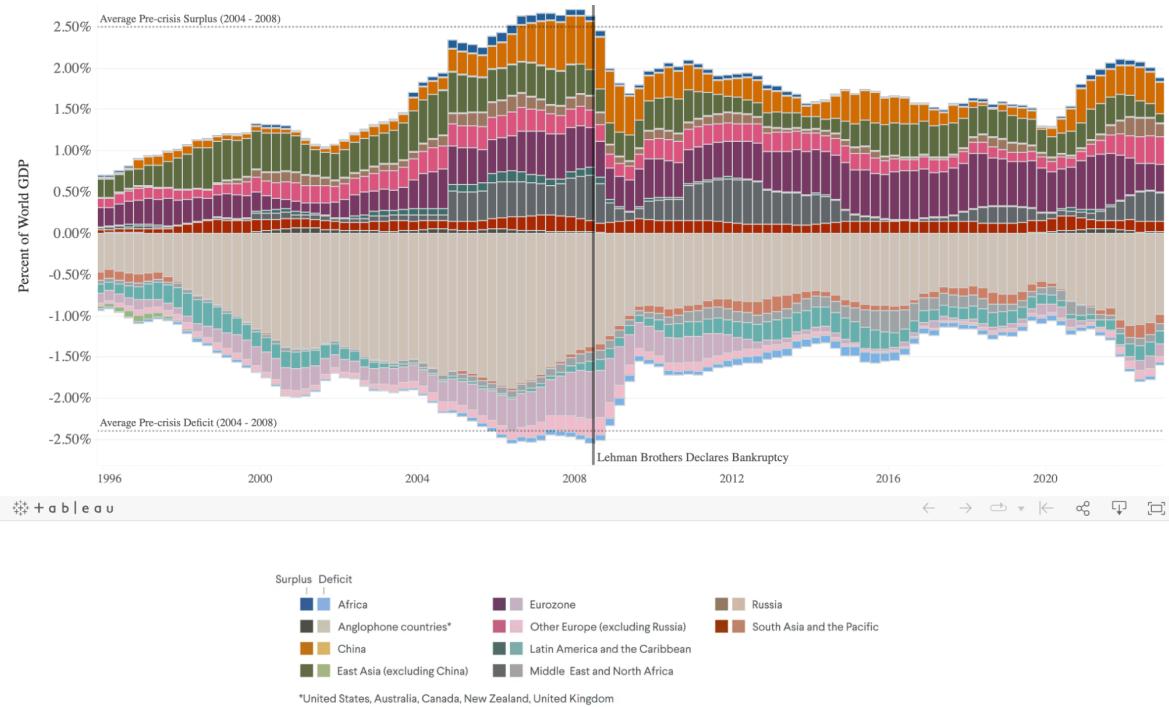


Figure 2. Global Imbalances (Current Account Balance). Graph: Council on Foreign Affairs).

The extant literature provides little insight on how an order's potential issues like this may unravel.⁶ Potential issues of an institution, in general, can result in diminished legitimacy, dysfunctional governance, and crippled performance (March and Olsen 1984; North 1990; Pierson 2000). An international order is largely different from domestic or usual international institutions in size, scope, and structure. Specifically, I seek to answer the question in the context of global imbalances, a complex and controversial issue of the Liberal International Order (LIO) and may shake or shape the very order. Right now, the LIO is being confronted with multiple potential issues and discontents internally and externally (Broz, Zhang, et al. 2020; Lake et al. 2021;

⁵External imbalance refers to current account or trade imbalance.

⁶In this context, issues are defined as potential troubles or problems, as opposed to “issue areas” in the literature of International Organizations.

Rodrik 2019; Walter 2021), which Lake and coauthors remark that “this time might be different.”⁷ Internally, the order has been plagued by economic, social, governance, and security problems, with global imbalances being troublesome but drawing surprisingly little attention from political scientists. Externally, the order is being challenged by “semi-outsiders” like autocratic states which reject its core normative elements (Ekiert and Dasanaike 2024). As the LIO loses its appeal, what role do issues play? As China, the rising power, invests numerous resources challenging the LIO or building its own (Doshi 2021; Lake et al. 2021), why it nonetheless seems less attractive than China’s growing hard power suggests?⁸ These are important questions in today’s global political context.

I show that global imbalances are correlated with long-term development performance disparity, connected to wide concerns. Through multiple methods including regression, control function method, and illustrative case, as well as further test on UNGA voting patterns and support for Russia’s war, I argue that global imbalances generate lasting grievances which affect the order in a complex way: While deficit states are more likely to blame the U.S.-led order lending support to the challenger, the effect differs in finance and trade domains – China’s controversial trade practices rather than its financial appeal obscure the attitudes towards its leadership. Moreover, by examining the heterogeneous effects of a series of order’s potential issues including global imbalances, I conceptualize “helpless” issues – critical, persistent and systemic ones individual states are unlikely to resolve alone – and argue that only these may trigger disengagement, making global imbalances stand out.

This paper makes several contributions. First, my findings speak to an expanding scholarship on globalization backlash. Yet, unlike the literature which primarily focuses on domestic backlash (Autor et al. 2020; Chilton et al. 2017; Walter 2021), I push the contention of the order – potential issues – to the center by directly examining the political impacts of global imbalances versus multiple other issues. Global imbalances reflect more structural problems than the perhaps temporary domestic backlash, beyond sub-national winners/losers (Baccini 2019; Hiscox 2001) and the oft-sanguine conventional trade models. Global imbalances also echo the fact that globalization (especially post-1990) has disproportionately benefited a few states (Baldwin 2016). Most deficit states are emerging democracies, implying the erosion of the LIO’s social purposes (Lake et al. 2021; Ruggie 1982).

⁷Though a contested concept, I follow Lake et al. (2021) in defining the LIO as the West-led international order with liberal characteristics and comprised of several sub-orders. One sub-order is the liberal economic order directed by U.S.-led institutions, such as the World Bank, IMF, and WTO, which largely shaped economic globalization.

⁸For example, China’s manufacturing output exceeds that of the G7 combined.

Second, I build the mechanisms on top of “power transition theory.” Despite confirming that problematic issues can undermine the support for the LIO, my findings point to a more complex process, which depends on the focal issue and outside option. This unveils optimism – the challenger’s mercantilism undercuts the appeal of itself. Moreover, global imbalances expose the distributive effect of the world system – rising power can well rise benefiting from the old order at the cost of hegemons through external surplus, gain support, and use the gains (surplus) to formulate the challenge.

Lastly, the paper adds to the booming literature connecting economics and security. While existing studies have addressed the relationship between trade and foreign policy affinity (Flores-Macías and Kreps 2013; Kastner 2016), trade imbalances appear to have additional, sometimes overriding foreign policy implications, contra the conventional views in both economics and political science – the oft-downplayed imbalances can become all the more important in an age of geopolitics concerning relative gains.

The paper is organized as follows. Section 2 provides an overview of global imbalances and shows that how it may indicate development performance disparity. Section 3 discusses the political impact of global imbalances on international politics. Section 4 conducts the empirical analysis. Section 5 discusses and concludes.

2 Global Imbalances: What We Know & Don’t Know

“The public tends to see trade surpluses or deficits as determining winners and losers; the general equilibrium trade models that underlay the 1990s’ consensus gave no role to trade imbalances at al. . . Yet rapid changes in trade balances can cause serious problems . . . ”

– Paul Krugman (2019), “Globalization: What Did We Miss?”

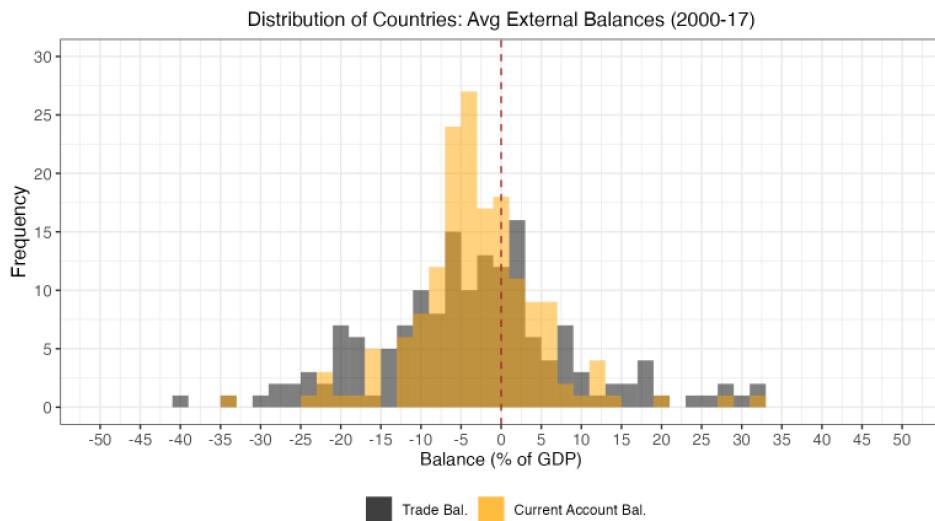
Global Imbalances: The Issue in the Order

Global Imbalances are defined as the long-run cross-country differences in current account balances (Blanchard and Milesi-Ferretti 2009; Chinn and Ito 2022), primarily constituted by trade balances (Barattieri 2014).⁹ Global Imbalances saw the inception in the 1970s (Chinn and Ito 2022), which was accompanied by the collapse of the fixed exchange system into the floating regime (Dooley et al. 2003) and was essentially

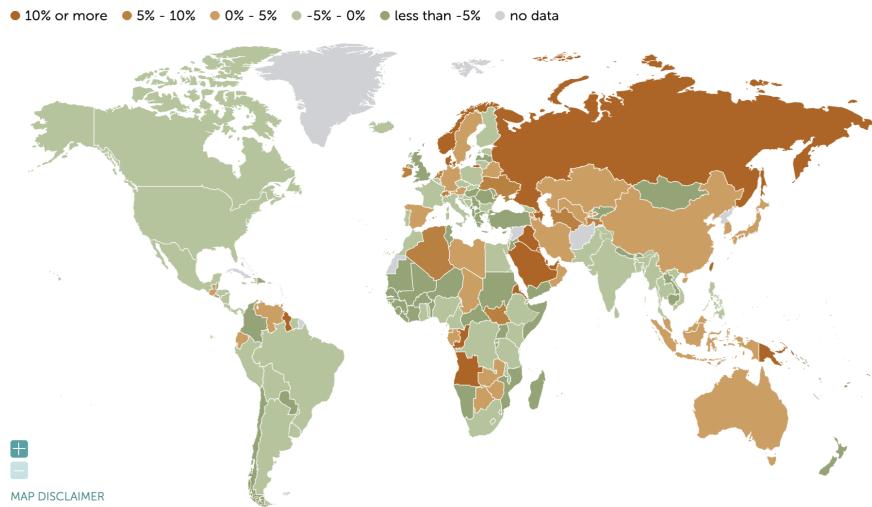
⁹Current account includes trade balance, net foreign income, and net transfer payments.

facilitated by the much liberalized global financial and trade integration (see below for further explanations). That said, global imbalances are the product of the post-1970 (particularly post-1990) globalization or the economic rules of the LIO. Despite the common “win-win” prediction between nations in conventional trade models, many of which assume balanced trade (or exogenous imbalance) (Bernard et al. 2018; Ohlin 1933), persistent global imbalances indicate greater issues (Obstfeld and Rogoff 2009) and are regarded as “probably the most complex macroeconomic issue” (Blanchard and Milesi-Ferretti 2009) that dominate policy debate (Chinn and Ito 2022).

The characteristics of global imbalances can be summarized as non-randomness, persistence, and high magnitude. *Non-randomness* refers to the fact that there is a relatively fixed separation between surplus and deficit countries (see Figure 3).¹⁰ *Persistence* implies an almost stubborn nature of imbalances temporally. In terms of *magnitude*, half of the countries, mostly in the Global South, have average external deficits exceeding 5% of GDP, with some exceeding 15% (see Figure 3).



¹⁰Between 2000 and 2017, 95 of 153 countries (as reported by the World Bank) recorded an average trade deficit.



Notes: The map clearly shows three groups of surplus countries: core Europe, East Asian industrial countries, and oil producers (source: IMF)

Figure 3. *Distribution of Global Imbalances (Data Source: the IMF).*

The relationship between global imbalances and the LIO is better understood through the former's rather complicated causes, roughly divided into "financial explanations" and "trade explanations" (Barattieri 2014). Financial causes include over-consumption (often through foreign borrowing) or low savings (Obstfeld and Rogoff 2009). For advanced economies, "safe assets" attracting global capital inflate factor prices, exchange rates, and imports (Caballero et al. 2008; Mendoza et al. 2009) – echoing the "saving glut" hypothesis (Bernanke 2011). Trade-related causes include a weakened industry/export sector, asymmetric trade barriers or costs (Cuñat and Zymek 2022), or mercantilist policies by trading partners such as subsidies or currency devaluation (Dooley et al. 2003). For example, Epifani and Gancia (2017) show that an undervalued exchange rate allows a country to run surpluses and agglomerate global production. Notably, most causes are facilitated by financial and trade integration in the LIO.

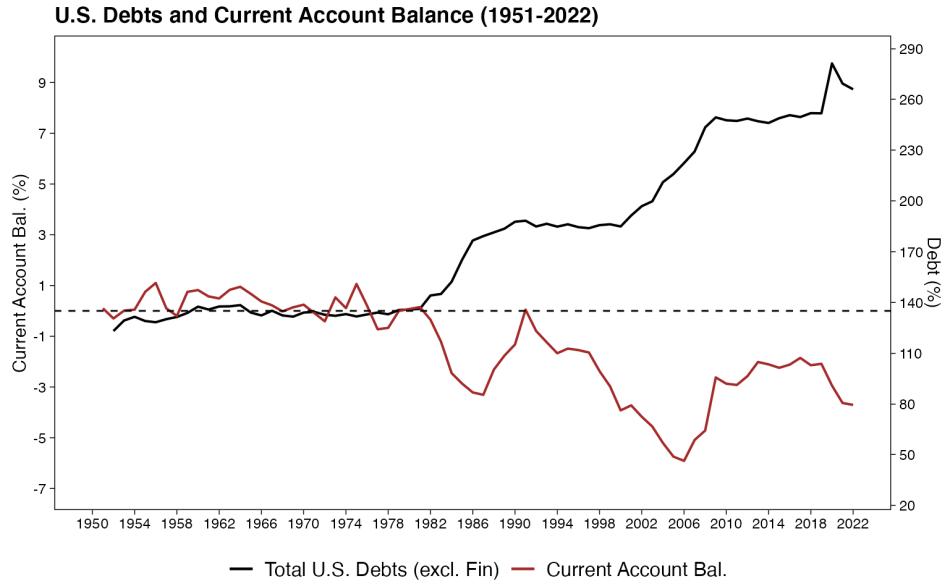


Figure 5. *U.S. Total Debts and Current Account Balance (Source: the Federal Reserve).* The U.S. deficit is more of saving drought instead of investment booms (Chinn and Ito 2022) and U.S. debt is increasingly unsustainable (Government Accountability Office).

Socioeconomic Impacts and Development Disparity

On impacts, first, as income-expenditure differential or net foreign revenue (Caliendo and Parro 2015), persistent external deficits contribute to rising debt (Frieden and Walter (2017), see Figure 5 for the U.S. case), which can be burdensome to service and are prone to economic instability (Obstfeld and Rogoff 2009; Bernanke 2011).¹¹ Conversely, surplus countries accumulate reserves and other income, contributing to spending power – many become global creditors.¹² Second, imbalances are linked to “demand distribution” (Chinn and Ito 2022), where foreign demand is “won” by some, for instance, through “beggar-thy-neighbor.”¹³ The third impact concerns exports vs. imports. Most trade models show that although imports realize welfare gains, the majority of productivity, income, and innovation gains comes from exports (Bernard et al. 2018; Ohlin 1933).

Furthermore, high deficit-induced debt levels constrain domestic investments (Graham et al. 2014) such

¹¹Theoretically, a current account balance equals a country’s income-expenditure differential via borrowing or decreasing reserves. Debt increases even for a relatively benign case when temporary deficits reflect economic booms; The U.S. federal interest payment was \$659 billion in 2023 or 15% of federal revenues; Global imbalances significantly contributed to the 2008 Financial Crisis (Obstfeld and Rogoff 2009).

¹²Other income can come from expenditures and taxes from firms linked to the export sector.

¹³Foreign demand promotes domestic economy (Jeanne 2021), echoing the East Asian “export-oriented” model and post-war Europe (Dooley et al. 2003).

as green transitions or welfare programs, and raise solvency concerns when borrowing does not generate long-term growth. The “exorbitant privilege” of the U.S., though allowing cheap foreign financing, distorts the economy by inflating prices and crowding out real economy (Blanchard and Milesi-Ferretti 2009; Oatley 2015). Yet many developing nations must rely on capital inflows (e.g., loans) to finance deficit.¹⁴ Conversely, surplus countries often agglomerate global production (Dix-Carneiro and Traiberman 2023; Kehoe et al. 2018) and are correlated with a strong industrial sector (Epifani and Gancia 2017), which is positively correlated with economy of scale, productivity growth, R&D concentration, and export capacity (Buera and Kaboski 2012; Greenstone et al. 2010).

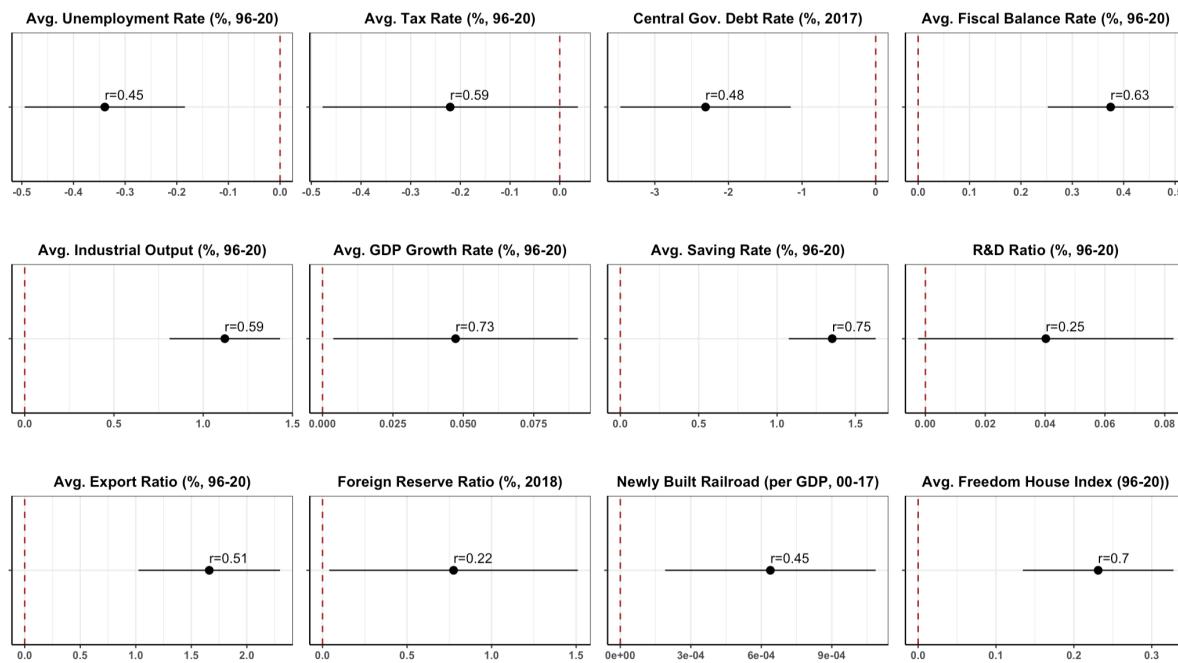
Thus, persistent imbalances may be associated with development performance states care. Prasad (2007) shows that long-term deficits negatively correlate with economic growth. We do observe real-world correlations: The map in Figure 3 displays three concentrated areas of surplus countries – core Europe, East Asia, and oil producers that often exhibit envied economic development, fiscal stability, and infrastructure. Even within the Eurozone, deficit countries such as Greece, Portugal and Spain, perform poorly compared to their surplus counterparts such as Germany, the Netherlands and Switzerland. 17 out of 20 countries with the highest R&D expenditure-to-GDP ratios have recorded average external surpluses for decades.¹⁵

¹⁴Their debt levels are increasingly unsustainable. See “A World of Debt,” the United Nations, July-2023. <https://unctad.org/publication/world-of-debt>.

¹⁵See <https://ourworldindata.org/grapher/research-spending-gdp>. (accessed on October 19, 2024)

Correlations Between Current Account Balance and Major Development Indicators (1996-2020)

Source: author's calculations based on World Bank data



Notes: Bars at 95% confidence intervals; Top 120 countries ranked by 2017 GDP; Controlling for 1996 GDPpc for within-income level comparison, except for R&D Rate, which is only bivariately correlated.

Figure 4. Correlations between Current Account Balances and Development Indicators.

In Figure 4, I find the similar correlations between nearly three-decade (1996-2020) averages of current account balances and a non-exhaustive list of major development indicators among top 120 countries sorted by GDP (2020), conditional on per capital GDP of the starting year 1996 (Figure 4).¹⁶ A higher average balance is positively correlated with a series of performance indicators including higher fiscal balance, saving, industrial output, GDP growth, R&D expenditure, export, foreign reserve, and infrastructure provision such as newly built railroads, as well as lower unemployment rate. Noteworthy is that the same surplus country that has better development performance and spends more, counterintuitively has a lower tax rate and government debt.¹⁷

This relationship implies the potential long-term development impacts of global imbalances beyond the traditional focus of economists.¹⁸ This matters – not only in terms of global development and equality – as we will see, the relationship, along with other impacts, is twisted with states' perceptions important in my

¹⁶The WDI data I use is missing partially (mostly less than 10%, with some 20-40%). The data are more complete for countries with higher GDP and GDP per capita, to which the correlations apply more. A version using Multiple Imputation for missing data is presented in the Appendix.

¹⁷The magnitude is significant – for example, a ten-point increase (commonly seen) in current account balance is associated with 20 percentage points lower in central government debt rate.

¹⁸For example, Roubini (2001) claims that whether deficit matters depends on the debt-to-GDP ratio.

theory below.

3 Global Imbalances and the International Order: Theory

I focus on how global imbalances affect the LIO. That imbalances are correlated with various problems and development inequality may inherently weaken the order and cause harms – the question is, how? As explained, global imbalances are rooted in the rule design of economic globalization since the 1970s closely shaped by the U.S.-led order – the LIO that faces unprecedented challenges (Lake et al. 2021; Rodrik 2019). Meanwhile, as a rapidly rising power, China actively leverages globalization gains (e.g., foreign reserves and surpluses (Liu 2023)) to challenge the LIO or forge its own order through a unique set of economic, political, and security unilateral and multilateral institutions with diverging social purpose, such as the Belt Road Initiative (BRI), Shanghai Cooperation Organization (SCO) and the BRICS, often targeting LIO’s issues (Broz, Zhang, et al. 2020; Doshi 2021; Lake et al. 2021). The BRI, for example, already garnered support especially in the Global South.

What’s happening can be explained by “power transition theory” that rapid power balance shift creates disequilibrium for challengers (Organski and Kugler 1980). Although major global wars required for the transition may be unlikely today, non-military channels remain open. In essence, it’s not merely about challengers, but “members,” as satisfied states wish to preserve the existing order while the discontented do not (Keohane 1984). States dissatisfied by unsatisfactory issues may be pushed to the challenger side (Broz, Zhang, et al. 2020; Hirschman 1970; Ikenberry 2011).¹⁹

Yet, the existing theories cannot fully explain my findings. Focusing on the issue-centered mechanism, my overarching argument is that global imbalances as an order-created issue significantly affect states’ attitudes towards the LIO. But the process is more complicated, depending on the nature of *focal issue* and *outside option*. Choosing between orders is by no means the same as between usual institutions, which naturally raises the bar for the issues – only “helpless” issues may trigger the disengagement from the order. The rest of the section presents the mechanisms by demonstrating how global imbalances generate grievances which subsequently undermine the LIO.

¹⁹Broadly speaking, issues play an important role in international relations such as formulating institutions, issue-linkage bargaining, or issue-induced conflicts.

3.1 Global Imbalances and Lasting Grievances

Perceptions play an important role in determining the political impact of economic phenomena (Mansfield and Mutz 2014). State leaders may perceive imbalances as benign since citizens enjoy consumption that exceeds production, while others may be concerned about accumulating debt or deindustrialization. Given the stylized facts in the previous section, one may be tempted to call global imbalances an indicator for “state-level winners and losers,” as Rodrik (2019) puts it, “globalization always creates winners and losers,” among others (Baccini 2019; Hiscox 2001; Walter 2021). Regardless, I show that policymakers and the public perceive the issue fairly adequately.

The LIO has created a variety of issues and grievances (Broz, Zhang, et al. 2020; Lake et al. 2021; Rodrik 2019; Stiglitz 2004). I argue that global imbalances also generate *lasting, cumulative* grievances to varying degrees, which encapsulate the *long-term* negative perceptions, concerns, or anxiety about deficits among individuals and societal groups. Grievances are both cognitive and emotional, and can be constructed by one or multiple sources as demonstrated systematically below.

Inherent Aversion – One source of grievances is rooted in the inherent aversion to imbalances regardless of associated issues. As external imbalance reflects net overseas income or income-expenditure differential, the public often perceives it analogously from the household budget experience (Barnes and Hicks 2020). The word “deficit” conveys negative, abnormal connotations, similar to fiscal deficit especially among conservatives, and any anomaly psychologically puts more weight in human minds (Bhatia 2013; Kahneman 2013). When there are not abundant measures that aggregate foreign economic interactions, external imbalance can stand out.

Related Concerns – Grievances can also be constructed by the concerns about related issues in national economies. The correlations above between imbalances and development performance suggest that long-term troubles often co-appear, which can strengthen leaders’ negative perception. For example, debt induced by continuous borrowing can be concerning, while trade imbalance may particularly matter when facing import competition (Cutrone and Fordham 2010). Historically, mercantilists of the 17/8th centuries, while not blatantly protectionist, were as concerned about the impacts on national economy and power (Irwin 1998). Although Adam Smith and David Hume opposed the mercantilist doctrine (Smith 1776; Hume 1777), John Keynes paid particular attention and proposed the International Clearing Union in 1944 to address imbalances’ destabilizing effects informed by the Great Depression (Crowther 1948). Even Milton Friedman, ar-

guably the less concerned monetarist, warned against persistent deficits as issues like poor savings may lurk (Friedman and Friedman 1980).

Today, the “mercantilist” concerns remain still widespread. Media coverage, think tank analysis, or government reports are generally positive on surplus and negative on deficit. Headlines such as “India’s Perennial Problem: a Current Account Deficit” while few asking “is surplus sustainable?” implies a biased public sentiment. International institutions such as the OECD, IMF, or EU have long viewed imbalances as threats to macroeconomic stability (Delpeuch et al. 2021). Within the EU, for instance, a current account deficit over 4% for a sufficient time triggers control procedures.²⁰ Greece’s persistent current account deficit was warned by its central bank repeatedly.²¹

Peer Contrast – Grievances may be also amplified by peer contrast. Stiglitz and Bernanke have argued that imbalances within the Eurozone are detrimental because surplus countries hinder the development of others.²² The contrast may be especially pronounced in the face of socioeconomic troubles. Without understanding the causes, policymakers may believe or even politicize spurious correlations and blame surplus “winners.” Apart from the public sentiment quoted above (Krugman 2019), the elite (especially the right-wing and nationalist governments) share similar perspectives. For instance, Trump and supporters characterize the trade deficit with China as rendering their country the “biggest loser.”²³ Global imbalances linked to “demand competition” and aggregated to zero globally may engender a feeling of “zero-sum.” When some persistently gain at the expense of others, from either a Rawlsian or Marxist perspective, the unequal structure remains unjustified (Marx 1867; Rawls 1971). Geopolitics can also intensify a sense of relative gains (Liberman 1996), especially when surplus countries are also rivalries. Table 1 shows additional examples of states’ concerns over bilateral imbalances, across both space and time.²⁴

²⁰“Fawly Europe,” The Economist, November 2013.

²¹“Greece’s current account deficit in the red,” Kathimerini, 6-September-2023.

²²See Joseph Stiglitz, “Reform the euro or bin it,” The Guardian, 5-May-2010, and Ben Bernanke, “Germany’s trade surplus is a problem,” Brookings Institution, 3-April-2015.

²³“How Trump Could Be Blocked at a Contested Republican Convention,” New York Times, 15-April-2016.

²⁴Notably, states’ complaints may be suppressed by the common “deficit doesn’t matter” narrative; the latent concerns may be more than empirically observed.

1988, nepal , china agrees to correct trade imbalance
1996, china, philippine leaders to discuss trade imbalance
1997, polish president wants to redress trade imbalance with china
1998, turkey_ deputy premier urges correction of trade imbalance with china
1998, canadian minister hopes for fall in trade deficit with china
1999, fiji calls for efforts to counteract trade imbalance with china
2001, czech deficit in trade with china excessive
2003, u.s. blaming china for trade imbalance
2005, spain's prime minister says lowering trade deficit with china is a top priority
2006, thailand suffers trade deficit with china nine months after the fta
2006, romania might balance trade deficit with china by widening exports range
2006, lithuania president to discuss in china bilateral trade imbalance
2006, egypt seeks lower tariffs, technology to cut china trade imbalance
2007, china promises to reduce trade imbalance with africa
2007, peru : with new china trade deficit numbers, brown says now not time for peru
2008, brazil voices concern about trade deficit with china - <i>estado</i>
2009, morocco seeks to plug trade deficit with china
2009, croatia seeks to reduce trade imbalance with china - president
2009, nigeria governor wants trade imbalance with china addressed
2009, zimbabwe ; massive trade deficits with china
2009, vietnam_china_ measures to reduce trade deficit with china
2010, south african president zuma in china to narrow trade deficit
2011, india seeks to narrow trade deficit with china
2011, kenya ; nation seeks more investors from china to bridge trade imbalance
2012, france lambasts wto over eurozone trade deficit with china
2013, malaysia seeks to address china trade imbalance
2013, ukraine wants to reduce deficit of foreign trade with china - azarov
2014, china, tanzania should address trade imbalance
2014, costa rica 's sol_s to address trade imbalance with china at celac meeting
2015, bangladesh , action plan on cards to reduce trade deficit with china
2015, growing china demand helps soften new zealand trade deficit
2016, indonesia seeking to reduce deficit in trade with china
2016, uganda : retrenchment will balance our trade deficit with china
2017, belarus lukashenko concerned over belarus-china trade imbalance
2017, pakistan , china fta talks begin; trade imbalance in focus
2017, nigeria can do a lot to address trade imbalance with china
2018, mexico amlo will seek to reduce trade deficit with china
2019, china, rwanda jointly bridging the trade imbalance
2019, laadhari calls for countering trade volume imbalance between tunisia and china
*1980, china-japan relations; li qiang calls for correction of trade imbalance.
*1985, trade imbalance must be rectified, says china
*1988, china looks to cutting trade deficit with australia
*1993, imbalance worries china as taiwan trade soars

Table 1. Examples of News Headlines on Concerns over Trade Imbalances (with China). Data is collected from the LexisNexis archives.

Expectation Gap – Lastly, temporal contrast between expectation and outcome can strengthen grievances. Believing in “Washington Consensus,” numerous states embraced trade and financial openness during the 1980/90s – the “big bang” liberalization (Quinn and Toyoda 2007). The rationale extends beyond welfare maximization to encompass more broadly modernization – socioeconomic development, political rewards, and national capabilities (Krasner 1985). States have viewed external balances as the preconditions for liberalization (Simmons 2000; Quinn and Toyoda 2007) – implying states’ preferences and understanding that

imbalances wouldn't happen if otherwise less liberalized. When expectation led states to both voluntarily and forcibly accept rules, undesirable outcomes strengthen dissatisfaction.²⁵

In the Appendix, I further use economic models to illustrate how persistent external deficits may economically lead to nationwide dissatisfaction, apart from the above cognitive and emotional mechanisms. The two formulas below focus on two channels: 1) increased national debt that reduces other expenditures, and 2) shifting labors from industries to services sectors that suppress wages.

$$|n| \leq \frac{d}{r} \underbrace{(1 - (c + g + i + n))}_{\text{debt-service share of GDP}} \quad (1)$$

$$w_{st}^* = (1 - b) A_{st} \left(\frac{K_{st}^*}{L_{st}^*} \right)^b \quad (2)$$

Economic models illustrate that persistent external deficits can lead to lower public good provisions, lower consumption, and higher tax. The consequential dissatisfaction (often disproportionately concentrated), if long enough, can sustain grievances, fuel populism, and affect the survival of incumbents, which, combined with the aforementioned attitudes towards deficits, may particularly concern political leaders.

3.2 How Issues Undermine the LIO

An international order can be undermined in multiple ways including violating rules and norms, waging conflicts, subverting institutions, or abandoning support. I draw on the literature on rational choice institutionalism, power transition, and international organizations (IO) to formulate the likely mechanisms.

Individuals who feel grieved by unsatisfactory economic outcomes alter behavior to lobby for protectionist policies, vote for populist candidates, and demand compensations (Autor et al. 2020; Kim 2017); grievances can also trigger social movements (Tarrow 1998). Grievance can affect state behavior. The individual-level sentiment, when aggregated or coupled with power through varying institutional settings (e.g., democracy or autocracy), can significantly shape state policies (Moravcsik 1997). More often than not, those who care

²⁵E.g., in the 1980s, the IMF began pushing states to remove controls on short-term capital flows (Stiglitz 2004).

more possess concentrated political power (e.g., concerned elites or industry associations) than silent, dispersed individuals (e.g., consumers). Beyond mercantilist mentality, there may be self-legitimizing factors, sociotropic or resentful, motivating policymakers to be antagonistic to the perceived culprits. Political tensions can also arise from a focal point around which policymakers associate domestic problems with global economy, or simply politicization (Walter 2021).

Indeed, empirical literature is abundant on how external imbalances may lead to varying political tensions. Historically, the War of Jenkin's Ear between Britain and Spain (Young and Levy 2011) and the Opium War between Britain and China were partly due to trade imbalances.²⁶ More recently, the weakening and volatility of balances of payments can hinder the acceptance of economic openness (Simmons 2000) and lead to trade restrictions (Broz, Duru, et al. 2016). Trade imbalances have been shown to predict domestic protectionist backlash (Delpeuch et al. 2021), and a recent survey by Spater (2024) finds that higher current account deficits diminish public support for free trade. Disaggregated, increased imports or local purchases from foreign states or firms can result in more amiable policies from host countries (Cutrone and Fordham 2010; Johns and Wellhausen 2016).

Can policymakers properly attribute persistent imbalances to the LIO?²⁷ Theory, literature, and experience all offer similar clues. Apart from the existing knowledge on imbalances' causes, many states, before they significantly liberalized trade and capital accounts in the 1980/90s, didn't have persistent imbalances (which hardly exist in a relatively autarkic economy). The liberalization stipulated by the LIO also largely *tied* policymakers' hands unlike during the Bretton Woods period (1944-71) (Stiglitz 2004; Quinn and Toyoda 2007) – they could only blame others. Since then, balance-of-payment issue which is directly linked to economic instability and debt problems has been a constant worry for governments, which also served as a impediment for deepening liberalization (Broz, Duru, et al. 2016; Quinn and Toyoda 2007). The main LIO institution – the IMF even has specific funds “designed to stabilise borrowers’ balance-of-payments (Dreher 2002).” Thus, informed policymakers can easily attribute persistent imbalances to the LIO.

For all these reasons, global imbalances should affect states' attitudes toward the LIO – but what behavior ensues? Rational-choice institutionalism or functionalism argues that members' behavior is shaped by the calculus based on an institution's rules and expected outcomes (Hall and Taylor 1996). Thus, states support an

²⁶See the National Archives at <https://www.nationalarchives.gov.uk/education/resources/hong-kong-and-the-opium-wars>.

²⁷I do not necessarily distinguish between the LIO and its economic sub-order, since: 1) the LIO is arguably an integral order (Lake et al. 2021), 2) many (especially the Global South) do not fully share its political and security interests (so that they may quit all together), and 3) China's emerging order is also all-encompassing.

order (or institution in general) due to satisfactory outcomes (Keohane 1984) or increasing returns (Ikenberry 2011). It follows that grievances from persistent deficits (and associated troubles) will lead states to lose support for the order. Moreover, the lost support here should logically mean exiting the LIO, as staying equates to continuously observing rules (e.g., restrictions on currency, capital, trade, and industrial interventions, as well as strict loan/aid conditionality) that shape outcomes and perpetuate grievances. However, an order differs fundamentally from a usual institution: Given limited outside options (Lipscy 2015), an exit here should be considered *broadly* – as no other order is yet widely considered on par with the U.S.-led order, we should more often expect exit intention than actual exit, although the underlying logic is similar. We should also expect higher bars for the issue involved – less important issues may not matter so.

The logic in point echos “exit” in IO literature. IOs facilitate cooperation through mutual benefits and norms (Johnston 2001; Keohane 1984), and as cooperation discontinues, IOs could discontinue through abandonment (Gray 2018). Disgruntled members attempt to reform existing institutions (Lipscy 2015; Morse and Keohane 2009); exit becomes an option if the outcomes are unsatisfactory, as exemplified by the U.S. leaving the Trans-Pacific Partnership (TPP) or Brexit. Based on Hirschman (1970)'s “exit, voice and loyalty” framework, when a dissatisfied state sees voice as futile and possesses little loyalty, the result will be departure, echoing rational-choice institutionalism, as well as the psychological and constructivist literature that concerns substantiated by (non)material gains portend deference/conflict patterns (Dafoe et al. 2014).

One testable implication of exit intention is supporting an emerging order competitor. This also accords with power transition theory. Broz, Zhang, et al. (2020) proposed a “leadership transition” framework where lasting financial instability *pushes* states to support China’s economic leadership. Due to the competing and oftentimes conflicting rules and norms of a potential Chinese order which is not a full competitor yet (Broz, Zhang, et al. 2020), states are unlikely to possibly stay in both orders (e.g., hedging), and the shifting support implies losing support for the U.S. order or exit intention as argued. This particular effect, however, undermines LIO’s legitimacy, stifles cooperation, and at worst, triggers the order’s demise.

Nonetheless, as I argue below, the “transition” process is not as simple as the textbook version “dissatisfaction lead to exit.” Two factors make it complex: 1) how the order challenger relates to the issue, and 2) the nature of the issue itself.

The Ambivalence Effect: Cure Cannot Be Worse than Disease

Theoretically, any viable outside option should provide issue solutions or at least shouldn't inflict unacceptable harms. Global imbalances bear more complexity than other issues such as financial crises partly because of its relationship with the outside option. Current account imbalance alone refers to income-expenditure differential or the accumulated debt a country needs to borrow (thus more of a financial property), while trade imbalance specifically measures trade flows. The nuance when it comes to China exactly sits between finance and trade.

China has emerged as an attractive source for loans and investments.²⁸ However, China's trade practices have often been described as distortionary, operating as a sizable non-market "China Inc," and even predatory and coercive (Cha 2023; Wu 2016). China has been rejected by major economies for "market economy status" and its industrial policies rely on "demand grab" that may impede others' development – this goes beyond the original purposes of free trade – mutual benefit through division of labor and exchange (Irwin 1998). Beyond the "China shock" (Autor et al. 2020) and "Made in China" worldwide are the surpluses with most trading partners (Figure 1). With a mercantilist push towards "self-sufficiency," its long-term input suppliers - South Korea and Japan - started running bilateral deficits. The EU has grown increasingly concerned about souring imports from China. Interestingly, African countries, while seeking investments, complained that they cannot rely on Chinese loans anymore, necessitating rebalancing trade to "service mountains of debt, much owed to Beijing."²⁹ In other words, they turned to China mainly for finance and became cautious once hit by rising trade imbalances – China matters differently for states in regards to finance and trade.

As such, states should react differently to current account and trade imbalances. Note that as the logic chain above shows, the mechanism is mainly a "push" story rather than pure "pull" by China's financial appeals – that is – the mechanism relates to the roles of *both* the LIO and China (see Alternative Explanations for more discussion). The following four hypotheses differentiate the mechanisms in finance and trade:

H1.1: The higher the long-term total current account deficit a state runs, the more likely the state supports Chinese leadership.

As argued, since losers often complain about winners, bilateral imbalance may become a point of contention. Thus, I test the interaction effect of bilateral imbalance:

H1.2: However, if the state runs a bilateral trade deficit with China, the effect in H1.1 will be attenuated.

²⁸"How China Became a Global Lender of Last Resort," Time, 28-March-2023.

²⁹"Insight: Africa's dream of feeding China hits hard reality," Reuters, 28-June-2022.

uated (the “ambivalent” interaction effect).

Here, being “ambivalent” refers to states’ cautious stance towards a potential embrace action if the alternative leadership is perceived as harmful for trade that contributes to the imbalance problem. By the same token, one *doesn’t* expect total trade imbalances to have the same effect as current account imbalances on supporting China. Other than their theoretical difference, empirically states do pay attention to both imbalances. As the Appendix shows, two imbalances often exhibit related imbalanced patterns. However, their values can differ greatly with sometimes opposite signs for individual countries. The Empirics section has more discussion of treating them separately.

H2.1: The total trade deficit of a state may not, or even negatively, be associated with the likelihood of supporting Chinese leadership (the “ambivalence” effect).

H2.2: Moreover, if the state runs a bilateral trade deficit with China, the “ambivalence” effect in H2.1 will be more negative (the interaction effect).

H2.2 is an interaction term which implies that states are less likely support (or more likely oppose) Chinese leadership, should it run bilateral deficits compared to the trade balance case.

Helpless Issue: Not All Issues Matter Equally

Recall that Moreover, the nature of the issue can make the possible transition process more complex. As explained, choosing between competing orders differs from choosing between usual institutions, which raises the bars for the issue involved. Path dependency of institutions also indicates that the issue should not be an “easy” one for any rational state, especially when the outside option – China – is not yet overwhelmingly competitive. How the issue matters plays an important role in shaping states’ intention – Lipsky (2015) argues that the likelihood of exiting the Bretton Woods Institutions depends on the underlying characteristics of policy areas. Similarly, I theorize why some issues rather than others may trigger a state’s intention to exit the existing order for a competing one.³⁰

Rationally speaking, a state may develop an exit intention *if and only if* all four conditions of a grievance are high: stubbornness, severity, attributability and unaddressability – my conceptualization of “*helpless issue*” through a comparative lens. A helpless issue has to be persistent – the *stubbornness* of a grievance.

³⁰This is not to say other issues may not matter. I focus on order exit in a geopolitical age, compared to milder consequences such as populism or criticism of IOs,

Temporary economic downturns are unlikely to cause lasting damage and may heal over time. Import shocks, for instance, can be mitigated with policy assistance. *Severity* refers to the degree of pain that a grievance inflicts, either factually or perceptually; ideally, the pain should be widespread – otherwise, states won’t feel grieved enough to exit. For instance, U.S. anti-dumping discrimination is unlikely to inflict deep harms on a nation compared to a financial crisis. *Attributability* refers to the fact that while a state may suffer persistent and severe grievances, they must be largely attributable to the order – one would not leave an innocent order particularly given no better competitors. The last condition is *unaddressability*: states will not exit if a grievance can be addressable. Economic inequality aggravated by globalization can be mitigated by domestic redistributive policies. The four conditions are necessary – if any is not sufficiently high, one does not expect an exit intention at least for rational state leaders. They are also arguably sufficient for raising an exit intention without additional conditions.

As described, global imbalances are significant in all four conditions: it persists; it is associated with substantial socioeconomic impacts; it is highly attributable to the LIO; and it’s beyond individual countries’ capabilities to resolve. A comparable grievance of similar magnitude is the recurrent financial crises experienced by some countries. Broz, Zhang, et al. (2020) depict that financial crises produce severe political and economic consequences, persistently attack some nations, are attributable to the current order, and surpass national governments’ capabilities. Table 2 lists ten possible issues that are often attributed to the LIO, spanning trade, finance, development, and governance. Each of the four aforementioned conditions is assessed and rated high, moderate, or low, with the rationale in the Appendix. In particular, global imbalances and financial instability are high for all four conditions, while the remaining eight issues are not.

	Stubbornness	Severity	Attributability	Unaddressability
Global Imbalances	high	high	high	high
Financial Instability	high	high	high	high
Import Competition	moderate	moderate	high	high
Low FDI	moderate	low	moderate	moderate
Economic Inequality	high	moderate	moderate	moderate
Low Economic Growth	moderate	high	low	moderate
Deindustrialization	high	moderate	moderate	moderate
High Debt	high	moderate	moderate	moderate
High Unemployment	moderate	moderate	moderate	moderate
IMF Governance Deficit	high	low	high	high

Table 2. Major Issues within the LIO.

Then, according to my “helpless issue” theory, these issues should matter differently regarding exit intention. Testing various issues together offers several benefits: 1) It allows global imbalances to stand out if only it remains significant and possible magnitude comparison; 2) Other theoretically non-exit issues can serve as robustness tests and possible placebo tests to more confidently exclude spuriousness or coincidence. Of note, many listed issues may be correlated with imbalances, putting them together in the same model can determine what possibly confound the imbalances. The following hypothesis tests the differentiation:

H3: Of all ten LIO issues, only global imbalances and financial instability lead states to support Chinese leadership.

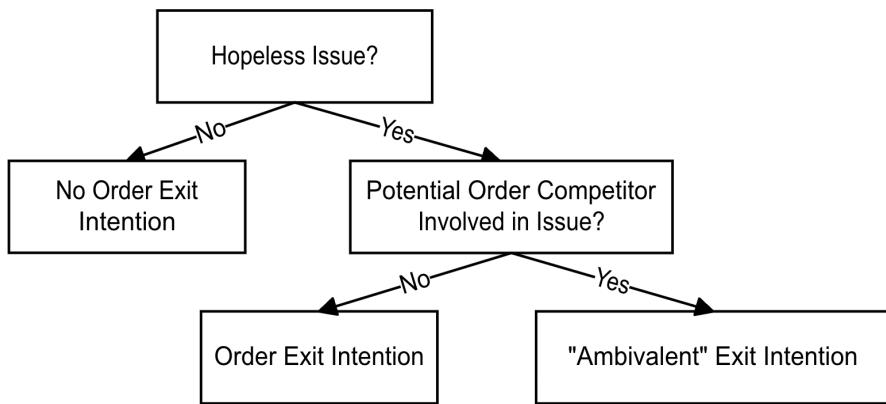


Figure 6. Illustration of the Mechanism.

In sum, the whole process with regard to supporting a competing order is depicted in Figure 6, which shows a more complicated mechanism than standard power transition theory: Not every issue of the LIO may trigger exit intention. When the outside option is involved in the issue, states’ attitudes then become ambivalent.

4 Research Design

Comparing Potential Measures: Supporting Chinese Leadership

I compare three promising measures of support based on the literature and reason, and show why some are

valid in my case and whether states support challengers selectively. In the period of Xi's "building China's order," there have been arguably three historically important events we may use to measure supporting Chinese leadership: Becoming the AIIB (Asian Infrastructure Investment Bank) founding members, attending the first BRI summit, and applying for the initial BRICS membership.

Becoming the AIIB Founding Members – Qian et al. (2023) recently argues that becoming the AIIB founding members in 2015 is a means of embracing China's rising status. Yet, Broz, Zhang, et al. (2020) contends that the AIIB modeling the World Bank as a multinational institution can obscure the motivations validating a unilateral Chinese economic leadership. Moreover as I argue, it is a weak measure to capture states' motivations and leadership support. Becoming a founding member has low prospects of mitigating external deficits and in turn requires states to submit funds for share subscriptions, which is especially hard for deficit states.³¹ It's thus more seen as commercial opportunities than supporting leadership; in fact, many European founding members are unsurprisingly surplus states such as Germany, Switzerland and Scandinavian countries.

Sending State Heads to the 2017 BRI Summit – Broz, Zhang, et al. (2020) seminally propose a behavioral measure for support for Chinese leadership. Their theoretical framework of "leadership transitions" posits that states are pushed to China due to long-lasting grievances, namely financial instability in the U.S.-led order. They argue that sending *state heads* to the 2017 BRI summit (rather than becoming one of the over 150 members) is a stronger signal than others such as statements, voting affinity, or bilateral trade deals.³² This is a plausible one based on their four reasons: The BRI is the alternative leadership China actively provided to the world in the wake of Trump's inward-looking shift. The BRI is a unique Chinese vision exogenous to the current order (so that support won't be misinterpreted). Sending state heads is a costly signal of validating Chinese economic leadership, especially when a Western order still dominates and China is an illiberal state. Finally, the communiqué targets existing order's problems.

Applying for the initial BRICS Membership – This behavioral measure is problematic: Before Russia's invasion of Ukraine, the BRICS was largely in name only with diverging strategic interests.³³ As of September 2023, there were 19 countries who have formally applied to or will join the BRICS, all after Russia's war.³⁴ China, accounting for 70% of the bloc's economy, significantly deteriorated its image, after trade wars, domestic crackdowns, and the COVID lockdowns. While China wishes to use the BRICS as a focal point to

³¹ Article 5, Articles of Agreement of the AIIB.

³² Although membership can also be a signal (Davis 2023), in this context, state heads' attendance arguably is a much stronger signal than the almost universal, cost-free BRI membership.

³³ "BRICS is doubling its membership," Atlantic Council, 24-August-2023.

³⁴ See <https://en.wikipedia.org/wiki/BRICS>.

forge a geopolitical rival to the G7, South Africa says it “extremely wrong” to be anti-West.³⁵ Despite the geopolitical tensions and huge deficits with China, India is friendly to Russia and hopes to use the West to counter China. Brazil’s populist president actively pushes for de-dollarization, attributing its problems to the dollar dominance. These mixed signals and member structure obscure the bloc’s potentials, as well as applicants’ rationale. Unlike the BRI attendance, states may be more skeptical: Regional power Indonesia turned down the membership invitation, citing its fragility and the lack of unity, followed by Argentina.³⁶ 12 out of total 19 BRICS applicants are autocracies ($\text{Polity} < 0$), as compared to only 7 of 29 in the BRI summit.

In sum, in the case of global imbalances, sending state heads to the 2017 BRI summit is arguably the most appropriate measure of supporting Chinese leadership, whereas AIIB founding members and joining the BRICS are not. Unlike Broz, Zhang, et al. (2020), I do not necessarily distinguish Chinese economic leadership or generic leadership, neither do transition theories due to dissatisfaction; any problems with new leadership may discount the support. In the Appendix, I run tests with the three measures and the results are consistent with my reasons.

Illustrative Case: Italy’s Attending, Joining, and Quitting

To illustrate and further corroborate my theories, I use the example of Italy. Italy was the only G7 country to send state head to the summit and later joined the BRI in 2019 – If my theory holds for a G7 state that is least likely to be “pushed” to China, it should more possibly hold for others. The joint communiqué of the 2017 BRI summit specifically addresses the risks of “financial crises and unsustainable development” (Broz, Zhang, et al. 2020), which are theoretically linked to persistent global imbalances as discussed.

Italy was then crisis-replete: it entered a recession in 2018 after years of debt crisis and stagnation, recorded onerous public debt, and suffered a long period of current account deficits not long ago (2000-12) – a combination of grievances.³⁷ Consequently, Italy just elected a populist government which was “in the battle with the EU and the world” – the EU is a key pillar of the current order.³⁸ Thus, Italy was sort of pushed to China by grievances and supported the BRI project. Indeed, although Italy may not attribute its position change solely to external deficit, it did relate to it. Luigi di Maio, former Economic Minister, was indeed hoping for “a substantial increase of exports and rebalancing trade imbalance” through the BRI, suggesting

³⁵“China urges Brics to become geopolitical rival to G7,” Financial Times, 20-August-2023.

³⁶“Analysis: Indonesia joining BRICS,” The Jakarta Post, 4-September-2023.

³⁷“Italy joins China’s Belt and Road Initiative,” Aljazeera, 23-March-2019.

³⁸“Italy’s Biggest Economic Problems? It’s Still Italy,” The New York Times, 09-August-2019.

Italy's hope for the organization. By then, Italy's need was mainly for financial problems with less concerns over trade imbalance yet, and China as an outside option seemed viable.

However, Italy's later withdrawal from the BRI (the reversal of support) cites explicitly the unexpectedly worsening trade deficits. In July 2023, in an interview with a local newspaper Corriere della Sera, Defense Minister Guido Crosetto remarked, "... joining the Silk Road (BRI) was an improvised and wicked act... we exported a load of oranges to China, they tripled exports to Italy in three years..."³⁹ This reflects Italy's realization that a hope for the BRI to alleviate its deficits and other financial issues was futile and bilateral trade was indeed the trouble source. In other words, China's option became more disappointing than expected precisely because of its trade practices.

That the first Italian government joined the BRI due to a combination of financial grievances, and the second government quit it after realizing bilateral trade was troubling, exactly agrees with my theories, echoing the aforementioned examples of African countries. While Italy gave four more years to validate possible trade concerns conditional on political cycles, others may have recognized it earlier. Other countries with persistent external imbalances may embrace the BRI or similarly have ambivalent attitudes.

No actual exit? One may argue, the attendance of the BRI isn't an actual exit of the order and states' support may vary across events, especially since the Chinese alternative isn't fully substantiated. The logic of losing interest in the U.S.-led order while supporting a peer competitor is what matters. Things may change in ten years or so, as China continues to integrate the global economy, deepen its position in global production and trade, and expand China-led institutions. As per the United Nations (UNIDO), China's share of higher technological value-added output is close to 40% worldwide – a near dominant position. Qian et al. (2023) find that developing AIIB founding members have already decreased the World Bank projects they have entered into. Chinese foreign aid and loans differ in conditionality and normative requirements, which, along with emphasizing capital controls and social stability, stand in contrast to the criticisms of the current order (Broz, Zhang, et al. 2020).

Measuring “Imbalance Grievance”

I measure the grievances generated by external imbalances as the cumulative values in a given period, which most empirical research calculates simple average or sum. For instance, Broz, Zhang, et al. (2020) uses the total count of past financial crises to measure emotional distress. The problem is that a recent event should

³⁹“Italy intends to leave China’s Belt and Road Initiative,” Politico, 30-July-2023.

be more felt than that of years ago. As such, I employ the weighted average to measure the accumulated imbalance grievances G_{t_n} between t_0 and t_n , expressed as:

$$G_{t_n} = \frac{\sum_{t_1}^{t_n} (1 - (t_n - i)d) B_i}{\sum_{t_1}^{t_n} (1 - (t_n - i)d)}$$

where B_i refers to current account or trade balance in year i . d is the discount factor to assign lower weight to older values. For example, if $d = 0.05$ (in my main tests) and the year of 2017 is weighed at 1, 2010 will be weighed at 0.65; intuitively, a 20-year-old event may be almost forgotten. In the Appendix, I test multiple discount values (from 0 to 0.2, with 0 being simple average) and the results are consistent.

Why Now?

One empirical issue may be, why do we see states support a Chinese leadership now as global imbalances have been around for decades? Three responses are in order: First, as suggested by the comparison of three DV measures, there hasn't been a real order competitor and a proper support event before the 2010s. But once the change in political opportunity structure (e.g., the emergence of a competitor) appears, the grievance can appear especially intolerable (Tocqueville 1856). Second, the attitudes such as inherent aversion to deficits and my extra tests on the UN Voting patterns reveal that the concern has been existent long before the BRI summit. Since temporary deficits are widely regarded as benign, policymakers may need time to verify their impact. Third, “cumulative” is the key here. In other words, even if one's imbalance rate remains constant temporally, the accumulated grievances will grow with time (my weighted measure also discounts older values). In fact, in the Appendix, I show that the effect magnitude of the two-decade measure is larger than that of one-decade.

5 Empirical Results

Regression Models

As in Broz et al.'s framework and observational studies, causes can remain latent generating effects unwittingly. Policymakers may simply feel discontented by a combination of grievances – the logic of push as in the Italy's case; it may be hard to expect leaders to publicly and clearly associate the varying discontent with

attendance, especially when supporting an authoritarian challenger. But causes can be mined through proper *identification strategies*.

As I adopt the dependent variable (DV) “sending state heads to the BRI summit,” the first empirical strategy builds on the models of Broz, Zhang, et al. (2020) which assume ignorability. Of the 29 states that sent state heads, 18 ran average negative current account balances over two decades, and 15 had over 5 cumulative financial crises since 1990. As explained, since a country’s two balances (current account and trade) can diverge and can be perceived separately, they may exert independent and/or interplay effects (e.g., interaction or confounding). Thus, I put both in the main model.⁴⁰ The two variables of interest are weighted average current account and trade balance shares from 2010 to 2017, the most recent decade.⁴¹ Probit models are used since the DV is dichotomous. All models control for a full list of covariates in the full model of Broz et al. Being on the BRI routes for favored investment opportunities and having free trade or investment agreements with China are controlled for the “pull factors” to attend the summit. Other covariates include Ideal Point distance from China, leader’s ideology, regime type (Polity V), and the CIRI human rights index for political factors that may influence attendance, and GDP (log), GDP per capita (log), and GDP growth rate for a list of economic controls. A dummy variable of Africa is used to account for regional under-representation at the summit as in the original models. Since financial instability such as currency or balance of payment crises are closely related to persistent deficits (Obstfeld and Rogoff 2009), I retain the variable of interest of Broz et al. – count of financial crises. The data of all controls comes from Broz et al. Since some variables may be correlated, especially between current account and trade balances, all models pass the VIF check for multicollinearity violations. Crucially, the correlation between two balances is insignificant ($p > 0.18$). The results are corrected for heteroskedasticity using robust standard errors.

Control Function Method (Instrumental Variable)

Although the OLS models control for arguably adequate covariates, potential endogeneity concerns such as omitted variable bias need to be mitigated. The second strategy utilizes the relatively modern *control function method* (2SRI, Two-Stage Residual Inclusion in the probit case (Terza et al. 2008)),⁴² which requires a strong and exogenous instrument variable. A control function renders an endogenous variable exogenous and the common form is the residual after regressing treatment on instrument(s) and covariate(s) in the first stage. As

⁴⁰In the Appendix, current account and trade balances are also tested separately.

⁴¹The 2010-17 range contains more countries (150+ vs. 120+ of the 2000-17 range), and the recent decade is more felt. Nonetheless, the 2000-17 range is also tested in the Appendix, showing consistent results with larger magnitudes.

⁴²2SLS (Two-Stage Least Squares) is for linear models.

explained, since external balance is strongly correlated with industrial intensity (% of GDP), I use industrial intensity as a plausible instrument for the following reasons:⁴³ First, industrial intensity theoretically has no direct effect on attendance propensity through channels such as pull, push, or cost of attendance, apart from the grievance external imbalances generate – i.e., not correlated with the error term. Second, neither theoretical nor empirical evidence suggests states blame the current order for industrial intensity as a grievance (echoing the non-finding in Table 4, the “deindustrialization” column). Third, in an unlikely case where a country’s industrialists (e.g., merchants in Germany or Singapore) push for attendance, the estimate should bias toward zero (meaning the real effect is further away from zero).⁴⁴ Fourth, industrial intensity is found uncorrelated with outcome attendance, and in both stages I control for a host of country characteristics such as GDP, GDP per capita and regime type for more confidently and efficiently capturing the endogeneity part of treatment.⁴⁵

The two stages are formally expressed as:

$$T_i = \pi_0 + \pi_1 Z_i + \pi_2 \mathbf{X}_i + \eta_i$$

$$Y_i = \beta_0 + \beta_1 T_i + \beta_2 \mathbf{X}_i + \beta_3 \hat{\eta}_i + \epsilon_i$$

where T_i , Z_i , \mathbf{X}_i and Y_i are treatment (external imbalances), instrument (industrial intensity), covariates, and outcome (attendance) respectively. The residual $\hat{\eta}_i$ from the first stage serves as a control function in the second stage, rendering the treatment exogenous. The F-statistic in stage one is 17, suggesting a strong instrument.

⁴³Industry output corresponds to ISIC divisions 05-43, including mining, manufacturing and construction.

⁴⁴It's even more unlikely that domestic actors in poor and low-industrialized countries push for attendance. I also control for per capita GDP in both stages.

⁴⁵An instrument is valid if “as good as random” conditional on covariates (Abadie 2003).

	DV: BRI Summit Attendance							
	Probit Model						2SRI/IV	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Total Current Bal.	-0.087** (0.040)		-0.098*** (0.028)		-0.091** (0.037)	-0.100*** (0.036)	-0.109*** (0.031)	-0.168* (0.089)
Total Trade Bal.	0.004 (0.014)		0.053** (0.023)	0.054** (0.027)	0.057** (0.027)	0.036 (0.023)		
Total Current Bal. x Trade Bal. w/ China					-0.156* (0.091)			
Total Trade Bal. x Trade Bal. w/ China						-0.051* (0.030)		
Total Trade Bal. x Total Current Bal.							-0.002* (0.002)	
Trade Bal. w/ China					-0.211 (0.628)	0.236 (0.566)		
BRI Position	0.781* (0.435)	1.342* (0.808)	0.744. (0.477)	0.703. (0.468)	0.873* (0.499)	0.836* (0.503)	0.900* (0.462)	0.873** (0.434)
FTA w/ China	0.238 (0.387)	0.339 (0.748)	0.091 (0.432)	-0.297 (0.461)	-0.094 (0.560)	-0.125 (0.554)	-0.290 (0.478)	0.184 (0.431)
BIT w/ China	1.001** (0.434)	2.086** (0.984)	0.983** (0.455)	1.077** (0.536)	0.704 (0.556)	0.747 (0.557)	1.087** (0.542)	1.201** (0.526)
Financial Crises (count)	0.075*** (0.026)	0.131*** (0.050)	0.072*** (0.027)	0.063** (0.026)	0.068** (0.029)	0.068** (0.029)	0.064** (0.028)	0.081*** (0.029)
Ideal Point Distance	-0.700** (0.334)	-1.222** (0.557)	-0.745** (0.340)	-0.778** (0.351)	-0.776** (0.384)	-0.773** (0.376)	-0.942** (0.389)	-0.885** (0.365)
Regime Type	-0.021 (0.036)	-0.098 (0.070)	-0.016 (0.037)	-0.047 (0.043)	-0.022 (0.049)	-0.023 (0.047)	-0.048 (0.044)	-0.105* (0.056)
Leader Ideology	-0.115 (0.127)	-0.093 (0.242)	-0.104 (0.132)	-0.062 (0.132)	-0.104 (0.150)	-0.103 (0.146)	-0.107 (0.138)	-0.103 (0.157)
Africa Dummy	-1.312** (0.601)	-2.534** (1.113)	-1.407** (0.648)	-1.745** (0.714)	-1.801** (0.844)	-1.874** (0.845)	-1.678** (0.720)	-1.372** (0.659)
GDP Growth Rate	0.009 (0.024)	0.018 (0.038)	0.010 (0.026)	0.026 (0.023)	0.011 (0.028)	0.011 (0.028)	0.021 (0.025)	0.022 (0.022)
GDP (log)	0.261* (0.137)	0.584** (0.275)	0.271* (0.143)	0.328** (0.146)	0.277* (0.159)	0.284* (0.158)	0.287* (0.158)	0.469*** (0.163)
GDP per capita (log)	-0.550** (0.220)	-0.726. (0.460)	-0.602** (0.258)	-0.628** (0.268)	-0.575* (0.301)	-0.601** (0.304)	-0.486* (0.284)	-0.137 (0.298)
Human Rights Index	0.259* (0.156)	0.410 (0.297)	0.280* (0.167)	0.248. (0.170)	0.257 (0.186)	0.259 (0.188)	0.261 (0.190)	0.311* (0.166)
Num.Obs.	154	144	139	132	118	118	132	142
Pseudo R ²	0.378	0.406	0.355	0.404	0.406	0.399	0.419	0.412

. p < 0.15, * p < 0.1, ** p < 0.05, *** p < 0.01

Table 3. Persistent External Imbalances on the BRI Summit Attendance.

Table 3 shows the results of various model specifications and identification strategies, including OLS and IV. Model 1 is the full OLS model of Broz, Zhang, et al. (2020) as my baseline; all subsequent models control for the same covariates. Current account balance is negatively correlated with attendance propensity in Model 2, while Model 3 shows that trade balance has the expected null solo effect. In other models, current account balance and trade balance are added together as mentioned for possible independent or interplay effects. Model 4 shows that current account balance is negatively correlated with attendance, whereas trade balance is positive with a smaller magnitude. Together, the zero or positive coefficient of trade balance is consistent with

my theory – when a state has trade deficit issues, it is less likely to be pushed to China. Instead, current account issues do, which is also consistent with the coefficients of FTA and BIT where the former is insignificant. Model 5 adds an interaction term of total current account balance and trade balance with China (average over the past five years). The expected ambivalence effect of my theory is confirmed: The more a state runs a trade deficit with China, the more the “push” effect for Chinese economic leadership diminishes. Similarly, Model 6 shows that the negative bilateral trade balance with China makes the total trade balance effect even larger – even more states won’t support China’s leadership. Model 7 adds the interaction term of current account and trade balances to show whether one balance is counteracted by the other (only one deficit should be better than both deficits). The negative coefficient of the interaction term is small but in line with theoretical expectation. Model 8, employing the control function method with the instrument variable industrial intensity, estimates a consistent effect of a similar magnitude that double confirms the OLS models.⁴⁶ Overall, all tests systematically and consistently support my hypotheses how external balances affect the propensity to support an alternative leadership.

Sensitivity Tests

To further strengthen the results, I conduct sensitivity tests following Cinelli and Hazlett (2020) whose goal is to gauge how strong an omitted confounder needs to be to explain away completely the effect of the variable of interest. As Cinelli and Hazlett suggest, it’s productive to consider the relative strength by comparing the unobserved confounder to observed covariates, since the absolute strength (i.e., residual variance) can be harder to argue for and the strongest covariates are often identified in models. As such, I choose three covariates that arguably most strongly confound the results and are significant in the models: BRI locations (bri_loc), Ideal Point score (ideal_point), and per capita GDP (gdp_pc). Figure 9 plots the sensitivity curves which represent the estimates of global imbalance given the hypothetical partial R^2 of the omitted confounders with treatment ($R^2_{D \sim Z|X}$) and outcome ($R^2_{Y \sim Z|D,X}$). In a nutshell, any omitted confounder that nullifies the main estimates would need to be 15 times, 17 times, and 38 times as strong as bri_loc, ideal_point, and gdp_pc with both treatment and outcome.⁴⁷ Hence, there should be less concerns for omitted variable bias.

⁴⁶The IV model is only run for current account due to no strong instrument simultaneously for both balances and that trade balance’s coefficient is ambiguous. More tests are done in the Appendix.

⁴⁷As noted by Cinelli and Hazlett, these results are conservative for multiple (possibly non-linear) omitted confounders. See Appendix of the implementation details.

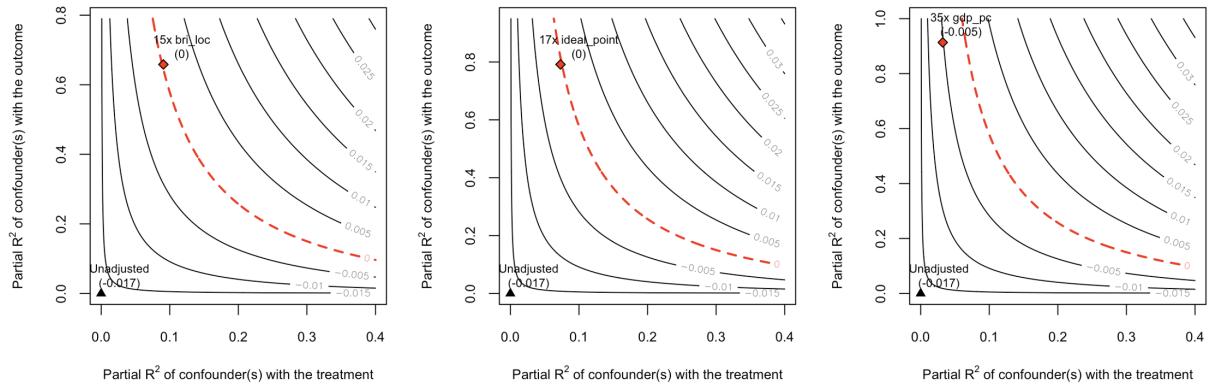


Figure 9. Sensitivity Contour Plots of the Omitted Variable Bias for BRI locations (15x), Ideal Point score (17x), and per capita GDP (35x+)

Testing “Helpless Issues”

Next, the hypothesis “only helpless issues lead to supporting Chinese leadership” will be tested. Eight more potential issues inside the LIO are included. For import competition, I use the change in imports as a share of GDP in 2010-17, with the start-year 2010 being used so that the near aftermath of the 2008 Financial Crisis can be avoided.⁴⁸ For low FDI levels, the average FDI net inflow share (2010-17) is calculated, and for the same period, I measure poor economic performance using the average GDP growth rate. I use the income share of the top ten percent of the population to measure economic inequality. For deindustrialization, I use the change in manufacturing output share over the same period. The data for all preceding variables are retrieved from the WDI databases. Additionally, a country’s debt burden is measured using the central government debt rate in 2016, in which year the unemployment rate is used for labor market issues (both measures are retrieved from the IMF). Lastly, the dissatisfaction about global economic governance is measured by the difference between a country’s vote share in the IMF and its global GDP share (in current US dollar) as in Broz et al.

⁴⁸I use 2010-17 for all issues because the past decade is mostly felt. A longer period of 2000-17 is also tested in the Appendix.

	DV: State Head's Attendance to the BRI Summit								
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Import Share Change	0.007 (0.009)								0.041 (0.026)
Avg. FDI Share		0.001 (0.006)							-0.002 (0.009)
Top 10 Pct. Income			-5.117 (3.142)						-7.054 (6.308)
Avg GDP Growth				0.043 (0.061)					0.042 (0.136)
Avg Manufac. Share					0.014 (0.026)				-0.001 (0.036)
Central Gov. Debt Share						0.002 (0.004)			-0.004 (0.006)
Unemployment Rate							0.007 (0.042)	0.013 (0.042)	
IMF Gov Deficit								-0.143 (0.424)	0.327 (0.548)
Avg. Current Account Bal.									-0.105*** (0.033)
Financial Crisis Count									0.103** (0.049)
OBOR Position	0.424 (0.417)	0.401 (0.412)	0.514 (0.373)	0.396 (0.391)	0.401 (0.386)	0.443 (0.397)	0.481 (0.402)	0.424 (0.403)	0.818 (0.585)
FTA w/ China	-0.085 (0.375)	0.233 (0.357)	0.298 (0.408)	0.160 (0.372)	0.128 (0.395)	0.241 (0.358)	0.253 (0.371)	0.221 (0.366)	0.307 (0.651)
BIT w/ China	1.114** (0.479)	1.006** (0.462)	1.329* (0.740)	1.006** (0.465)	1.029** (0.454)	1.007** (0.441)	0.992** (0.479)	1.011** (0.462)	1.101 (0.869)
Ideal Point Distance	-0.653** (0.259)	-0.485* (0.285)	-0.841*** (0.308)	-0.510* (0.272)	-0.527* (0.278)	-0.477* (0.286)	-0.596** (0.279)	-0.536* (0.276)	-1.380*** (0.385)
Leader Ideology	-0.159 (0.122)	-0.073 (0.112)	-0.032 (0.120)	-0.083 (0.112)	-0.089 (0.121)	-0.065 (0.110)	-0.072 (0.111)	-0.070 (0.114)	-0.118 (0.184)
Regime Type	0.057* (0.032)	0.015 (0.033)	0.032 (0.037)	0.022 (0.031)	0.021 (0.033)	0.014 (0.033)	0.022 (0.031)	0.019 (0.032)	-0.015 (0.065)
Africa	-1.244** (0.574)	-1.291** (0.578)	-0.965 (0.640)	-1.302** (0.580)	-1.263** (0.575)	-1.273** (0.572)	-1.246* (0.650)	-1.246** (0.578)	-1.212 (0.992)
GDP	0.247* (0.137)	0.359** (0.142)	0.410** (0.166)	0.365*** (0.141)	0.319** (0.139)	0.346** (0.137)	0.380** (0.155)	0.369** (0.147)	0.426** (0.216)
GDP PC	-0.379** (0.170)	-0.628*** (0.208)	-0.564** (0.255)	-0.594*** (0.203)	-0.576*** (0.208)	-0.628*** (0.203)	-0.627** (0.244)	-0.613*** (0.207)	-0.275 (0.338)
CIRI Index		0.154 (0.119)	0.065 (0.137)	0.158 (0.118)	0.130 (0.126)	0.151 (0.117)	0.185 (0.126)	0.168 (0.118)	0.131 (0.214)
(Intercept)	-0.891 (1.254)	-0.697 (1.203)	0.462 (2.037)	-1.233 (1.197)	-0.746 (1.189)	-0.663 (1.209)	-1.160 (1.095)	-1.011 (1.169)	-1.685 (3.095)
Num.Obs.	154	169	161	172	161	171	168	174	118

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Table 4. Multiple Globalization Grievances on Attending the 2017 BRI Summit. The statistical power of all models are particularly checked due to the relatively small sample size.⁴⁹

Results are displayed in Table 4. Models 1-8 test the additional eight globalization issues respectively, controlling for the covariates as in the baseline. None of the eight issues is statistically significant. Additionally, Model 9 puts all ten issues together (multicollinearity compliance is particularly ensured). Again,

⁴⁹These models have around 80-85% statistical power, which measures the likelihood of detecting an effect when there actually is one.

all variables remain insignificant, except for global imbalances and financial instability. The fact that exactly these two expected variables are significant is unlikely coincidental. Combining all the models, the hypothesis that “only helpless issues such as global imbalances and financial instability are likely to push states to support Chinese leadership” seems valid, which suggests that the two significant issues should raise special attention from the order leadership. Importantly, Model 9 that includes all ten variables together also serves as the robust check so that global imbalances are not confounded by other issues. Figure 8 displays the scaled marginal effects, that is, what the effect is given one standard deviation increase while keeping covariates at their mean values. As it shows, comparatively global imbalances bear the largest effect magnitude.

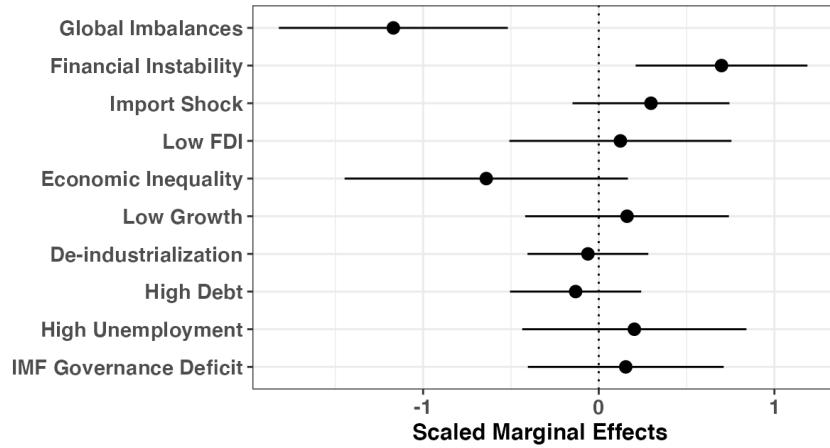


Figure 8. Scaled Marginal Effects of Multiple LIO Issues

More Robustness Tests

I conduct additional robustness tests in the Appendix. First, to ensure that no outliers are driving the results, any country or year or country/years are removed from the datasets. Additionally, 5% data of external balances are removed from both tails to eliminate extreme values. For example, Mozambique runs an average trade deficit of -25%. Second, I fill in the missing data by Multiple Imputation and rerun all tests. Third, I add more controls. Dummy variables for continents of Asia and Latin America are added to control for the impact of travel distance or regional fixed effects. Similarly, a dummy of the Global South and race (white) is added. Fourth, a few alternative measures are used to rule out specific coding sensitivities. Regime type (Polity V) is replaced by the Freedom House index. The DV attendance is re-coded as an ordinal variable (to differentiate state heads, ministers, and below), and is run using ordered probit models. Fifth, as mentioned earlier, separate tests for current account and trade balances are conducted. All these robustness tests show

consistent results.

Alternative Explanations

Can different mechanisms other than the grievance channel explain the empirical link between persistent imbalances and support for Chinese leadership? Theoretically, long-term imbalances can cause other long-term issues which can confound states' support switch. Yet, as the models above have controlled factors such as other nine common grievances, economic performance, and industrial intensity, that they can be mediating variables is unlikely. Another alternative explanation would be that states merely looked to the BRI to solve their deficit issues. As I argued through historical evidences, theories (e.g., IO, political psychology and behavior), and illustrative cases, the push mechanism at least plays part of the role. The grievances are real; additional evidence below shows that deficit states do generate grievances that lead to varied political reactions. While I cannot completely rule out the “pull” channel, supporting a Chinese order that contradicts the current order in numerous ways is more likely to be linked to disliking the latter – states do not prefer both. Since a Chinese order is not a full competitor yet, states are unlikely to be pulled purely. Moreover, although Chinese funds may help finance the deficits, attending the BRI summit as a *costly* behavioral measure of supporting Chinese leadership was unlikely *only* for seeking technical solutions; nor is summit technically the solution, as is becoming AIIB founding members.

Additional Evidence on Imbalance and Grievance

Above I have used literature, historical evidence, and economic models to illustrate how global imbalances may cause states' lasting grievances which trigger the behavioral change. The theory lies in two keys – states' dissatisfaction and the ensuing political reaction. To further validate my mechanisms, I conduct extra cross-domain tests below.

Capital Account Policy Volatility – Grievances are arguably difficult to measure quantitatively. Nonetheless, I follow Broz, Zhang, et al. (2020) to calculate the standard deviation of the Chinn-Ito capital account openness measure. Although variability of capital account policy may not exactly proxy the grievances solely generated by global imbalances, it nonetheless unveils “the difficulty a nation has had with external finance” in the current economic order. Behavior reflects the underlying emotion. In theory, when facing persistent deficits, states may either limit capital inflows to cool down factor inflation or increase capital inflows to finance the deficits. This variable (2005-17, lagged by five years) is negatively correlated with the average current account

balance (2000-17) with p value of 0.02. The correlation that countries with higher deficits more frequently alter their capital account policies suggests that the grievances, if any, may partly come from persistent deficits which are closely connected to cross-border capital flows.

UNGA Vote Convergence – The inherent logic of states’ behavioral change in my story – aversion and dissatisfaction about external deficits – should have the potential to affect bilateral political relations (as in the interaction effects above). Scholars have widely studied the relationship between trade and politics (Flores-Macías and Kreps 2013; Kastner 2016). In the Appendix, my tests show that bilateral imbalances negatively affect states’ voting affinity with China on the UNGA human rights resolutions since 1992, which supports the key elements of my theory – negative perceptions and reactions. Like my main results, I also find differentiated effects between total and bilateral imbalances.

Support for Russia’s Invasion – The key element of transition theory in this paper is “grievance” which motivates states to embrace new leadership. Yet in the lack of support opportunities, other forms of expressing discontent and possibly undermining the order may take place. In the sense, appeasing Russia’s invasion of Ukraine may well be one such action, when Russia’s blatant attack violates much of the order’s rules and norms. In the Appendix, I show that long-term current account deficits predict states’ votes in favor of Russia on the UNGA ES-11/1 resolution that immediately demands basic corrections from Russia. Once again, the result is consistent with my theory’s overall mechanism.

6 Conclusion and Discussion

Despite a wealth of literature pointing out the issues with the current liberal order, little is known about their consequences, especially how and when they may backfire. The often-downplayed imbalance becomes increasingly focal in a geopolitical age. The paper investigates one of the most controversial issues – the persistent, structurally distorting global imbalances that are featured by the order amid rising anti-globalization and geopolitical tensions. First, I show that, apart from the known impacts which mostly come from economics, global imbalances indicate a cross-national disparity in development performance. Second, I provide consistent, robust evidence showing that the generated grievances have political consequences: Persistent current account deficits weaken support for the U.S.-led globalization and order, instead for an alternative economic leadership – by sending state heads to China’s BRI summit. In addition, only issues that I define as helpless

can trigger the disengagement. However, the nuance is, the focal issue and outside options matter – persistent trade deficits don't, since China's trade practices are controversial and the bilateral trade deficit with China nullifies the propensity to support Chinese economic leadership. This implies sort of resilience of the current order apart from those pointed out by Lake et al. (2021). Overall, my theory and robust findings based on multiple methods are consistent with power transition theories (Organski and Kugler 1980), but are the first to point to the complicated and nuanced process which is particularly relevant today, including differentiating three major events with regard to support for China. By taking on ten order-created issues including global imbalances and financial crisis in Broz, Zhang, et al. (2020), I show that only "helpless" issues may trigger disengagement. My findings also echo Broz, Zhang, et al. (2020)'s regarding states' differentiated support on financial crises and WTO complaints. They also speak to the literature on institutional bargaining and outside options (Lipsey 2015) in that I explore the heterogeneity of the order-created issues and their ambivalent relationship with the outside competitor.

The immediate implications for today's geopolitical dynamics are noteworthy. For example, South Korea in 2023 recorded its first bilateral deficit with China after three decades (so does Japan), coupled with the U.S. becoming its largest surplus trading partner. This suggests that Korea (and Japan) will likely lean further away from China. The logic can help predict China-India relations, and explain why China-Australia relations have softened, as Australia generates over \$60 billion surplus. Overall, the findings have a broad range of political implications. First, apart from the already known economic impacts such as indebtedness and financial instability, I highlight the existence of cross-country development disparity indicated by global imbalances. This needs policy attention and the order supporters need to seriously examine the system design of the oft-criticized neoliberal globalization. This pertains also to global equality, justice, and norms, when mercantilism "works" and "losers" include many of the Global South and emerging democracies. Both advanced and emerging democracies that confront democratic backsliding and deteriorating institutions need to consider external factors that may erode the underlying structure (Bates 2014). Second, the economic component of the LIO can undermine the LIO itself. If the never-ending global imbalances indicate persistent real and perceived problems facilitated by the current globalization, anti-globalization backlash will unlikely to heal on its own. Protectionism partly results from this long-run accumulated root: The U.S. tariffs and possibly more protectionism from more countries, resembling some characteristics in the 1930s when trade collapsed. Imbalances are largely seen as a zero-sum game.

On the geopolitical fronts moreover, global imbalances become all the more salient. Geopolitical com-

petition today revolves around the competition of economics and governance rather than solely relative gains or military strength. My findings shed light on why China, despite economic prowess, struggles to gain widespread support apart from its regime type, which reveals a positive prospect for the LIO despite contention. Nonetheless, that surpluses are correlated with autocratic regimes (the last correlation in Figure 3) is altering balance of power; China, Russia, and Saudi Arabia, as the top three trade surplus countries in 2022, use their gains from globalization for domestic rule, military building, and geostrategic projects. By contrast, the U.S., with persistent external deficits and rising debt, faces challenges even in maintaining its aging infrastructure, weakening its domestic foundations for global ambitions. Meanwhile, many poor, deficit-ridden countries, mostly emerging democracies, grapple with stagnation and deconsolidation; migrants leaving poor hometowns of few opportunities lead to global migration crises.⁵⁰ Thus, global imbalances speak to a normative contention of global justice and a judgement of globalization outcomes against its expectations. As such, as China agglomerates global production, the U.S. tariffs on Chinese goods that redirect demand to other countries might inadvertently strengthen developing, increase U.S. influence, and create a more balanced globalization. The findings can inform future global trade reforms, when the WTO is less capable of handling issues like mercantilism (Wu 2016). All of this has important implications for U.S. economic and foreign policies and the sustainability of a rule-based international order.

⁵⁰For example, most Latin American countries run persistent external deficits.

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Appendix

A Descriptive Data

A.1 Variable descriptions of the “ambivalent exit” case

A.2 Variable descriptions of the “inverted influence” case

A.3 Examples of two balances

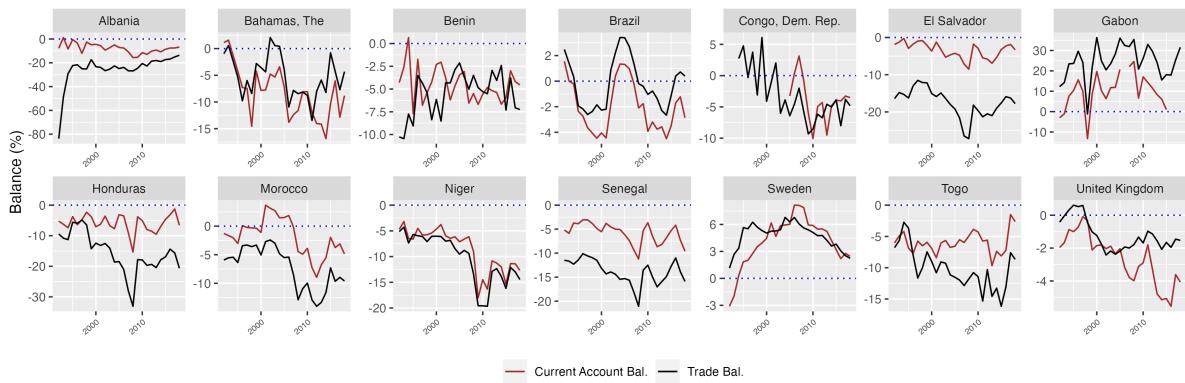


Figure A.1. External Deficits of Countries (Source: World Bank). As shown, two balances can diverge, and sometimes have opposite signs.

A.4 The Multiple Imputation version for correlations in Figure 3.

B Economic Models

Apart from cognitive and emotional channels, the following models illustrate how persistent external deficits may economically lead to nationwide dissatisfaction. Although persistent external deficits generate socioeconomic impacts in various ways, here I only illustrate two channels: 1) increased national debt, and 2) shifting labors from industries to services sectors as deficits usually occur in manufacturing sectors for many.

Suppose nationwide satisfaction (utility) is determined by private consumption C, public services provision G, and national debt level D:

$$S_t = U(C_t, G_t, D_t)$$

For example, the functional form could be $S_t = \ln(C_t) + \phi \ln(G_t) - \delta D_t$ to be monotonically increasing. From the expenditure approach, Gross National Income (GNI) Y is decomposed of expenditure ratios in Y : private consumption c , public service provisions g , investment i and external balance n , plus interest payments for national debt D_{t-1} . There are two periods t and $t-1$, and the GNI growth rate is d . The absolute amount of external balance is $|n|Y$, which amounts to national debt D . In year $t-1$, expenditure equals income:

$$Y_{t-1}(c + g + i + n) + rD_{t-1} = Y_{t-1} \quad (3)$$

Keeping expenditure ratios the same as year $t-1$, the following constraint needs to be met in year t :

$$Y_t(c + g + i + n) + rD_t \leq Y_t \quad (4)$$

Replace Y_t with $Y_{t-1}(1 + d)$, and assume states borrow to finance external deficit (so that debt increases by $|n|Y_{t-1}$), we get:

$$Y_{t-1}(1 + d)(c + g + i + n) + r(D_{t-1} + |n|Y_{t-1}) \leq Y_{t-1}(1 + d) \quad (5)$$

Subtracting (1) from (3) and rearrange, we get:

$$|n| \leq \frac{d}{r} \underbrace{(1 - (c + g + i + n))}_{\text{debt service share of GDP}} \quad (6)$$

(4) implies that given same debt-service burdens (i.e., $1 - (c + g + i + n)$) so that the same levels of other spending are kept over time, $|n|$ need be below a threshold determined by growth d and interest rate r . For countries like the U.S., a worsening external deficit (e.g., since the 1980s), slower growth, or a rising interest rate can reduce other expenditure levels, lowering national satisfaction S_t . Likewise, many countries with persistent external deficit rates as high as 5-30% (see Figure 3) may significantly impact national satisfaction.

Another impact channel works through employment. Assume two sectors of manufacturing and services. The services sector usually employs the largest number of workers nationwide and follows a Cobb-Douglas

function. Persistent external deficits implies manufacturing factors such as labor shifting to service sectors (Kehoe et al. 2018). Applying first-order condition gets marginal product of labor, a.k.a. equilibrium wage. As labor moves to service sectors, the wages in the services sector will be depressed. As manufacturing industries shrink, manufacturing wages may also decrease.

$$Y_{st} = A_{st} K_{st}^b L_{st}^{1-b}, \quad w_{st}^* = (1-b) A_{st} \left(\frac{K_{st}^*}{L_{st}^*}\right)^b$$

Economic models illustrate that persistent external deficits can lead to lower public good provisions, lower consumption, and higher tax. The consequential dissatisfaction (often disproportionately concentrated), if held long enough, can sustain grievances, fuel populism, and affect the survival of incumbents, which, combined with the aforementioned attitudes towards deficits, may particularly concern political leaders.

C Additional Evidence

C.1 Inverted Influence of UNGA Vote Convergence

The second part of empirical tests is on the “inverted influence” hypothesis. As discussed above, the dependent variable is the voting convergence on human rights resolutions at the UNGA. To exclude the complicated influence such as historical, ethnic, religious or territorial factors that are often difficult to disentangle and make the model less efficient, the scope of states is limited to non-Asian countries. I also test other scope such as the Global South and all countries in the Appendix to show the result is not limited to non-Asian. A number of standard control variables are included to account for the influence on states’ foreign policies, as in Flores-Macías and Kreps (2013), the most systematic one on China’s influence, and Gartzke and Li (2003). The dependent variable, the UN votes convergence on human rights with China, takes on 1 if the country-pair voted in agreement, 0 if voted in disagreement, and 0.5 if one of the two abstained. The main predictor, trade balance with China (% in GDP), is the difference of exports and imports reported by a trading partner to the World Bank.⁵¹ A few other economic variables that could potentially confound are controlled for: total trade volume with China (% in GDP) to account for trade power in the traditional literature, as well as the total trade

⁵¹Bilateral current account balance is not traditionally collected. Less than 30% bilateral trade data is missing non-randomly, mostly for pre-2000 years and for smaller countries. Therefore, the results should apply more to more recent years and larger trading partners. A Multiple Imputation version is shown in the Appendix. An alternative data source is the COW project which however has the import/export inconsistency issue by using importer-reported imports data.

volume with the US (% in GDP) to control for the counteracting US trade influence, also from the WDI. U.S. aid (% in GDP) is controlled for financial influence, retrieved from the U.S. Agency for International Development (USAID).⁵² *Natural resource rent rate (% in GDP) is controlled, since resource-oriented countries more likely generate trade surpluses with China and place less weight on normative issues. All economic data are lagged by a year. Joint democracy takes the value of one if both countries are not liberal democracies (-10 to 5 in Polity V) in a given year. A similarly non-liberal regime may choose to vote closer with China on human rights issues regardless. I also use the CINC (Composite Indicator of National Capabilities) that incorporate demographic, industrial, and military indicators, taken from the Correlate of Wars project (NMC v6.0), to control for the effect of national power on states' foreign policy choices (Oneal and Russett 1999). Lastly, a country's human rights practices are accounted for using the Political Terror Scale (PTS). Country fixed effects are included for unit specific, time-invariant omitted confounders such as distance or religion.⁵³ The data covers a period of 20 years (1992-2011), which ensures at least three country-specific human rights resolutions per year. Since external balances are stubbornly persistent and are primarily affected by structural economic factors and common external shocks such as global financial crises, only key year fixed effects of 2000/01/08/09 are controlled for, as well as for model parsimony for a limited number of countries. Another benefit of this is to observe the post-Iraq War anti-Americanism trend through a dummy variable (year>2003), as well as the year trend for the possible evolving perceptions of external imbalances.

Instrumental Variable Approach

As with the previous tests, an instrumental variable approach is employed to more confidently exclude potential endogeneity issues. Since no theoretical literature shows the intricate imbalances can be somehow affected by *future* UNGA voting patterns, concerns for simultaneity bias is largely mitigated. As discussed above, industrial intensity, strongly correlated with overall and bilateral external imbalances, is unlikely to directly affect UNGA voting patterns via channels elsewhere, apart from the bilateral imbalance as the source of tensions. The two-stage formulas are as follows:

$$T_i = \pi_0 + \pi_1 Z_i + \pi_2 \mathbf{X}_i + \eta_i \quad (3)$$

⁵²Chinese aid data is not included: The only authentic data source Aiddata reports only ODA (Official Development Assistance)-like grants. Aiddata also lacks the pre-2000 period, and scrapes from open sources while much of Chinese aid remains hidden (Flores-Macías and Kreps 2013). Importantly, the OECD estimates that the Chinese aid in 2018 was \$4 billion, tenth among donor states, far behind the United States that provide \$34 billion.

⁵³A Hausman test has been run to rule out random-effects models.

$$Y_i = \beta_0 + \beta_1 \hat{T}_i + \beta_2 \mathbf{X}_i + \epsilon_i \quad (4)$$

where T_i , Z_i , \mathbf{X}_i and Y_i are treatment (external imbalances), instrument (industrial intensity), covariates, and outcome (vote convergence) respectively. In the first stage, the instrument is strong with an F-statistic close to 15. As a stricter robustness test that makes fewer assumptions, the 2SLS model includes all year fixed effects rather than key years. As in Flores-Macías and Kreps (2013), resource intensity (natural resource rent share) is used as another instrument. Arguably, resource intensity may be less robust as an IV than industry intensity, as resource-rich countries are more autocracies (though regime type controlled for) and may care more about the Chinese market whose imports from the Global South are largely natural resources.

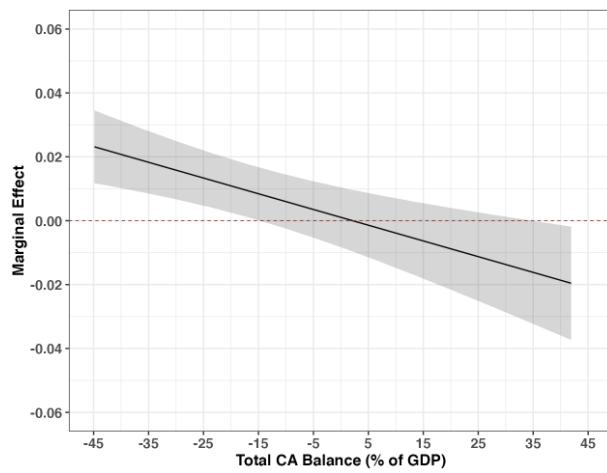
DV: UNGA Human Rights Vote Convergence								
	OLS				Mixed	2SLS		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Trade Bal. w/ China	0.023** (0.009)	0.010** (0.005)	0.009** (0.004)	0.011** (0.004)	0.012*** (0.004)	0.010*** (0.003)	0.070*** (0.018)	0.074*** (0.021)
Trade Bal. w/ China x Total Current Bal.					-0.007* (0.004)			
Trade Bal. w/ China x Total Trade Bal.						-0.009* (0.006)		
Total Current Bal.					0.027 (0.024)			
Total Trade Bal.					0.025 (0.025)			
CINC	3.875. (2.598)	-6.799 (21.352)	-7.262 (20.530)	-8.370 (21.117)	2.865 (2.295)	-10.505* (5.915)	-8.868. (6.067)	
Joint Democracy	0.272*** (0.041)	0.116** (0.055)	0.109** (0.053)	0.105* (0.057)	0.163*** (0.020)	0.156*** (0.027)	0.154*** (0.028)	
Human Rights	0.009 (0.013)	-0.019 (0.019)	-0.006 (0.015)	-0.018 (0.019)	-0.008 (0.008)	0.005 (0.011)	-0.009 (0.011)	
Total Trade w/ U.S.	0.0007 (0.001)	-0.0007 (0.002)	0.0005 (0.001)	0.0002 (0.002)	-0.0003 (0.0009)	0.002 (0.002)	0.002 (0.002)	
Total Trade w/ China	-0.009* (0.005)	-0.013*** (0.005)	-0.012*** (0.004)	-0.012** (0.005)	-0.011*** (0.003)	-0.027*** (0.006)	-0.027*** (0.007)	
Total U.S. Aid	-0.017. (0.011)	-0.013* (0.007)	-0.014* (0.008)	-0.012 (0.008)	-0.010* (0.005)	-0.014** (0.007)	-0.014** (0.007)	
GDP per capita	-0.077*** (0.012)	-0.073* (0.042)	-0.051 (0.040)	-0.079* (0.044)	-0.093*** (0.011)	0.034 (0.026)	0.032 (0.027)	
Country FE			✓	✓	✓	N/A	✓	
Year FE			✓	✓	✓	✓	✓	
Num.Obs.	1623	1245	1245	1126	1190	1126	1199	1245
R ²	0.023	0.508	0.731	0.729	0.740	0.750	0.694	0.668

* p < 0.1, ** p < 0.05, *** p < 0.01

Table 5. UNGA Human Rights Vote Convergences with China of Non-Asian Countries. Notes: standard errors are clustered at the country level.

Table 5 shows the results of the effects of trade imbalances with China on the UNGA human rights

vote convergence. Model 1 conducts a simple bivariate correlation and the predictor imbalance is highly significant. Model 2 adds the main control variables and Model 3 also adds country and year fixed effects, with results remaining substantially unchanged. A higher bilateral trade deficit with China does seem to result in states voting differently from China on UNGA human rights resolutions. Model 4 and Model 5 add the interaction of bilateral trade imbalances and total balances (current account or trade). The effect of the main treatment, bilateral balance, is nullified when total balance is positive; in other words, if a state maintains an overall external balance, a bilateral imbalance is of less concern. Model 6 uses a different specification by employing a mixed effect model that treats the intercepts of states as random and incorporates both within-country and cross-country variations of the treatment. The result remains highly similar. Models 7 and 8 are the 2SLS models that respectively use industrial intensity and natural resource intensity as instruments. The results of IV models are significant and consistent with main models, with larger magnitudes.⁵⁴ Although interpreting control variables theoretically is not advised (Hunermund and Louw 2022), it is interesting to note that the sign of total trade with China is negative even without trade balances. Combining the Pew report (2007) that “China’s expanding influence in African and Latin America is triggering considerable anxiety,” the negative coefficient suggests that unlike in the literature, even total bilateral trade may not bear the positive influence effect at least in the China case, while the soaring trade balance may be the key. Figure 9 shows the predicted marginal effects of bilateral trade balances with China across the values of total external balances: The effects of bilateral deficits become close to null when total current account or trade balances remain positive.



⁵⁴The larger magnitudes are similar to those in Flores-Macías and Kreps (2013), suggesting that the OLS models may have the known attenuation bias (Bound and Krueger 1991).

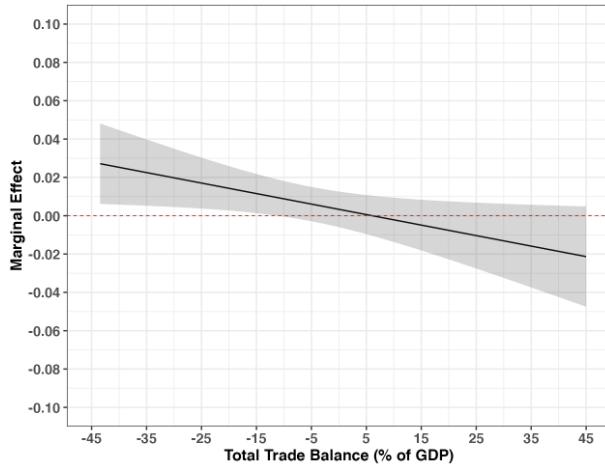


Figure 9. Marginal Effects of Bilateral Trade Balance with China

D Robustness Tests

D.1 Why not other Dependent Variables for the “Ambivalent Exit” Hypothesis?

The 2019 2nd BRI summit was held on April 27 in China. As discussed in the paper, the main reason why applying for the BRICS in 2022/3 is not an appropriate measure is due to the deteriorated image of core members, thus raising skepticism on whether it's an economic solution provider or geopolitical instrument. However, since 2017, the image of China and the BRI significantly worsened, after the reports such as Xinjiang re-education camps, Constitution amendment and debt traps. The BRI is getting notorious (). Thus, the 2019 BRI summit should not be a measure either. By examining the change of state head attendance between the 2017 and 2019 summits, evidence emerges. 36 States sent state heads in 2019. States which attended the 2017 summit but not in 2019 were: Argentina, Fiji, Indonesia, Poland, Spain, Sri Lanka and Turkey. They were mostly economic solution seekers. States which didn't attend the 2017 summit but attended the 2019 one were: Austria, Azerbaijan, Brunei, Cyprus, Djibouti, Egypt, Mozambique, Nepal, Papua New Guinea, Portugal, Singapore, Tajikistan, Thailand, and UAE. The majority was China's geopolitical neighbors or autocracies. Egypt's president gained power through a coup and just amended the Constitution in April 2019. Austria's far-right populist PM Sebastian Kurz was facing strong opposition domestically, before being ousted by a non-confidence vote the next month. We test the 2019 attendance using Broz's framework and none of the “push factors” are significant.

- D.2 Separate tests of current account and trade balances**
- D.3 Tests using the 2000-17 data in the “ambivalent exit” case**
- D.4 Tests using the 2000-17 data in the “hopeless grievance” case**
- D.5 Reporting statistical power in the “hopeless grievance” case**
- D.6 Separation of exports and imports in the “inverted influence” case**
- D.7 Tests of “Global South” and “all countries” in the “inverted influence” case**
- D.8 Re-coding of some variables in the “inverted influence” case**
- D.9 Tests of the Multiple Imputation version of the “ambivalent exit”, “hopeless grievance”, and “inverted influence” cases**
- D.10 Tests of more controls of the “ambivalent exit”, “hopeless grievance”, and “inverted influence” cases**