



Dispositional Balancing and Hegemonic Order: US Response to China's Financial Statecraft

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Abstract

How does the USA react to Chinese initiatives that gather allies from among the states that have been instrumental in sustaining the American-led liberal international order? We contend that Washington deploys dispositional balancing against Beijing, supporting this argument through a close scrutiny of US support for the projects of international developmental organisations (IDOs), such as multilateral development banks (MDBs), that target borrowing members of the Asian Infrastructure Investment Bank (AIIB). In theoretical terms, dispositional balancing is a relatively cheap strategy whereby the hegemon (the USA) reacts to the emerging power (China) by signalling to both old and potential allies its immutable ability to match that rival's benefits and hence retain its status and order. We build our theory through logit and linear models, tackling potential endogeneity through use of an instrumental variable strategy. In line with the theoretical expectations, we identify that the USA favours AIIB members, particularly those that also display high levels of dependency on Chinese aid, in IDOs/MDBs, wherein Beijing competes with traditional Western donors from the Organisation for Economic Cooperation and Development's Development Assistance Committee. Our findings contribute to both the debates on hegemonic-order transitions and the growing scholarship on soft balancing, contested multilateralism, and collective financial statecraft.

Introduction

The classical idea of balancing involves military alliances and implies a group of states that work in unison towards constraining the ambitions of a great power.¹ Although a high degree of economic interdependence² progressively emerged amidst the American-centred liberal order that arose in the aftermath of World War II, and which the end of the Cold War

¹ Michael Sheehan, *The Balance of Power: History and Theory* (London: Routledge, 1996), p. 4.

² Robert O. Keohane and Joseph S. Nye, "Power and Interdependence," *Survival*, Vol. 15, No. 4 (1973), pp. 158–65.

consolidated, the international system nevertheless remained hierarchical³ by virtue of the hegemon's potential weaponisation of economic institutions⁴ and the concentration of military resources at Washington's disposal.⁵ As, in such a scenario, projecting power through warfare was too costly, rising powers like Beijing became more likely to engage in soft balancing than hard balancing.⁶

Indeed, China's preference for engaging with the developing world through economic statecraft,⁷ that is to say, the art of advancing foreign policy goals through a diplomacy focused on market-related matters, is partially born of such structural constraints. Examples of Beijing's strategy for enhancing its collective financial statecraft⁸—the subfield of economic statecraft associated with the provision of finance to potential allies through inter-governmental organisations (IGOs)—proceed from the availability of bilateral development finance and the creation of the Asian Infrastructure Investment Bank (AIIB). The seeds of this international developmental organisation (IDO) were sown in 2013, with the support of only 21 Asian states. By the time of its foundation in June 2015, however, the AIIB's membership had expanded to 56 states, including key American allies (like Germany, France, and the UK, not to mention Australia, New Zealand, and South Korea).⁹ As expected, the USA has not joined the bank, which Washington initially perceived as a competitor of both the World Bank and the American- and Japanese-sponsored Asian Development Bank (ADB).¹⁰

Has, then, the USA reacted to the rise of Chinese financial statecraft, in particular the creation of the AIIB, which constitutes a clear case of contested multilateralism?¹¹ And if so, how is this reaction apparent? In this article, we argue that the USA has engaged with what we classify as dispositional balancing within IDOs such as the World Bank and the ADB, both of which compete with the AIIB in the provision of development finance. We define dispositional balancing as the process whereby a hegemon uses non-military diplomatic ties and the institutions it sponsors—in particular economic organisations like IDOs—and its hegemonic position to signal to potential allies its sustained ability to match the quantity and quality of global public goods that an emerging power offers and, hence, to preserve the established order. Apart from economic organisations, dispositional balancing can also be deployed through bilateral diplomacy on the part of the hegemon and its closest allies. More than engaging in a strategy wherein the entity that expends the most economically wins the lion's share of states at their disposal, the USA of dispositional balancing constitutes a display of status, that is, a medium whereby the hegemon signals retention, despite the

³ David Lake, *Hierarchy in International Relations* (Ithaca: Cornell University Press, 2009). For an alternative view of American centrality in the liberal order, see Yuen Foong Khong, "The American Tributary System," *The Chinese Journal of International Politics*, Vol. 6, No. 1 (2013), pp. 1–47.

⁴ Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security*, Vol. 44, No. 1 (2019), pp. 42–79.

⁵ G. John Ikenberry, "The Illusion of Geopolitics: The Enduring Power of the Liberal Order," *Foreign Affairs*, Vol. 93, No. 3 (2014), pp. 80–90.

⁶ Thazha V. Paul, "Soft Balancing in the Age of U.S. Primacy," *International Security*, Vol. 30, No. 1 (2005), pp. 46–71; Thazha V. Paul, *Restraining Great Powers: Soft Balancing from Empires to the Global Era* (New Haven: Yale University Press, 2018).

⁷ David Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985).

⁸ Cynthia Roberts, Leslie Armijo, and Saori Katada, *The BRICS and Collective Financial Statecraft* (Oxford: Oxford University Press, 2018).

⁹ Vinícius G. Rodrigues Vieira, "Who Joins Counter-Hegemonic Organizations?" *Research and Politics*, Vol. 7, No. 2 (2018), <https://doi.org/10.1177/2053168018770031>; Yu Wang, "The Political Economy of Joining the AIIB," *The Chinese Journal of International Politics*, Vol. 11, No. 2 (2018), pp. 105–30; Jan Knorrich and Francisco Urdinez, "Contesting Contested Multilateralism: Why the West Joined the Rest in Founding the Asian Infrastructure Investment Bank," *The Chinese Journal of International Politics*, Vol. 12, No. 3 (2019), pp. 333–70.

¹⁰ Matthew D. Stephen and David Skidmore, "The AIIB in the Liberal International Order," *The Chinese Journal of International Politics*, Vol. 12, No. 1 (2019), p. 79.

¹¹ Julia C. Morse and Robert O. Keohane, "Contested Multilateralism," *Review of International Organizations*, Vol. 9, No. 1 (2014), pp. 385–412.

growing clout of an emerging power, of its ability, and hence status, as the main sponsor within the international order.

Through dispositional balancing, therefore, the hegemon does not aim to craft a coherent coalition against the rising state; nor does it risk expending material resources that bring no returns in placing itself at the mercy of free riders that exploit the benefits to be gained from not committing to either side. Instead, under a scenario where the emerging power's actual intentions regarding the future of the international order are uncertain, the hegemon sets out to ensure that medium and small powers continue to recognise both its status and the order as a whole. Institutional balancing, therefore, prevents revisionist pretensions on the part of the emerging power at a relatively low cost. The twofold goal of preserving order and hegemonic status is achieved when the hegemon engages in a demonstration of power by signalling its commitment to the continued provision of public goods—in this case, development finance—to states that have joined IGOs that the emerging power has sponsored and/or strengthened bilateral ties with.

With the purpose of theory building,¹² we exemplify how dispositional balancing operates by assessing, through logit and linear models, whether or not the USA favours recipients of bilateral development finance from China and from AIIB members through votes in American-sponsored IDOs—including multilateral development banks (MDBs), environmental funds, and the International Monetary Fund (IMF). Results suggest that Washington favours developing states that have joined the AIIB by increasing its approvals of projects targeting such nations that also participate in US-sponsored IDOs. We have moreover identified that this strategy is also deployed towards AIIB members in receipt of relatively high degrees of bilateral aid from Beijing compared with the funds provided by the advanced industrial democracies and long-standing American allies of the Development Assistance Committee (DAC).

In addition, the USA tends to favour disbursements of IDO funding to those developing nations that are highly dependent on Chinese developmental finance. Considering that AIIB membership may be endogenous to American voting patterns in IDOs, this article's statistical models employ an instrumental variable (IV) strategy. Results remain aligned with our theoretical expectations and proposed mechanism. Using dispositional balancing, therefore, the USA aims to constrain China's ultimate capture of potential allies through collective financial statecraft¹³ tools while also retaining the relative power of DAC members over the developing world, thus contributing to maintenance of the West's global status¹⁴ and of the international order as a whole, Beijing's growing power notwithstanding.

Although the relevant literature thus far indicates that various forms of institutional balancing have been particularly evident since the end of the Cold War, there remains a lack of clarity about the specific strategies, other than military alliances, that the established hegemon and the main emerging power deploy in their quest to attract allies within the international system. Dispositional balancing certainly falls under the category of soft balancing¹⁵ yet differs from its most likely form, namely, institutional balancing, in that it does not imply either including or excluding states from such IGOs as IDOs, or bilateral ties. Also, unlike structural balancing,¹⁶ dispositional balancing does not entail the forming of an alliance—even a loose one—in order to tackle an opponent. All a hegemon needs to do

¹² Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge: MIT Press, 2005).

¹³ Roberts, Armijo, and Katada, *The BRICS and Collective Financial Statecraft*.

¹⁴ Matthias Schmelzer, "A Club of the Rich to Help the Poor? The OECD 'Development', and the Hegemony of Donor Countries," in M. Frey, S. Kunkel, and C. R. Unger, eds., *International Organizations and Development, 1945–1990* (London: Palgrave Macmillan, 2014), pp. 171–95.

¹⁵ Paul, *Restraining Great Powers*.

¹⁶ Alastair Iain Johnston, "Realisms and Chinese Security Policy in the Post-Cold War Period," in Ethan B. Kapstein and Michael Mastanduno, eds., *Unipolar Politics: Realism and State Strategies after the Cold War* (New York: Columbia University Press, 1999), pp. 261–318.

to deploy dispositional balancing is signal to potential allies the ongoing permanence of its status. In such a scenario, such allies can still remain members of IGOs sponsored by the emerging power, or deepen bilateral ties with it, because the rising country's statecrafting endeavours do not explicitly challenge the established order.

The behaviour of the USA within the field of financial statecraft, therefore, is that whereby offence through established multilateralism is considered the best defence against contested multilateralism. Hence, understanding whether or not and how the USA uses IDOs to leverage its position in relation to China's financial statecraft initiatives is crucial to making sense of the future of the post-war Western-led liberal international order¹⁷ and Washington's prospects of retaining its hegemonic status. As the USA is still the major sponsor¹⁸ of the 12 IDOs that we use in our sample, it is plausible to expect that those institutions are employed to react in a way that tames the potentially counter-hegemonic character of Chinese initiatives through the provision of such global public goods as development finance.

Previous research has shown that, following the financial statecraft toolkit, the USA biases allocations of World Bank funds according to its best interests.¹⁹ In this paper, however, we go beyond those findings in adding evidence, and a theoretical contribution to the literature, that sheds light on what Ikenberry and Dexon define as "hegemonic-order theory"²⁰ and the absence of traditional hard balancing between the USA and China. We also present new data that contribute to a better understanding of the AIIB's place in the liberal international order beyond the motifs of its formation²¹ and early operations. The discussion on that bank's interactions with US-sponsored IDOs unfolds the prospect of cooperation between them in specific fields and/or development projects, while also making sense of the context that generated growing tensions between Washington and Beijing.

The paper is organised as follows. We first review the literature that falls in the intersection of hegemonic transitions and soft balancing, of which dispositional balancing is a subtype. This is essential for detailing in our analytical framework the hypotheses, which are outlined in the subsequent section, it implies in the case of financial statecraft. We then explain the data and methods employed and report the results obtained through linear and logit models. Robustness tests with an IV are reported in the [Online Appendix](#) and confirm our predictions. The conclusion outlines a potential research agenda on dispositional balancing, covering the current contest for power between the USA and China in issue areas other than financial statecraft but which are nevertheless likely to be tackled under the logic of dispositional balancing.

Preserving Order and Hegemony through Soft Means

Owing to its growing economic clout and provision of the public goods necessary for global stability, Beijing has, since the aftermath of the 2008 crisis, posed a challenge to Washington's dominant role in sponsoring the world order.²² Like the Western powers under American leadership, China has engaged in development finance both bilaterally²³ and

¹⁷ Ikenberry, "The Illusion of Geopolitics".

¹⁸ Simon Reich and Richard Ned Lebow, *Good-Bye Hegemony: Power and Influence in the Global System* (Princeton: Princeton University Press, 2014).

¹⁹ Robert K. Fleck and Christopher Kilby, "World Bank Independence: A Model and Statistical Analysis of US Influence," *Review of Development Economics*, Vol. 10, No. 2 (2006), pp. 224–40.

²⁰ G. John Ikenberry and Daniel H. Nexon, "Hegemony Studies 3.0: The Dynamics of Hegemonic Orders," *Security Studies*, Vol. 28, No. 3 (2019), pp. 395–421.

²¹ Rodrigues Vieira, "Who Joins Counter-Hegemonic IGOs?"; Wang, "The Political Economy of Joining the AIIB".

²² Reich and Lebow, *Good-Bye Hegemony*.

²³ Ngaire Woods, "Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance," *International Affairs*, Vol. 84, No. 6 (2008), pp. 1205–21.

multilaterally.²⁴ In both modalities of resource provision to potential allies, Chinese diplomacy cooperates with traditional donors while competing with them for political influence. What remains to be elucidated is whether and how the USA reacts to those trends. Indeed, the American response to China's rise is anything but a straightforward outcome of Beijing's growing clout in the US-led order. That is the case because "China was rising within that order rather than challenging it, and the contemporary order, unlike previous ones, had a remarkable capacity to accommodate rising powers."²⁵ Yet, as Cooley and Nexon argue, Beijing has already changed the "ecology of the international order" by creating new IGOs,²⁶ which supports the view that "alternative order-building does not have to produce actual exit to shift international order and weaken hegemonic ordering."²⁷ From a hegemonic standpoint, the emerging power's behaviour in regard to the established order is viewed, at the very least, as dubious and in need of containment.

Hence, considering that China may be perceived as becoming excessively powerful by virtue of actions related to contested multilateralism, such as the creation of the AIIB, the USA tends not to be tolerant of Beijing's potential "selective embrace of the liberal order."²⁸ The AIIB was not just a consequence of functionalist shortcomings in the existing mechanisms of multilateral financing; it also reflects power disputes.²⁹ As Cooley and Nexon contend, it remains unclear whether the AIIB will challenge or complement Western counterparts.³⁰ For now, the "...AIIB stands in a relationship of partial accommodation and partial challenge"³¹ to the liberal international order. For instance, the bank cooperates with the US-sponsored ADB and International Bank for Reconstruction and Development (IBRD) by providing co-finance³² and sharing technical expertise. Yet, from a Western perspective, China is usually perceived as having abandoned the principle of peaceful rise since Xi Jinping's ascent to power in 2013,³³ the year of the launch of the memorandum of understanding that established the AIIB.³⁴

Therefore, we must explore how the emerging power can challenge the hegemon because this may help to identify which tools the latter prefers to deploy in hindering or at least delaying the opponent's rise. Perhaps, balance of power is the main concept linking the analysis of an unstable international system. It implies "a particular distribution of power among states of that system such that no single state and no existing alliance have an 'overwhelming' or 'preponderant' amount of power."³⁵ In a highly interdependent and institutionalised order such as that in the post-Cold War context, contested multilateralism would appear to be a viable method of soft balancing. Contested multilateralism happens whenever a

²⁴ Jiajun Xu, *Beyond US Hegemony in International Development: The Contest for Influence at the World Bank* (Cambridge: Cambridge University Press, 2016).

²⁵ Michael Mastanduno, "Liberal Hegemony, International Order, and US Foreign Policy: A Reconsideration," *British Journal of Politics and International Relations*, Vol. 21, No. 6 (2019), p. 51.

²⁶ Alexander Cooley and Daniel Nexon, *Exit from Hegemony: The Unraveling of the American Global Order* (Oxford: Oxford University Press, 2020), p. 82.

²⁷ Cooley and Nexon, *Exit from Hegemony*, p. 67.

²⁸ Mastanduno, "Liberal Hegemony, International Order, and US Foreign Policy," p. 52.

²⁹ Yue Xu and Hongsong Liu, "The Power of Building Parallel Institutions: How China's New Strategy Advances Global Governance Reform," *Asian Perspective*, Vol. 46, No. 4 (2022), pp. 707–31.

³⁰ Cooley and Nexon, *Exit from Hegemony*, p. 87.

³¹ Stephen and Skidmore, "The AIIB in the Liberal International Order," p. 65.

³² The first AIIB loans were provided with the support of those two US-sponsored banks. See Stephen and Skidmore, "The AIIB in the Liberal International Order".

³³ Cooley and Nexon, *Exit from Hegemony*, p. 81.

³⁴ The Chinese leadership emphasised that the AIIB and NDB served as a supplement to the Bretton Woods institutions. See "Xi Jinping zai Ershi Guo Jituan Lingdaoren Di Jiuci Fenghui Shang de Jianghua" (Xi Jinping's speech at the Ninth G20 Leaders' Summit), People.cn, 15 November 2014, <http://politics.people.com.cn/n/2014/1116/c70731-26032496.html>.

³⁵ Sheehan, *The Balance of Power*, p. 4.

group of states dissatisfied with the status quo emerges and coalesces around one or more institutional alternatives at the global level.³⁶

However, that supporters of Beijing's initiatives in the provision of public goods do not necessarily break away from Washington preferences³⁷ constitutes a nuance in the concept of contested multilateralism. As Ikenberry argues, China has too much to lose by challenging the liberal international order,³⁸ adding that "In the absence of war or economic calamity, the old liberal order is not likely to completely breakdown or disappear."³⁹ These assumptions call into the question whether institutional balancing has the potential both to trigger and to constrain hegemonic decline and order erosion. Institutional balancing consists in "initiating, utilising, and dominating multilateral institutions" to counter potential threats⁴⁰ and is a type of soft balancing. Institutions certainly reduce the transaction costs that a state faces when assembling a coalition to constrain an opposing power. However, in its original formulation, institutional balancing means either the inclusion or exclusion of states. The inclusive modality of institutional balancing consists in "binding the target states in the institution," while the exclusive tactic lies in "keeping the target states out."⁴¹ The exclusive modality also determines the so-called inter-institutional balancing, whereby a "state that is excluded by a particular institution can support another or initiate a similar institution to counter-balance pressure from the one that has excluded it."⁴²

At times of uncertainty about the systemic configuration, institutional balancing may not suffice to constrain contested multilateralism. That is the case because exclusion is not a feasible strategy—uncertainty leads states to refrain from bandwagoning with any side, simply, because exactly how many poles of power exist and the costs and benefits of joining each of them are unclear. Moreover, China may, even without proclaiming and conquering hegemony, undermine the US-led order. In such circumstances, institutional balancing does not properly happen. Instead, smaller power and second-tier states in general have the incentive to align either with the emerging power or the hegemon because there are no appropriately opposed blocs of states coalescing around either one of them. The rise of the AIIB, in regard to Western-led IDOs, represents a context wherein "competition among international institutions affects the context of interstate bargaining among members, shaping the trajectory of institutional change."⁴³

In such a context, the hegemon may then prefer to follow in the footsteps of the emerging power and emphasise soft mechanisms for retaining its allies. Unlike Cooley and Nexon, we do not assume that "[o]nce the hegemon enters relative decline, its fate—and that of its order—depends on the attitudes of other powers."⁴⁴ As we theorise, the hegemon has agency over its fate through dispositional balancing without incurring excessive costs analogous to what happens under "imperial overstretch."⁴⁵ Financial statecraft arises as the most promising field for deploying dispositional balancing, given China's expanded bilateral provision

³⁶ Morse and Keohane, "Contested Multilateralism".

³⁷ Benjamin Faude and Michal Parizek, "Contested Multilateralism as Credible Signaling: How Strategic Inconsistency can Induce Cooperation Among States," *Review of International Organizations*, Vol. 16, No. 4, (2021), pp. 843–70.

³⁸ Ikenberry, "The Illusion of Geopolitics."

³⁹ G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton: Princeton University Press, 2009), p. 84.

⁴⁰ Kai He, "Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies in Southeast Asia," *European Journal of International Relations*, Vol. 14, No. 3 (2008), p. 492.

⁴¹ Ibid., p. 493.

⁴² Kai He and Huiyun Feng, "Leadership Transition and Global Governance: Role Conception, Institutional Balancing, and the AIIB," *Chinese Journal of International Politics*, Vol. 12, No. 2 (2019), pp. 153–78.

⁴³ Phillip Y. Lipsky, *Renegotiating the World Order: Institutional Change in International Relations* (Cambridge: Cambridge University Press, 2017), p. 3.

⁴⁴ Cooley and Nexon, *Exit from Hegemony*, p. 55.

⁴⁵ Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1993).

of development finance to the Global South,⁴⁶ and more recently, through MDBs created under Beijing's leadership. The New Development Bank (NDB) is as much an example of collective financial statecraft as is the AIIB, yet, other than China, it has only four founding members (Brazil, India, Russia, and South Africa), having welcomed in 2021 Bangladesh, United Arab Emirates, and Uruguay as new members, thus limiting its applicability to developing and testing the logic of dispositional balancing. As all BRICS (Brazil, India, Russia, and South Africa, which together form the BRICS Group) countries have clear soft balancing stances against the USA,⁴⁷ the variance necessary to allow for analysing whether and how Washington punishes those countries for supporting Beijing's contested multilateralism does not exist in this case.

Moreover, a focus on financial statecraft in developing and testing the argument on dispositional balancing reflects how development aid contributes to achievement of security goals. Donations, grants, and loans, for instance, buy support at the United Nations wherein such backup on crucial diplomatic themes⁴⁸ may be crucial to a state seeking to increase its international clout.⁴⁹ In addition, developmental finance targeting developing, commodity-exporting nations may provide assurance that the supply of raw materials will remain constant as a power advances its political-economic interests.⁵⁰

Conceptualising Dispositional Balancing through IDOs

We now turn the focus of our analysis on how the USA reacts to China's bilateral and collective financial statecraft, as exemplified by the AIIB. Before outlining our empirical expectations, however, we must first conceptualise why and how Washington reacts, through development finance, to Beijing's potential impact on US hegemonic status and the American-led order. IDOs are part of both the infrastructure and architecture of the American hegemonic order. Here, we follow Ikenberry and Dexon's definition of hegemonic orders as those having an architecture that is "manifest in the rules, norms, and arrangements stressed in traditional hegemony studies," as well as "an infrastructure made up of interpersonal, interorganisational, and interstate political interactions."⁵¹

Therefore, one can expect that the greater a state's political influence within a given infrastructure (that is, a set of IDOs), the higher the leverage of that state in relation to its peers within the same institution. Yet, as IDOs are embedded in the international order, this architecture also has impact on a state's influence within those banks. Given its hegemonic status, the USA is arguably among the main sponsors—states able to set the international agenda on a given issue area⁵²—of all Western-led IDOs.⁵³

⁴⁶ Woods, "Whose Aid? Whose Influence?"; Axel Dreher, Jan-Egbert Sturm, and James Raymond Vreeland, "Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions?" *Journal of Development Economics*, Vol. 88, No. 1 (2009), p. 8; Axel Dreher, Peter Nunnenkamp, and Rainer Thiele, "Are 'New' Donors Different? Comparing the Allocation of Bilateral Aid Between non-DAC and DAC Donor Countries," *World Development*, Vol. 39, No. 11 (2011), pp. 1950–68; Axel Dreher and Andreas Fuchs, "Rogue Aid? An Empirical Analysis of China's Aid Allocation," *Canadian Journal of Economics*, Vol. 48, No. 3 (2015), pp. 988–1023.

⁴⁷ Roberts, Armijo, and Katada, *The BRICS Collective and Financial Statecraft*.

⁴⁸ Dreher and Fuchs, "Rogue Aid?" pp. 990, 1014.

⁴⁹ Anastassia V. Obydenkova and Vinicius G. Rodrigues Vieira, "The Limits of Collective Financial Statecraft: Regional Development Banks and Voting Alignment with the United States at the United Nations General Assembly," *International Studies Quarterly*, Vol. 64, No. 1 (2020), pp. 13–25.

⁵⁰ Hans Morgenthau, "A Political Theory of Foreign Aid," *American Political Science Review*, Vol. 56, No. 2 (1962), pp. 301–09; Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1976).

⁵¹ Ikenberry and Nexon, "Hegemony Studies 3.0," p. 413.

⁵² Reich and Lebow, *Good-Bye Hegemony*.

⁵³ This does not mean that the USA has veto power over each and every MDB decision. Neither do we claim that such a power applies to all of the MDBs with which the USA integrates. On the limits of US influence within MDBs, see Jonathan R. Strand and Tina M. Zappile, "Always Vote for Principle, Though You May Vote Alone: American Political Support for Multilateral Development Loans, 2004–2011," *World Development*, Vol. 72, No. 1 (2015), pp. 224–39.

Beyond the literature on IDOs and the impact of American hegemony on IGOs, we depart from the concepts of contested multilateralism, as detailed in the previous section, and of institutional balancing. Both echo previous developments in the literature on power and institutions. Most notorious among them is Barnett and Duvall's typology of power. According to them, direct forms of power are either compulsory or structural, whereas indirect ones are institutional and productive.⁵⁴ The compulsory and institutional forms stem from the interactions of specific actors, namely, states that are leaders and states that are followers. The structural and productive types of power, in turn, reflect socially constitutive relationships.

The hegemon and the order that it sustains being perceived as in decline, deployment of compulsory power generates higher costs than does the institutional modality of balancing. Although both are diffuse and, hence, most appropriate for soft balancing strategies, institutional power is the least costly of the two. That is the case because IGOs may act as laundry⁵⁵ mechanisms for their sponsor, thus diluting the transactions and reputational costs that states—including the hegemon—would face both domestically and internationally by acting bilaterally. The hegemon, however, can still enforce its authority amid times of relative decline through “reminding” allies of its structural position in the established order.

If, however, as the hegemon's structural power backslides, there should occur a widespread perception that the international system is in a state of flux (as has been the case since the 2008 Global Financial Crisis),⁵⁶ the leading state can act through the institutions it sponsors to retain ground through its competition with the rising state in a given issue area, such as development finance. As Schweller argues, any international order depends on “predictability and stability.”⁵⁷ IDOs, therefore, are a medium for signalling that, even if China crosses the red line and establishes its own order through contested multilateralism, the US-centred order will nevertheless endure. Moreover, when considering that multilateralism has been a tool of US self-restraint,⁵⁸ reaffirming the relevance of Western-led IDOs also signifies commitment to the order that the hegemon itself created.

In sum, the hegemon can use its structural position to react against the emerging power and withhold its status in the international system, at the same time providing evidence that the international order endures. Hence, when elaborating the dispositional balancing model, acknowledgment of Johnston's concept of structural balancing is also relevant. According to him, “states will also balance against the existing or emerging hegemon(s) by joining, or constructing, loose security alliances aimed at containing the hegemon.”⁵⁹ Johnston exemplifies his argument by suggesting that the Chinese would be likely to solidify ties with states willing to coalesce in balancing against the USA. Under this logic, China can, in the long run, use the AIIB to acquire more structural power in the international system, even though Beijing maintains that it has no intention of displacing the current order, but rather that it wants to complement existing institutions.

By contrast, dispositional balancing commands a lower degree of commitment as regards middle and small powers' stake in world politics. For instance, in the context of a possible move towards bipolarity, the costs of adopting hard balancing strategies, or even soft balancing methods that depend on coherent alliances, could constitute a potentially risky stepping stone towards fragmentation of the international order. Therefore, unlike Ikenberry, one

⁵⁴ Michael Barnett and Raymond Duvall, “Power in Global Governance,” in Michael Barnett and Raymond Duvall, eds., *Power in Global Governance* (Cambridge: Cambridge University Press, 2004), pp. 1–32.

⁵⁵ Kenneth W. Abbott and Duncan Snidal, “Why States Act through Formal International Organizations,” *Journal of Conflict Resolution*, Vol. 42, No. 1 (1998), pp. 3–32.

⁵⁶ Christopher Layne, “The Waning of U.S. Hegemony—Myth or Reality? A Review Essay,” *International Security*, Vol. 34, No. 1 (2009), pp. 147–72.

⁵⁷ Randall L. Schweller, “The Problem of International Order Revisited: A Review Essay,” *International Security*, Vol. 26, No. 1 (2001), p. 171.

⁵⁸ Schweller, “The Problem of International Order Revisited,” p. 162.

⁵⁹ Johnston, “Realisms and Chinese Security Policy in the Post-Cold War Period,” p. 211.

cannot assume that the USA “does not embody the international order” but rather that it “has a relationship with it, as do rising states.”⁶⁰ As institutions shape and limit hegemonic power while providing access to the leading state, the decline of similar institutions may spell the decline of the order with whom they are found in a relationship of mutual constitution. Thus, the deployment of strategies that contribute to attracting potential allies while retaining the loyalty of traditional ones becomes less costly than does engaging in direct confrontation with the emerging power. Such a strategy would imply the formation of mutually exclusive alliances and, hence, competing orders.

Certainly, the hegemon is no benign power that offers carrots to current and potential allies alike. Yet, the hegemon must so behave in order to signal to other states—the emerging power in particular—that neither its hegemonic status nor the international order is at risk. Allowing the emerging power to advance contested multilateralism without reacting to this move amounts to the hegemon dropping its guard and thus enabling its own decline and hence that of its order to become a self-fulfilling prophecy. Loss of status engenders the feeling of being disrespected, which “tends to arouse anger and a self-protective urge to re-establish one’s ‘rightful position.’”⁶¹ The more the decline is perceived, the higher the costs become of reversing such a trend. Therefore, the sooner the hegemon reacts to the emerging power, the better the chances are of preserving its hegemonic status and the international order as a whole.

We exemplify the different types of soft balancing in Figure 1. There is in each schema at least one large circle representing a group of states with which both the hegemon (H) and the emerging power (EP) interact. Although structural balancing implies that this applies to loose alliances, there is no clear intersection between either. Institutional balancing, in turn, may not necessarily generate mutually exclusive membership pools in alliances and/or IGOs but instead different institutions whereby the same group of states deals *separately* with the hegemon and the emerging power, thus increasing the current order’s likelihood of enduring.

Dispositional balancing, by contrast, always assumes the existence of an intersection of states that have historically leaned towards the hegemon, but which nevertheless collaborate with the emerging power’s attempts to expand its power in world politics. States localised at that intersection then become the hegemon’s targets as priority recipients of public goods, such as development finance, albeit without being expected to refuse carrots that the emerging power has provided them through another institution. The hegemon thus displays self-confidence, reinforces its international status, and also slows its decline by reaffirming the architecture of the existent order, despite its changed infrastructure by virtue of the rise of IGOs sponsored solely by the emerging power, without hegemonic support.

Specifically, the concept of dispositional balancing differs from the idea of inter-institutional balancing in making clear that, more than supporting another institution,⁶² a state that is excluded from a given IDO (as the USA is from the AIIB) has at hand an alternative means of counterbalancing a rival (in this case, China) other than demanding that its allies choose sides. The latter move would be construed as a signal of weakness and hence evidence of decline. In addition to supporting an alternative institution, dispositional balance mobilises states by distributing resources through either multilateral or bilateral channels. By offering more funds to such states without demanding loyalty to itself and the IDOs it sponsors, the hegemon confirms its status and, hence, signifies that the order it upholds is still alive and kicking.

⁶⁰ G. John Ikenberry, “Reflections on After Victory,” *British Journal of Politics and International Relations*, Vol. 21, No. 1 (2019), p. 16.

⁶¹ Reinhard Wolf, “Respect and Disrespect in International Politics: the Significance of Status Recognition,” *International Theory*, Vol. 3, No. 1 (2011), pp. 105–42.

⁶² He and Feng, “Leadership Transition and Global Governance,” p. 157.

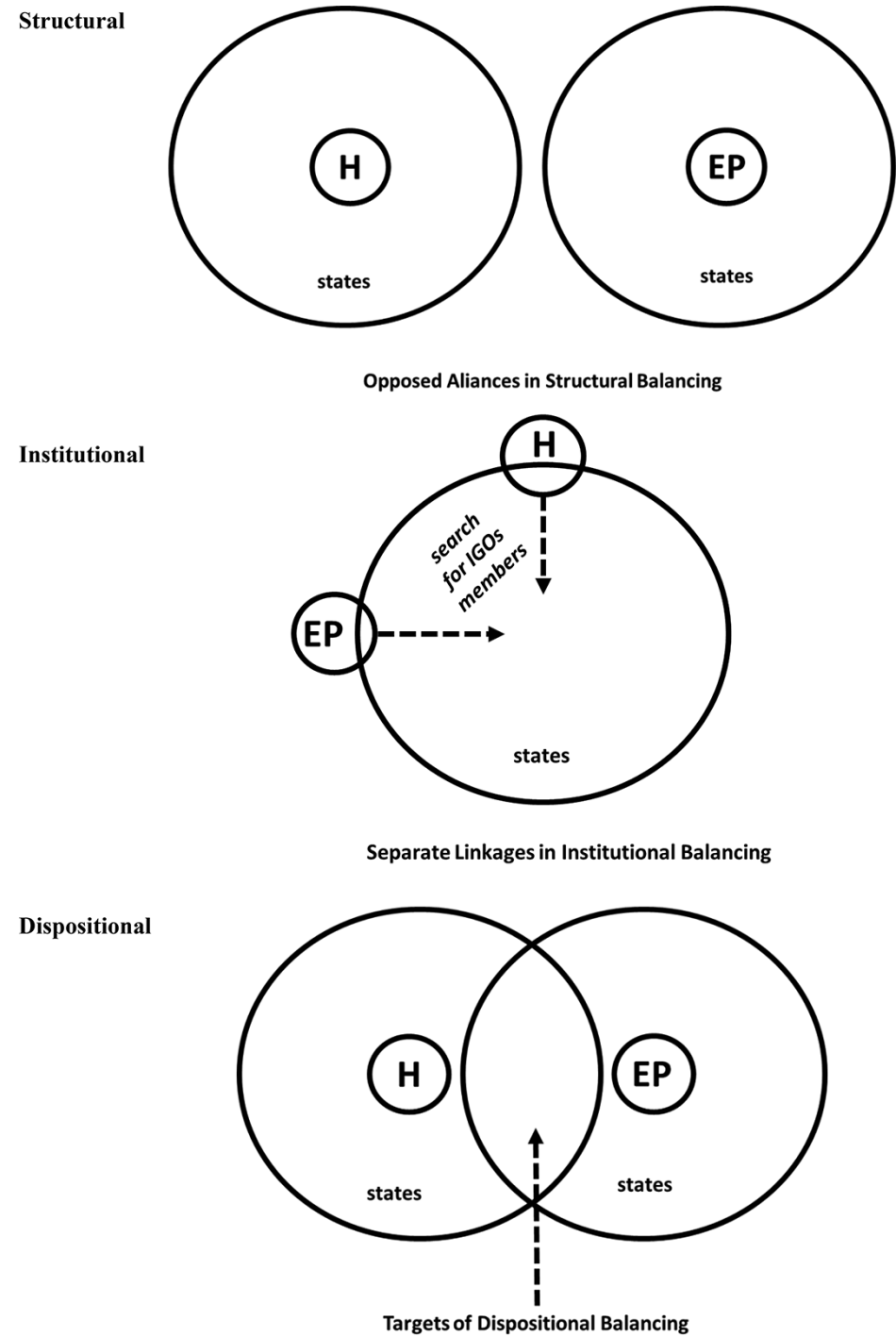


Fig. 1. Types of Soft Balancing
Source: Own Elaboration, Drawing on He, “Institutional Balancing and International Relations Theory”.

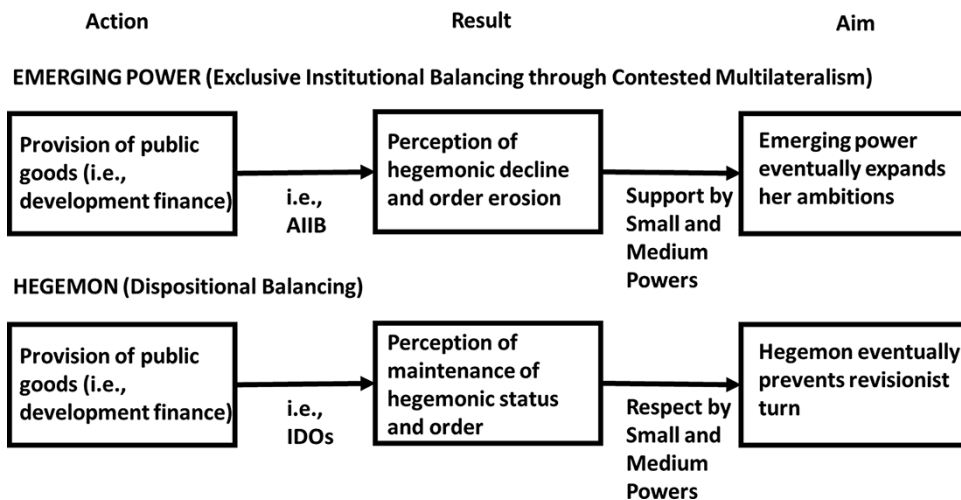


Fig. 2. Mechanisms of Dispositional Balancing and Their Impact on the Hegemonic Order

Figure 2 schematises the mechanisms behind the hegemonic strategy of reacting to the emerging power's contested multilateralism/institutional balancing. The provision of public goods (in this case development finance) through IGOs embedded in the hegemonic order (IDOs) is a display by the USA of its status whose purpose is to hinder the perceptions of hegemonic decline that the AIIB's creation inevitably engenders among the community of nations. We hence arrive at a form of balancing that allows for the formation of loose alliances whose members express dual loyalties without necessarily suffering punishment from either the hegemon or the emerging power. In facing the emerging power's expansion through the provision of such public goods as development finance (as China has done by establishing the AIIB), the hegemon can use existing institutions (such as the World Bank and the ADB) to reassure the order of its sustained hegemonic status by sending credible signals to old and potential new allies without ousting the emerging power. China, for instance, remains a member of both the ADB and the World Bank.

Dispositional balancing is hence a low-cost alternative whereby the hegemon (in this case the USA) hinders the efforts of the emerging power (China) to conquer allies and eventually challenge the established order. That is the case because dispositional balancing, as an exercise that signifies status affirmation, also contributes to maintaining the perceptions of states, other than the established and the rising power, that neither of the latter is strong enough to prevail over the other. Such a scenario favours the status quo and, hence, the hegemon. The emerging state, therefore, is left with little choice but to express willingness to cooperate with the established order because the alternative of pursuing hard balancing would be costly. Middle and small powers, moreover, are unwilling to risk turning their back on the hegemon that, thanks to its ability to provide global public goods, they perceive as having retained its leadership status.

Although, in view of their laundering function, IGOs are the most likely medium for dispositional balancing,⁶³ for the hegemon bilateral ties are also a suitable vehicle for deploying such a strategy. For instance, as will be demonstrated in the empirical section on theory development, when taking decisions to support IDO projects targeting developing states, the USA does not rely solely on its capacity relative to the proportion of shares it holds in

⁶³ Abbott and Snidal, "Why States Act Through Formal International Organizations".

those institutions. American policymakers also place trust their country's structural position as global hegemon, albeit one that faces eventual decline in light of China's rise.

Hypotheses on Dispositional Balancing in Financial Statecraft

The potential decline of the hegemon and its order has arguably never been more evident than in the realm of financial statecraft. Indeed, scholars have often argued that, if not for US sponsorship and membership, the establishment of the AIIB and the NDB could potentially reform the international order.⁶⁴ According to Wang, "[a] central concern expressed by various observers is that of whether or not these China-backed MDBs would pose a threat to the MDBs established under US leadership after World War II."⁶⁵

The literature on AIIB projects, however, remains incipient, given that the bank's operations only started in 2016. Hence, we cannot infer whether or not its projects, on average, differ significantly from US-sponsored MDB development practices. Comparative studies on the effect of Western and non-Western bilateral aid, however, suggest that both face the same pitfalls, in spite of American and European policymakers' claims that Chinese development policies are "rogue"⁶⁶ due to their disregard for such issues as climate change⁶⁷ and human rights. Through a Western lens, such characteristics may represent a challenge to the liberal international order itself. The Organisation for Economic Cooperation and Development (OECD's) DAC has nonetheless tried to engage with China and other emerging powers—particularly the BRICS countries—in an attempt to reach common ground in the international development architecture between "old" and "new" donors.⁶⁸ This fact and the disagreement between the elite and individuals in recipient states about the differences between bilateral and multilateral aid provision⁶⁹ strongly suggest a battle between the hegemon and the emerging power to gain influence through financial statecraft on a level playing field that makes both sides attractive to borrowers.

Factors other than economic ones, therefore, have justified historically US investment in the provision of development finance. Motifs include national security concerns and the promotion of humanitarian and liberal values, particularly, since the end of the Cold War.⁷⁰ For instance, the more US bilateral aid a state receives, the more likely its support is for American positions at the United Nations Security Council.⁷¹ Within IDOs—particularly such MDBs as the World Bank and the ADB—US diplomacy, when voting on a particular project, often considers whether or not the prospective recipient state has committed human rights violations through a "naming and shaming" strategy.⁷² For recipient states, benefits are at

⁶⁴ Xiao Ren, "China as an Institution-Builder: The Case of the AIIB," *Pacific Review*, Vol. 29, No. 3 (2016), pp. 435–42.

⁶⁵ Hongying Wang, "The New Development Bank and the Asian Infrastructure Investment Bank: China's Ambiguous Approach to Global Financial Governance," *Development and Change*, Vol. 50, No. 1 (2019), p. 222.

⁶⁶ Dreher, Nunnenkamp, and Thiele, "Are 'New' Donors Different?"; Dreher and Fuchs, "Rogue Aid?";

⁶⁷ Anastassia Obydenkova, Vinícius G. Rodrigues Vieira, and Jale Tosun, "The Impact of New Actors in Global Environmental Politics: the European Bank for Reconstruction and Development Meets China," *Post-Communist Economies*, Vol. 34, No. 5 (2022), pp. 603–623.

⁶⁸ Woods, "Whose Aid? Whose Influence?";

⁶⁹ Michael G. Findley, Adam S. Harris, Helen V. Milner, and Daniel L. Nielson, "Who Controls Foreign Aid? Elite versus Public Perceptions of Donor Influence in Aid-Dependent Uganda," *International Organization*, Vol. 71, No. 4 (2017), pp. 633–63.

⁷⁰ Brian Lai, "Examining the Goals of US Foreign Assistance in the Post-Cold War Period, 1991–96," *Journal of Peace Research*, Vol. 40, No. 1 (2003), pp. 103–28.

⁷¹ Ilyana Kuziemko and Eric Werker, "How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations," *Journal of Political Economy*, Vol. 114, No. 5 (2006), pp. 905–30.

⁷² Yet, the USA overlooks those violations of states that receive military aid from Washington. That is the case as "... countries that receive US military aid and have little to no respect for rights of physical integrity... have a 31% probability of receiving a US human rights sanction in the MDBs. However, for countries who have little to no respect for rights of physical integrity but do not receive US military aid, that probability increases to 73%". See Daniel Braaten, "Walking a Tightrope: Human Rights, Basic Human Needs and US Support for Development Projects in the Multilateral Development Banks," *Human Rights Review*, Vol. 18, No. 1 (2017), p. 61.

first glance economic only, as American-sponsored MDBs offer lower interest rates than do similar IGOs whose funders/donors do not include the USA and other advanced industrial democracies.⁷³ Recipient states may nevertheless face uncertainty should the international system be in a state of flux, albeit one which, as detailed earlier, may be mitigated by the hegemonic reaction.

In such a context, the hegemon has additional incentive to retain allies because the provision of a public good like development finance is in itself a signal of status and, hence, ongoing preservation of the established order. Therefore, in fustigating the emerging power's bilateral and multilateral development finance initiatives through established IDOs, the dispositional balancing logic not only addresses the need to constrain the power of the challenger but also preserves the existing international order for reasons of status and economic benefit that extend beyond the development aid game.

To understand the hegemonic strategies for order maintenance in such a context, we must first take a step back and rediscover how the emerging power's engagement in financial statecraft through bilateralism and contested multilateralism originated. Before engaging in contested multilateralism and exclusive institutional balancing, China, like the other emerging powers comprising the BRICS countries, aimed to reform IDOs—particularly the IMF and MDBs—in order to gain greater influence over decision-making.⁷⁴

Arguably, there was a demand from developing countries, which tended to be critical of the conditionalities imposed by DAC bilateral donors and US-sponsored MDBs, for initiatives like the AIIB and the NDB. AIIB membership, moreover, created hedging opportunities for small and medium powers in regard to both the hegemon and the emerging power.⁷⁵ Multilateralism, in turn, represents for both sides a strategy whereby to diffuse the economic and political risks associated with provision of development finance.⁷⁶ In such a context, the most viable choice for the hegemon, therefore, is to preserve its status by motivating medium and smaller powers to behave in a way that prevents the state of flux generated by great power competition from evolving into a system of crystalised alliances leading to the break-up of the international system into two competing orders. Such a risk would be the result of escalated institutional balancing by states through successive games whereby the hegemon and the emerging power exclude both each other and their allies from their respective institutional initiatives. Likewise, dispositional balancing cannot go on indefinitely because the high costs it implies for the hegemon motivate free-riding by the receivers of such global public goods as development finance. Moreover, as detailed in Figure 2, the hegemon is expected to preserve and/or restore respect for its status and order and hence to neutralise the incentive for middle and small powers to misbehave in that way.

In light of the aforementioned discussion, we can now set down our empirical expectations of how the USA behaves in regard to AIIB members through deployment of a dispositional balancing strategy. Like the IDOs that rely on US sponsorship, the AIIB dilutes its main sponsoring power. China's AIIB participation accounts for about 27% of the bank's voting power⁷⁷—larger than the USA's participation in all American-sponsored MDBs other than the Inter-American Development Bank where, with about 30% of all shares, Washington calls the shots. The AIIB's institutional design, moreover, does not differ

⁷³ Chris Humphrey, "The Politics of Loan Pricing in Multilateral Development Banks," *Review of International Political Economy*, Vol. 21, No. 3 (2014), pp. 611–39.

⁷⁴ Jue Wang and Michael Sampson, "China's Multi-Front Institutional Strategies in International Development Finance," *The Chinese Journal of International Politics*, Vol. 15, No. 4 (2022), pp. 374–94.

⁷⁵ Woojeong Jang, "Great Power Rivalry and Hedging: The Case of AIIB Founding Members," *The Chinese Journal of International Politics*, Vol. 15, No. 4 (2022), pp. 395–421.

⁷⁶ Stephen and Skidmore, "The AIIB in the Liberal International Order," p. 77.

⁷⁷ Bin Gu, "Chinese Multilateralism in the AIIB," *Journal of International Economic Law*, Vol. 20, No. 1 (2017), p. 149.

from that of US-sponsored MDBs,⁷⁸ as reflected in the bank's low risk ratings in financial markets.⁷⁹

Preliminary findings on case-based analyses of AIIB projects show, however, that this bank and its American-sponsored counterparts do not share the same views and conceptions of development. Beijing seeks unequivocally to signify that it remains part of the Global South and shares the developing world's aspirations.⁸⁰ Having expressed concerns about sustainability,⁸¹ the AIIB nevertheless sponsors both brownfield and greenfield infrastructure investments;⁸² and by contrast with the ADB, the AIIB prioritises efficiency and quality of project implementation rather than such social issues such as gender concerns or local communities.⁸³ But this is not to say that the bank adheres to non-interventionist stances⁸⁴ or that its project-monitoring approach does not entail previously defined targets.⁸⁵ The AIIB, therefore, constitutes an instance of how an eventually Chinese-led order may differ from the American one.⁸⁶

Such factors make the AIIB a more attractive proposition for borrowers than the ADB and other MDBs, the IBRD in particular, thus overshadowing potential complementarities among them. Nor is the AIIB fully aligned with the so-called liberal principles that the USA and its Western allies defend—at least on a rhetorical level—wherein status is a strong symbolic component. Following the logic of dispositional balancing, therefore, the USA has no choice but to defend its position as hegemon and the discursive components of the liberal order that it leads. Thus, the USA competes with the AIIB—and, hence, with China—through an indirect method—American-sponsored IDOs. From this, we predict the following:

Hypothesis 1: The United States is likely to support the projects of AIIB members in other IDOs.

Support for projects does not equate with actual disbursement funding. However, it sends a clear signal of the hegemon's ongoing capacity to preserve its status and order. In the realm of financial statecraft, collective initiatives, such as IDOs, are not the only game in town. Bilateral aid flows still constitute most international development strategies. Not just China but emerging powers in general have developed concurrent aid schemas that threaten the primacy of DAC donors. China, therefore, competes with the USA and other DAC members in the provision of bilateral aid. But an explicit American reaction against Chinese aid mechanisms would contradict the logic of dispositional balancing. Receivers of

⁷⁸ Shahar Hameiri and Lee Jones, "China Challenges Global Governance? Chinese International Development Finance and the AIIB," *International Affairs*, Vol. 94, No. 3 (2018), p. 575.

⁷⁹ "In June and July 2017, Moody's, Standard and Poor's and Fitch Ratings all gave the AIIB top-notch ratings." See Wang, "The Political Economy of Joining the AIIB," p. 225. In addition, the bank leadership has promised to provide loans according to market-related criteria. See Stephen and Skidmore, "The AIIB in the Liberal International Order," p. 83.

⁸⁰ Shaun Breslin, "China and the Global Order: Signalling Threat or Friendship?" *International Affairs*, Vol. 89, No. 3 (2013), p. 1274.

⁸¹ Ren, "China as an Institution-Builder," p. 548.

⁸² Gu, "Chinese Multilateralism in the AIIB," p. 154.

⁸³ Jianzhi Zhao, Yannan Gou, and Wanying Li, "A New Model of Multilateral Development Bank: a Comparative Study of Road Projects by the AIIB and ADB," *Journal of Chinese Political Science*, Vol. 23, No. 2 (2019), p. 15. By contrast, Gu argues that the AIIB has opted to leave open the definition of its environmental and social standards. See Gu, "Chinese Multilateralism in the AIIB," p. 146. Yet, for others, the AIIB relies more on international standards than on Chinese ones for assessing the social risk of the projects it supports. See Bettina Gransow and Susanna Price, "Social Risk Management at AIIB: Chinese or International Characteristics?" *Journal of Chinese Political Science*, Vol. 24, No. 2 (2019), pp. 289–311.

⁸⁴ Stephen and Skidmore, "The AIIB in the Liberal International Order," p. 86.

⁸⁵ Gu, "Chinese Multilateralism in the AIIB," p. 156.

⁸⁶ Gu, "Chinese Multilateralism in the AIIB".

direct resources from Beijing are understood to be seeking closer ties with China than are those nations that have joined the AIIB. In light of Washington's ambitions to preserve its status and liberal order, reaching out directly to those states could be too costly because such a strategy would be interpreted as explicit recognition of Beijing's already expanded strength and thus that the USA's centrality and order had commenced its decline. We can therefore expect the following:

Hypothesis 2: The United States is unlikely to support IDO projects targeting recipients of Chinese bilateral aid.

Nonetheless, as detailed in the previous section, dispositional balancing does not depend solely on the dynamics of power within international institutions (including IDOs). The international order—even if it is in a state of flux—matters in regard to understanding the hegemon's reactions against the emerging power. Traditional hegemonic allies may not resist the carrots provided by the emerging power. As discussed earlier, key Western European states joined the AIIB despite US opposition. Yet, thanks to the extended shadow of the future amid the state of flux in the international system, those old allies of the hegemon have little incentive to change sides and bandwagon with the rising state.

Moreover, financial incentives alone do not suffice for establishing stable ties with the emerging power. That is the case because shared interests and identities with the established power may prevail. In the case of development finance, for instance, DAC members have expressed bold criticism of China. The hegemon, however, also faces uncertainties and is thus unsure whether or not those ties, and hence the order as a whole, will persist. Such a scenario creates incentives for the established power to continue bearing the costs of public goods provision, such as IDO sponsorship, as well as maintenance of the conditions that allow its developed allies to retain international influence and the ability to contribute to the international order. The level of threat that Beijing posits to DAC members, therefore, should have impact on US reactions through IDOs, thus adding complexity to how Washington reacts to states that are both AIIB members and recipients of Chinese bilateral finance. Considering this, we predict the following:

Hypothesis 3: The United States is likely to support IDO projects targeting recipients of Chinese bilateral aid if they are also AIIB members.

What remains for the hegemon, therefore, is to preserve its status and order by motivating the medium and smaller powers to behave in a way that prevents the state of flux generated by great power competition from evolving into a system of crystalised alliances that would sustain an eventual bipolarity. Yet not all potential allies are made equal: the struggle for dispositional balancing targets the powers that are most relevant to both contenders. We thus expect that, in promoting dispositional balancing, the hegemon prefers to target those developing states that are AIIB members, on the one hand, and those that are a priority for its allies in the field of development finance (that is, DAC members) and face dependency on Chinese aid, on the other.

Research Design

Having set down all considerations, we now turn to the empirical testing of our hypotheses and, hence, demonstration of the causal mechanisms that lay behind dispositional balancing. We use panel data on 124 developing countries (see [Supplementary Table S1](#)) covering over 5177 projects/loan packages in 12 IDOs/MDBs ([Table 1](#)) for the period 2015–18.

Table 1 List of IDOs/MDBs in the Sample

African Development Bank
Asian Development Bank
European Bank for Reconstruction and Development
Inter-American Development Bank
International Bank for Reconstruction and Development
International Development Association
International Finance Corporation
Global Environment Facility
International Monetary Fund
International Fund for Agricultural Development
Climate Investment Funds
Green Climate Funds

We estimate the probability of US support for the loan package of country c in a given IDO b in year t as follows:

$$P(\text{support}_{cbt} = 1) = \varphi_c + \beta \text{AIIB}_{ct} + \beta Z_{ct} + \lambda_t + \omega_{cbt}, \quad (1)$$

wherein support_{cbt} is a discrete variable taking the value 1 if the USA supports the loan package put forth by country c for approval in MDB b in year t , and 0 otherwise. We measure US support by examining the voting record of the Executive Board of each IDO, made available on the US Treasury Department website since 2004.⁸⁷ An Executive Board member country of an IDO can exercise the choice of a “yes” vote, which denotes approval for that loan/aid project under consideration, while a “no” vote equals disapproval. The choice of “abstaining” from voting, we believe, is also a sign of disapproval but to a lesser degree than an outright “no” vote. Therefore, our dependent variable is US support for a loan package, that is, a “yes” vote = 1 and 0 otherwise. One could argue that a limitation of our dependent variable might be that the USA may express its opposition to the loan package outside the Executive Boards of IDOs through informal channels. This might then prevent the loan proposal from coming up for a vote.⁸⁸ Although this might raise a selection issue, there is, unfortunately, no information available regarding whether or not the USA withheld loan proposals or how many loan proposals the USA withheld at various IDOs through informal channels. However, even if the USA did withhold an IDO entry, previous research shows that US support for IDO loan packages is not universal.⁸⁹ This allows us to be reasonably confident that, bearing in mind its considerable voting power, the USA’s support for IDO loan packages could serve as a signalling device to countries that have signed on to the China-led AIIB initiative.

To testing Hypothesis 1, we employ the variable AIIB_{ct} , which is a dummy variable equal to 1 if country c has become an AIIB member in year t , and 0 otherwise. We consider a country to be an AIIB member when that country has signed the AIIB’s Articles of Agreement (AoA)⁹⁰ and thereby officially become a member of the AIIB. Once country c signs the AoA, the dummy measure of 1 is retained for all subsequent years from the signed year t . The information on AIIB membership is sourced from the 2019 AIIB annual report⁹¹ and the

⁸⁷ U.S. Department of the Treasury, “Multilateral Development Banks,” <https://home.treasury.gov/policy-issues/international/multilateral-development-banks>.

⁸⁸ Bessma Momani, “American Politicization of the International Monetary Fund,” *Review of International Political Economy*, Vol. 11, No. 5 (2004), pp. 880–904.

⁸⁹ Strand and Zappile, “Always Vote for Principle, Though You May Vote Alone”.

⁹⁰ Asian Infrastructure Investment Bank, “Articles of Agreement,” <https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html>.

⁹¹ Asian Infrastructure Investment Bank, “2019 Annual Report and Financials,” 2019, <https://www.aiib.org/en/news-events/annual-report/2019/home/index.html>.

bank's AoA. [Supplementary Table S2](#) provides the list of countries by AIIB membership during the 2015–18 period. During our study period, the AIIB had 72 member countries. As of 2020, the bank had about 103 countries and claims to have 21 prospective members who are likely to join at a future date.⁹² It is noteworthy that the AIIB membership includes most of the advanced economies (other than the USA, as mentioned earlier). These advanced countries, however, are not part of the analysis because they are ineligible for IDO aid packages. Therefore, as mentioned earlier, the focus of our analysis is largely on the 124 developing countries who are eligible for development finance from IDOs (including from the AIIB).⁹³

The vector Z_{ct} includes potential determinants of US support for loan packages, gleaned from the existing literature on donor influence in MDBs.⁹⁴ We avoid the “garbage can” approach and limit our control variables to the fewest possible to obtain more easily interpretable results.⁹⁵ We add a range of control variables in our robustness test analysis. First, we include per capita gross domestic product (GDP) (log) measured in 2010 US\$ constant prices. Income per capita measures the level of economic development, thus serving as a proxy for the needs of recipient countries. Income is considered as one of the most robust predictors of aid allocation, together with population size.⁹⁶ Thus, we also control for country size using population (log) because large countries naturally tend to have a greater need for IDO projects.⁹⁷ Both per capita income and population variables are sourced from the 2020 World Development Indicators (WDI).⁹⁸

We also control for regime type using the Polity IV index, which measures regime type along the scale of –10 (strict autocracy) to 10 (full democracy).⁹⁹ It is argued that promoting democracy and democratic institutions has long been a US foreign policy objective.¹⁰⁰ Furthermore, with specific reference to the MDBs, political rights are an important determinant of US voting patterns.¹⁰¹ Next, we control for trade with the USA, imports and

⁹² Asian Infrastructure Investment Bank, “2019 Annual Report and Financials”.

⁹³ Exceptions include Croatia, Cyprus, Lithuania, Poland, Slovakia, and Slovenia, which are recipients of aid packages from European Bank for Reconstruction and Development (EBRD) and are part of the analysis.

⁹⁴ Krishna Chaitanya Vadlamannati, Yuanxin Li, Samuel Rueckert Brazys, and Alexander Dukalskis, “Building Bridges or Breaking Bonds? The Belt and Road Initiative and Foreign Aid Competition,” 2020, <https://dx.doi.org/10.2139/ssrn.3329502>; Daniel B. Braaten, “Determinants of US Foreign Policy in Multilateral Development Banks: The Place of Human Rights,” *Journal of Peace Research*, Vol. 51, No. 4 (2014), pp. 515–27; Strand and Zappile, “Always Vote for Principle, Though You May Vote Alone”; Dreher, Sturm, and Vreeland, “Development Aid and International Politics”; Christopher Kilby, “Donor Influence in Multilateral Development Banks: The Case of the Asian Development Bank,” *Review of International Organizations*, Vol. 1, No. 2 (2006), pp. 173–95; Thomas Barnebeck Andersen, Henrik Hansen, and Thomas Markussen, “US Politics and World Bank IDA-lending,” *Journal of Development Studies*, Vol. 42, No. 5 (2006), pp. 772–94; Lai, “Examining the Goals of US Foreign Assistance in the Post-Cold War Period, 1991–96”; Alberto Alesina and David Dollar, “Who Gives Foreign Aid to Whom and Why?” *Journal of Economic Growth*, Vol. 5, No. 1 (2000), pp. 33–63.

⁹⁵ Christopher H. Achen, “Let’s Put the Garbage-Can Regressions and Garbage-Can Probits Where They Belong,” *Conflict Management and Peace Science*, Vol. 22, No. 4 (2005), pp. 327–39; Philip A. Schrodt, “Seven Deadly Sins of Contemporary Quantitative Political Analysis,” *Journal of Peace Research*, Vol. 51, No. 2 (2014), pp. 287–300.

⁹⁶ Kevin M. Morrison, “As the World Bank Turns: Determinants of IDA Lending in the Cold War and After,” *Business and Politics*, Vol. 13, No. 2 (2011), pp. 1–27; Fleck and Kilby, “World Bank Independence”.

⁹⁷ Andersen, Hansen, and Markussen, “US Politics and World Bank IDA-lending”; Fleck and Kilby, “World Bank Independence”.

⁹⁸ World Bank, “World Development Indicators,” 2020, <https://databank.worldbank.org/source/world-development-indicators>.

⁹⁹ Ted Robert Gurr and Keith Jagers, “Tracking Democracy’s Third Wave with the Polity II Data,” *Journal of Peace Research*, Vol. 32, No. 4 (1995), pp. 469–82.

¹⁰⁰ Timothy M. Peterson and James M. Scott, “The Democracy Aid Calculus: Regimes, Political Opponents, and the Allocation of US Democracy Assistance, 1981–2009,” *International Interactions*, Vol. 44, No. 2 (2018), pp. 268–93; Tijen Demirel-Pegg and James Moskowitz, “US Aid Allocation: The Nexus of Human Rights, Democracy, and Development,” *Journal of Peace Research*, Vol. 46, No. 2 (2009), pp. 181–98.

¹⁰¹ Braaten, “Determinants of US Foreign Policy in Multilateral Development Banks”.

exports from recipient countries measured in US\$ million (log).¹⁰² This variable captures commercial ties and therefore the economic importance to the USA of the recipient country. Likewise, the USA may also reward its allies in IDOs.¹⁰³ We use Voeten's United Nations General Assembly (UNGA) voting alignment index covering the key votes of interest for the USA.¹⁰⁴ The index codes votes in agreement with the USA as 1, in disagreement as 3, and 2 for abstentions. The resulting numbers are then divided by the total number of votes in the UNGA each year, resulting in a measure of between 0 and 1. A value closer to 1 denotes complete agreement with the USA on key votes in the UNGA.

Finally, we include a measure of US aid (log) measured in US\$ millions sourced from the WDI (2020) to account for its influence in the IDOs.¹⁰⁵ One assumption is that the USA would use its influence in IDOs to approve projects for countries that receive large amounts of US aid.¹⁰⁶ On the contrary, however, one could expect a negative relationship because if economic support is channelled through IDOs, the USA ends up paying only a fraction of the loan cost involved.¹⁰⁷ It is noteworthy that we use the 1-year lagged values of all control variables to allow for the lag effect on US voting patterns in IDOs. The descriptive statistics are reported in [Supplementary Table S3](#), and the details on definitions and data sources are provided in [Supplementary Table S4](#).

Owing to the binary nature of our dependent variable we estimate a logit estimator with heteroskedasticity consistent robust standard errors. One drawback of the non-linear estimations, such as the logit estimator, is that including country fixed effects may be problematic due to the well-known *incidental parameter problem*.¹⁰⁸ The standard approach is a conditional logit method developed by Chamberlain,¹⁰⁹ which allows controlling for fixed effects by maximising the conditional likelihood function as follows:

$$L = \prod_{i=1}^N P \left(y_{i1}, \dots, y_{iT} \middle| \sum_{i=1}^T y_{it} \right)$$

wherein T is the last observation for country i . However, the conditional logit fixed effects estimator is not free from limitations. First, it estimates the 1s and 0s for each country conditioned by the total number of 1s for each country. Thus, if country c never reports any 1 events, or reports events (i.e., 1s) for every year within a country, then the conditional probability of observing the data for country i is 1, which means that country c is automatically dropped from the analysis. Second, unlike a univariate logit estimator, the coefficients from conditional logit fixed effects are hard to interpret because it does not allow for computation of marginal effects, which makes it difficult to derive the substantive effects.

To circumvent these problems, we follow two approaches. First, we estimate logit models controlling for year fixed effects and include IDO-specific dummies, thereby depicting a

¹⁰² Bureau of Economic Affairs, "BEA foreign trade statistics," 2019, <https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services>.

¹⁰³ Andersen, Hansen, and Markussen, "US Politics and World Bank IDA-lending".

¹⁰⁴ Erik Voeten, "Clashes in the Assembly," *International Organization*, Vol. 54, No. 2 (2000), pp. 185–215; Erik Voeten, "Resisting the Lonely Superpower: Responses of States in the UN to U.S. Dominance," *Journal of Politics*, Vol. 66, No. 3 (2004), pp. 729–54; Anton Strezhnev and Erik Voeten, "United Nations General Assembly Voting Data," 2012, <http://hdl.handle.net/1902.1/12379>. Following the same methodology, we updated the index from 2016 until 2018.

¹⁰⁵ Christopher Kilby, "Donor Influence in Multilateral Development Banks: The Case of the Asian Development Bank," *Review of International Organizations*, Vol. 1, No. 2 (2006), pp. 173–95.

¹⁰⁶ Morrison, "As the World Bank Turns".

¹⁰⁷ Axel Dreher and Jan-Egbert Sturm, "Do the IMF and the World Bank Influence Voting in the UN General Assembly?" *Public Choice*, Vol. 151, No. 1 (2012), pp. 363–97.

¹⁰⁸ Tony Lancaster, "The Incidental Parameter Problem since 1948," *Journal of Econometrics*, Vol. 95, No. 2 (2000), pp. 391–413; Jeffrey W. Wooldridge, *Econometric Analysis of Cross Section and Panel Data* (Cambridge: MIT Press, 2002).

¹⁰⁹ Gary Chamberlain, "Analysis of Covariance with Qualitative Data," *Review of Economic Studies*, Vol. 47, No. 1 (1980), pp. 225–38.

fixed effects model. Second, and more importantly, we follow Eichengreen and Leblang¹¹⁰ to estimate a *linear probability model*, which provides consistent estimates by allowing us to control for both year- and country-specific fixed effects.

$$P(\text{support}_{cbl} = 1) = \varphi_c + \beta \text{AIIB}_{ct} + \beta \text{Z}_{ct} + \lambda_t + \partial_c + \xi_b + \omega_{cbl}, \quad (2)$$

Equation (2), which is an extension of (1), is estimated using a linear probability model in which ∂_c denotes country-specific dummies, and ξ_b implies IDO-specific dummies. Note that we use robust standard errors since the ω_{cbl} in a linear probability model is always heteroskedastic. We present regression results using both the logit estimator and linear probability model, which controls for country fixed effects.

Tackling Endogeneity

Endogeneity problems could affect our AIIB membership measure because AIIB membership could be an outcome rather than a cause of US voting patterns in IDOs/MDBs. Such a possibility issue is not trivial because those who argue that AIIB membership provokes a US response also make causal claims that an AIIB initiative originates in a challenge to the US-dominated economic and international world order.¹¹¹ Endogeneity could also be an issue if AIIB membership was the outcome of the USA's approving a loan package for that country in an IDO in order to mitigate Chinese influence. It should also be noted that the variables not controlled in our models might potentially be correlated with AIIB membership as well as with US voting patterns, thereby introducing an omitted variable bias. For instance, AIIB membership may be the result of other factors that could also explain US voting patterns at the IDO.

Those endogeneity concerns also reflect the roles of sponsorship and custodianship that Beijing must assume should it seek to overtake Washington as the systemic hegemon. They include China's potential use of the AIIB to build regional influence—thereby undercutting US power,¹¹² the country's internationalisation of the renminbi,¹¹³ fostering of strategic divisions among US allies,¹¹⁴ and creation of a new economic world order as an alternative to the US-led pro-market capitalist model.¹¹⁵ Failing to account for endogeneity, therefore, might yield biased results.

To address the problem of endogeneity, we employ an IV strategy. Our IV resembles the one that Dreher and his co-authors employ,¹¹⁶ which is the *probability* of a country receiving Chinese aid, weighted by the capacity utilisation rate of steel production in China, which

¹¹⁰ Barry Eichengreen and David Leblang, "Democracy and Globalization," *Economics & Politics*, Vol. 20, No. 3 (2008), pp. 289–334.

¹¹¹ Strand and Zapple, "Always Vote for Principle, Though You May Vote Alone"; Marco Vieira, "Rising States and Distributive Justice: Reforming International Order in the Twenty-First Century," *Global Society*, Vol. 26, No. 3 (2012), pp. 311–29.

¹¹² Suisheng Zhao, "Adaption and Strategic Calculation: China's Participation in International Regimes and Institutions," in Peter Kien-hong Yu, W. Emily Chow, and Shawn S.F. Kao, eds., *International Governance, Regimes, and Globalization, Case Studies from Beijing and Taipei* (Lanham: Lexington Books, 2010), pp. 69–94.

¹¹³ G. John Ikenberry, and Darren J. Lim, *China's Emerging Institutional Statecraft: The Asian Infrastructure Investment Bank and the Prospects for Counter-hegemony* (Washington: The Brookings Institute, 2017).

¹¹⁴ Jonathan R. Strand and Michael W. Trevathan, "Implications of Accommodating Rising Powers for the Regional Development Banks," in Susan Park and Jonathan R. Strand, eds., *Global Economic Governance and the Development Practices of the Multilateral Development Banks* (London and New York: Routledge, 2016), pp. 121–42.

¹¹⁵ Adriana E. Abdenur, "China and the BRICS Development Bank: Legitimacy and Multilateralism in South-South Cooperation," *IDS Bulletin*, Vol. 45, No. 4 (2014), pp. 85–101.

¹¹⁶ Axel Dreher, Andreas Fuchs, Roland Hodler, Bradley C. Parks, Paul A. Raschky, and Michael J. Tierney, "African Leaders and the Geography of China's Foreign Assistance," *Journal of Development Economics*, Vol. 140 (2019), pp. 44–71; Axel Dreher, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael J. Tierney, "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," *American Economic Journal: Economic Policy*, Vol. 13, No. 3 (2021), pp. 135–74.

captures not just the steel production but also the actual demand for steel in the economy, $iv = \left[\frac{1}{15} \sum_{y=1}^{15} p_{it} \times (\text{steel u.rate})_t \right]$, which is lagged by 2 years.¹¹⁷

Interacting these two variables tells us whether or not countries that in the past had a high *probability* of receiving Chinese aid, driven by China's excess steel production capacity, are more likely to join the AIIB. We believe that this variable is exogenous because China's excess steel production is being used in infrastructure projects¹¹⁸ in countries that China has financed, including those in the Belt and Road Initiative (BRI).¹¹⁹ These infrastructure projects are hence likely to result in an increased demand for such products as steel, which will then be utilised to build projects across countries.¹²⁰ The focus of the AIIB, therefore, is on funding infrastructure development projects—mostly dams, ports, roads, bridges, and railways. To this effect, one could expect a synergy between countries joining the AIIB and their requirement for developing infrastructure projects, which would be a demand of middle and small powers, which US-sponsored IDOs do not meet.¹²¹ Our identifying assumption is similar to that employed in previous studies.¹²² In this vein, a time-varying exogenous variable (capacity utilisation rate) is interacted with an endogenous variable that varies across countries only (probability of receiving Chinese aid) to produce an instrument that then varies across countries and over time.

One concern might be that the probability of a country having received aid from China in the past can explain US voting patterns. To alleviate this concern, we also estimate a model through a robustness test that directly controls for probability of receiving Chinese aid, along with country- and year-specific fixed effects that capture the capacity utilisation rate in the second step regressions. We believe that, once we control for country- and year-specific fixed effects, these variables cannot be correlated with the error term. Thus, US voting patterns in IDOs for countries with dissimilar AIIB membership status will not be differently affected by changes in the capacity utilisation rate of steel production in China beyond its impact on AIIB membership.

We employ a linear probability model—the *two-stage least squares* (hereafter 2SLS-IV) estimator that allows us to control for both year- and country-specific fixed effects.¹²³ We also estimate a model that includes country-, year-, and IDO-specific fixed effects.

¹¹⁷ While the data for capacity utilisation rate of steel production in China come from the OECD Statistical Yearbook (2019), the *probability* of receiving Chinese aid is the percentage share of years during the period 2000–14 (for which Chinese aid data are available) that a recipient country got aid from Beijing. We computed the latter using Chinese aid data sourced from Custer et al. 2021 and Dreher, Fuchs, Parks, Strange, and Tierney, "Aid, China, and Growth".

¹¹⁸ Dreher, Fuchs, Hodler, Parks, Raschky, and Tierney, "African Leaders and the Geography of China's Foreign Assistance"; Dreher, Fuchs, Parks, Strange, and Tierney, "Aid, China, and Growth".

¹¹⁹ Vadlamannati, Li, Brazys, and Dukalskis, "Building Bridges or Breaking Bonds?".

¹²⁰ Dreher, Fuchs, Parks, Strange, and Tierney, "Aid, China, and Growth"; Vadlamannati, Li, Brazys, and Dukalskis, "Building Bridges or Breaking Bonds?"; Sam Brazys and Krishna Chaitanya Vadlamannati, "Aid Curse with Chinese Characteristics? Chinese Development Flows and Economic Reforms," *Public Choice*, Vol. 188, No. 3 (2021), pp. 407–30.

¹²¹ Woods, "Whose Aid? Whose Influence?"; Xu and Liu, "The Power of Building Parallel Institutions".

¹²² Kai Gehring, Lennart Kaplan, and Melvin H. L. Wong, "China and the World Bank: How Contrasting Development Approaches Affect the Stability of African States," AidData Working Paper 87, 2019; Richard Bluhm, Axel Dreher, Andreas Fuchs, Bradley Parks, Austin Strange, and Michael Tierney, "Connective Financing: Chinese Infrastructure Projects and the Diffusion of Economic Activity in Developing Countries," AidData Working Paper 103, 2020; Eric D. Werker, Faisal Z. Ahmed, and Charles Cohen, "How is Foreign Aid Spent? Evidence from a Natural Experiment," *American Economic Journal: Macroeconomics*, Vol. 1, No. 2 (2009), pp. 225–44; Axel Dreher and Sarah Langlotz, "Aid and Growth: New Evidence Using an Excludable Instrument," *Canadian Journal of Economics*, Vol. 53, No. 3 (2020), pp. 1162–98; Dreher, Fuchs, Parks, Strange, and Tierney, "Aid, China, and Growth"; Vadlamannati, Li, Brazys, and Dukalskis, "Building Bridges or Breaking Bonds?"; Brazys and Vadlamannati, "Aid Curse with Chinese Characteristics?"; Dreher, Fuchs, Hodler, Parks, Raschky, and Tierney, "African Leaders and the Geography of China's Foreign Assistance"; Gehring, Kaplan, and Wong, "China and the World Bank".

¹²³ Jeffrey M. Wooldridge, *Econometric Analysis of Cross Section and Panel Data* (Cambridge: MIT Press, 2010), pp. 83–101.

Controlling for country fixed effects (apart from year and IDO fixed effects) is important here because it is plausible that cross-sectional variation in the probability of receiving Chinese aid (after interaction with the capacity utilisation rate) might covary with omitted variables that might, in turn, influence US voting patterns in IDOs.

The validity of the instrument depends on two conditions. The first, instrument relevance, is that whereby the instrument must be correlated with the explanatory variable in question; it otherwise has no power. In the case of linear estimations, Bound, Jaeger, and Baker suggest examining the *joint F-statistic* on the excluded instrument in the first-stage regression. The selected instrument would be relevant when the first-stage regression model's joint *F-statistic* is above 10.¹²⁴ We also use the Kleibergen–Paap¹²⁵ *F-statistic*, which offers reliable statistical inferences in a weak instrument setting. We estimate the first-step regression models using a linear probability model to assess the relevance of the selected instrument.

Interaction Effects

Next, we examine the effect of AIIB membership on US voting in IDOs, conditional upon the level of Chinese development aid to assess Hypotheses 2 and 3. We introduce an interaction term:

$$P(\text{support}_{c,t} = 1) = \varphi_c + \beta(\text{AIIB} \times \text{China})_{c,t} + \beta \text{AIIB}_{c,t} + \beta \text{China}_{c,t} + \beta Z_{c,t} + \lambda_t + \omega_{c,t}, \quad (3)$$

wherein $(\text{AIIB} \times \text{China})_{c,t}$ is the interaction term and $\text{China}_{c,t}$ is our conditioning variable. We use two different measures to capture the penetration of Chinese aid, namely, (1) Chinese development aid as a share of the DAC aid in country c during year t and (2) Chinese aid as a share of the recipient country's GDP.¹²⁶ These data capture official Chinese state finance, which includes both foreign aid—which is akin to the OECD's official development assistance—and other forms of state financing (concession and non-concession)—which is similar to the OECD's other official flows with development or commercial intent.¹²⁷ The dataset covers Chinese aid activities in 138 countries during the 2000–14 period.

That Chinese aid data are available only until the year 2014 poses a problem for us because our data on IDOs extend through to 2018. In the absence of data beyond 2014, we use a 4-year lag of Chinese aid data to derive our two conditioning variables. For instance, for the year 2018 we use the 2014 values of Chinese aid data. Lagging data by 4 years seems reasonable because it allows enough time for the USA to notice the Chinese aid commitments that affect the outcomes in recipient countries.¹²⁸ As before, all controls are lagged by 1 year. Once again, we employ logit estimator controlling for year- and IDO-specific fixed effects and generate margins plots to assess the interaction effects.

¹²⁴ John Bound, David A. Jaeger, and Regina M. Baker, “Problems with Instrumental Variables Estimation when the Correlation between the Instruments and the Endogenous Explanatory Variable Is Weak,” *Journal of American Statistical Association*, Vol. 90, No. 430 (1995), pp. 443–50.

¹²⁵ Frank Kleibergen and Richard Paap, “Generalized Reduced Rank Tests Using the Singular Value Decomposition,” *Journal of Econometrics*, Vol. 133, No. 1 (2006), pp. 97–126.

¹²⁶ While DAC aid and GDP data are sourced from the World Bank's World Development Indicators (2020), Chinese aid data are from the AidData's Global Chinese Official Finance Dataset developed by Samantha Custer, Axel Dreher, Thai-Binh Elston, Andreas Fuchs, Siddharta Ghose, Joyce Jiahui Lin, Ammar A. Malik, Bradley C. Parks, Brooke Russell, Kyra Solomon, Austin Strange, Michael J. Tierney, Katherine Walsh, Lincoln Zaleski, and Sheng Zhang, *Tracking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology* (Williamsburg: AidData at William & Mary, 2021); and Dreher, Fuchs, Parks, Strange, and Tierney, “Aid, China, and Growth”.

¹²⁷ For more details on methodology and data, see AidData, Global Chinese Official Finance Dataset, Version 1.0. 2017, <http://aiddata.org/data/chinese-global-official-finance-dataset>; and Bluhm, Dreher, Fuchs, Parks, Strange, and Tierney, “Connective Financing”.

¹²⁸ We also note that Dreher and his co-authors use 4- and 5-year lags to estimate the impact of Chinese aid on economic outcomes in recipient countries. Therefore, we believe that relying on a 4-year lag is not completely unreasonable. See further details in Dreher, Fuchs, Parks, Strange, and Tierney, “Aid, China, and Growth”.

Table 2 Impact of AIIB Membership on US Voting Patterns in IDOs

	(1) Yes vote	(2) Yes vote	(3) Yes vote	(4) Yes vote
AIIB membership	0.537 ^{***} (0.111)	0.277 ^{**} (0.123)	0.0337 [*] (0.0194)	0.0317 [*] (0.0188)
Per capita GDP (log)	-0.482 ^{***} (0.0673)	-0.666 ^{***} (0.0727)	-0.0954 (0.176)	-0.0829 (0.174)
Population (log)	-0.305 ^{***} (0.0510)	-0.272 ^{***} (0.0552)	-0.0470 (0.460)	0.0398 (0.453)
Democracy polity index	0.0746 ^{***} (0.00771)	0.0751 ^{***} (0.00789)	0.0261 ^{***} (0.00630)	0.0264 ^{***} (0.00674)
US trade (log)	0.113 ^{***} (0.0356)	0.121 ^{***} (0.0402)	-0.0302 (0.0195)	-0.0291 (0.0200)
UNGA voting alignment index	2.033 ^{***} (0.312)	1.637 ^{***} (0.336)	0.144 ^{**} (0.0576)	0.147 ^{**} (0.0575)
US aid (log)	0.00471 (0.0115)	0.0131 (0.0123)	-0.0217 [*] (0.0129)	-0.0212 (0.0131)
Constant	8.863 ^{***} (1.074)	9.679 ^{***} (1.139)	3.071 (8.809)	1.463 (8.689)
Estimator	Logit	Logit	Ordinary Least Squares-Fixed Effects (OLS-FE)	OLS-FE
Year fixed effects	Yes	Yes	Yes	Yes
Country fixed effects	No	No	Yes	Yes
IDO fixed effects	No	Yes	No	Yes
Number of IDOs	12	12	12	12
Number of countries	124	124	124	124
Total observations	5177	5168	5177	5177

Note: Standard errors in parenthesis. Statistical significance: *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$

Results and Discussion

Table 2 reports the impact of AIIB membership on US voting patterns in the IDOs that our sample comprises. Models 1 and 2 present the results of AIIB membership, along with relevant control variables gleaned from widely cited studies, estimated using the logit estimator. Models 3 and 4 report results from a linear regression. To address endogeneity concerns, Table 3 presents results from IV estimations. Finally, Table 4 lists the results of the interaction effects between AIIB membership and dominance of Chinese aid (Hypotheses 2 and 3).

According to model 1 in Table 2, countries that join China’s AIIB initiative are associated positively with the probability of the USA voting a “yes” at an IDO considered in the sample, a result that is statistically significant at the 1% level. Notice that the effects are substantively large.¹²⁹ For an easy interpretation, we resort to an odds ratio instead of marginal effects. The odds ratio suggests that being an AIIB member, having signed its AoA, increases the probability of the USA voting “yes” in IDOs by roughly 71% compared with that for non-members of the AIIB. Notice that these results remain robust and statistically significant at the 5% level when including IDO-specific fixed effects in model 2. Interestingly, the substantive effects are halved once IDO-specific fixed effects are controlled. Notice that our variable for assessing Hypothesis 1 (AIIB membership) remains positive and statistically significant

¹²⁹ Table 2 reports coefficients instead of marginal effects usually reported for a logit estimator. The marginal effect of an independent variable (on the right-hand side (RHS)) is the effect of a unit change of variable on the probability P ($Y = 1|X = x$), given that all other variables in the RHS are constant.

Table 3 Impact of AIIB Membership on US Voting Patterns in IDOs: IVs

	(1) Yes vote	(2) Yes vote
AIIB membership	0.813** (0.333)	0.810** (0.337)
Per capita GDP (log)	-1.297** (0.574)	-1.277** (0.577)
Population (log)	-0.254 (0.477)	-0.168 (0.476)
Democracy polity index	0.0510*** (0.0130)	0.0513*** (0.0130)
US exports (log)	-0.0523** (0.0262)	-0.0511** (0.0260)
UNGA voting alignment index	0.0366 (0.0771)	0.0390 (0.0780)
US aid (log)	-0.0561*** (0.0214)	-0.0555** (0.0217)
Constant	14.92* (9.049)	13.28 (9.049)
Estimator	Two-Stage least squares (2SLS)-IV	2SLS-IV
Year fixed effects	Yes	Yes
Country fixed effects	Yes	Yes
IDO fixed effects	No	Yes
First-stage <i>F</i> -statistics	37.26***	36.47***
Cragg–Donald Wald <i>F</i> -statistics	25.45***	25.00***
Kleibergen–Paap rank Langrange Multiplier statistic	36.94***	36.27***
Number of IDOs	12	12
Number of countries	122	122
Total observations	4997	4997
First-stage analysis		
Steel capacity utilisation rate X probability of China aid	0.0143*** (0.00235)	0.0143*** (0.00236)
Control variables	Yes	Yes
Estimator	Ordinary least squares (OLS)	OLS
Year fixed effects	Yes	Yes
Country fixed effects	Yes	Yes
IDO fixed effects	No	Yes
Number of IDOs	12	12
Number of countries	122	122
Total observations	4997	4997

Note: Standard errors in parenthesis. Statistical significance: *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$

at the 10% level when using the ordinary least squares (OLS) estimator to control for year- and country-specific fixed effects in model 3, as well as for IDO-specific fixed effects in model 4.

The results of control variables are in line with theoretical expectations. Income and population exert negative effects on US support, but regime type, US allies, and trading partners receive US support in the IDOs. For instance, we find a strong positive effect of the Polity IV regime-type index on the probability of US support, which is significantly different from zero at the 1% level. Interestingly, the UNGA voting alignment index is the one variable that has a substantially higher impact. For instance, holding all other variables constant at their mean, a point increase in the UNGA voting alignment index in favour of

Table 4 Impact of AIIB Membership on US Voting Patterns in MDBs: Interaction Effects

	(1) Yes vote	(2) Yes vote	(3) Yes vote	(4) Yes vote
AIIB membership X Chinese aid/GDP	1.570** (0.663)	1.704*** (0.656)		
AIIB membership X Chinese aid/DAC aid			0.134** (0.0600)	0.119** (0.0591)
Chinese aid/GDP	-0.846** (0.364)	-1.176*** (0.390)		
Chinese aid/DAC aid			-0.0554*** (0.0116)	-0.0656*** (0.0124)
AIIB membership	0.380*** (0.127)	0.118 (0.139)	0.288** (0.127)	-0.00259 (0.140)
Per capita GDP (log)	-0.466*** (0.0698)	-0.616*** (0.0753)	-0.392*** (0.0797)	-0.532*** (0.0852)
Population (log)	-0.225*** (0.0525)	-0.197*** (0.0572)	-0.217*** (0.0543)	-0.164*** (0.0597)
Democracy polity index	0.0341** (0.00875)	0.0362** (0.00896)	0.0317** (0.00900)	0.0327*** (0.00924)
US exports (log)	0.186*** (0.0380)	0.170*** (0.0433)	0.186*** (0.0389)	0.161*** (0.0446)
UNGA voting alignment index	1.534*** (0.316)	1.218*** (0.339)	1.329*** (0.323)	1.008*** (0.348)
US aid (log)	-0.0142 (0.0120)	-0.00499 (0.0126)	-0.0133 (0.0290)	-0.0205 (0.0297)
Constant	7.636*** (1.133)	8.482*** (1.205)	7.046*** (1.310)	7.851*** (1.391)
Estimator	Logit	Logit	Logit	Logit
Year fixed effects	Yes	Yes	Yes	Yes
IDO fixed effects	No	Yes	No	Yes
Number of IDOs	12	12	12	12
Number of countries	122	122	115	115
Total observations	4999	4990	4762	4753

Note: Standard errors in parenthesis. Statistical significance: *** $p < 0.01$, ** $p < 0.05$, and * $p < 0.1$

the USA is associated with a 395% increase in the chances of US support in IDOs—around five times higher than the effect of the AIIB membership variables alone. In fact, this result accords with the existing literature on the USA of aid to influence votes at the UNGA.¹³⁰ Notice that the UNGA voting alignment index is statistically significant at the 5% level in Models 3 and 4. Controlling for country-specific dummies thus attenuates the effects of UNGA voting alignment.

In Table 3, we present the results with IV estimations. In model 1, we include country and year fixed effects. In model 2, along with country and year fixed effects we also plug in IDO fixed effects, respectively. As seen from model 1, once again the impact of AIIB membership on the probability of the USA voting “yes” in IDOs is positive and significantly different from zero at the 5% level in both models. Two key findings can be reported from the IV results in Table 3. First, results on AIIB membership remain robust, even after correcting for endogeneity. Second, it is noteworthy that the substantial effects of AIIB membership are

¹³⁰ Byungwon Woo and Eunbin Chung, “Aid for Vote? United Nations General Assembly Voting and American Aid Allocation,” *Political Studies*, Vol. 66, No. 4 (2018), pp. 1002–26; Dreher, Sturm, and Vreeland, “Development Aid and International Politics”; Dreher and Sturm, “Do the IMF and the World Bank Influence Voting in the UN General Assembly?”.

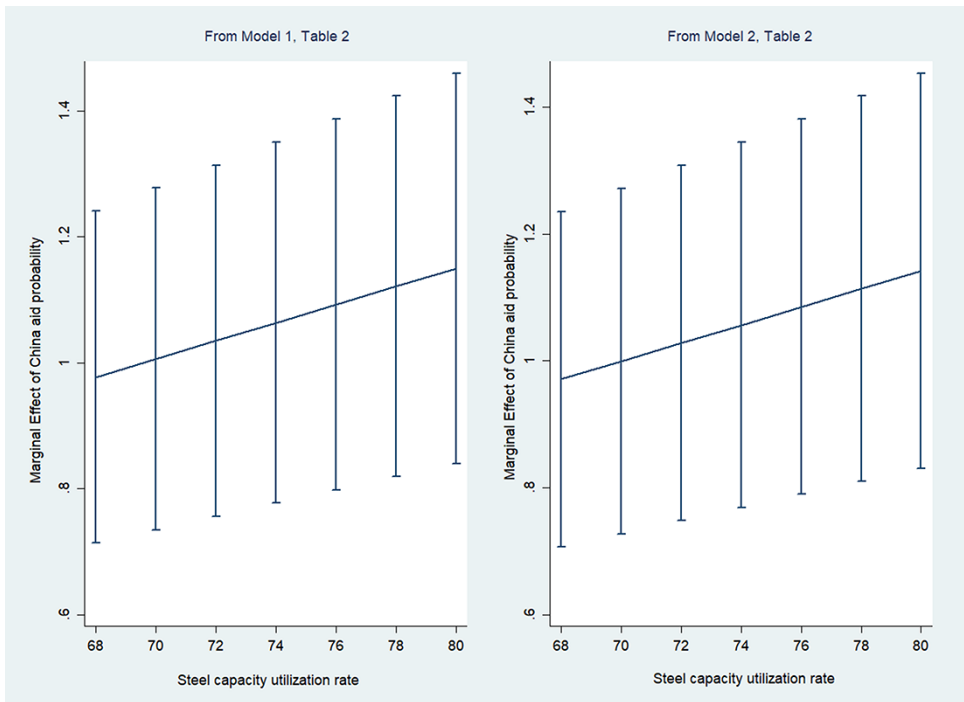


Fig. 3. Visualised Effect of the IV on AIIB Membership

substantially greater than those reported in linear probability models (in models 3 and 4) in Table 2. These results remain robust when controlling for country-, year-, and IDO-specific fixed effects in Table 3. The substantive effects suggest that AIIB membership is associated with an 81% increase in the chance of US support in IDOs, compared with only 4% in the linear probability models in Table 2. Such results suggest that the linear probability models might under-estimate the effects of AIIB membership.

We know that the results from IV estimations hinge on the assumption that our identification strategy is valid. To examine the validity of our identification strategy, therefore, we present the first-stage regression results from predicting AIIB membership in the bottom-end of Table 3. As seen in models 1 and 2, we find a positive effect of the IV on AIIB membership, suggesting that countries were likely to participate in China-led programmes in the past when the capacity utilisation of China's steel production was high. The interactive effect of the IV is best assessed through the margins plot depicting the magnitude of the interaction effect in Figure 3.

To calculate the marginal effect of China aid probability, we consider the conditioning variable (capacity utilisation) and display graphically the total marginal effect conditional on the capacity utilisation rate. The y-axis displays the marginal effect of the probability of China aid, while the marginal effect is evaluated through the capacity utilisation rate variable on the x-axis. As seen from both models in Figure 4, the Chinese aid probability in the past, when the capacity utilisation rate of steel production in China tends to increase, increases the likelihood of AIIB membership. These results are on expected lines and are supported by previous studies.¹³¹ Furthermore, we obtained a *joint F-statistic*

¹³¹ Brazys and Vadlamannati, "Aid Curse with Chinese Characteristics?"; Dreher, Fuchs, Hodler, Parks, Raschky, and Tierney, "African Leaders and the Geography of China's Foreign Assistance"; Dreher, Fuchs, Parks, Strange, and Tierney, "Aid, China, and Growth"; Vadlamannati, Li, Brazys, and Dukalskis, "Building Bridges or Breaking Bonds?".

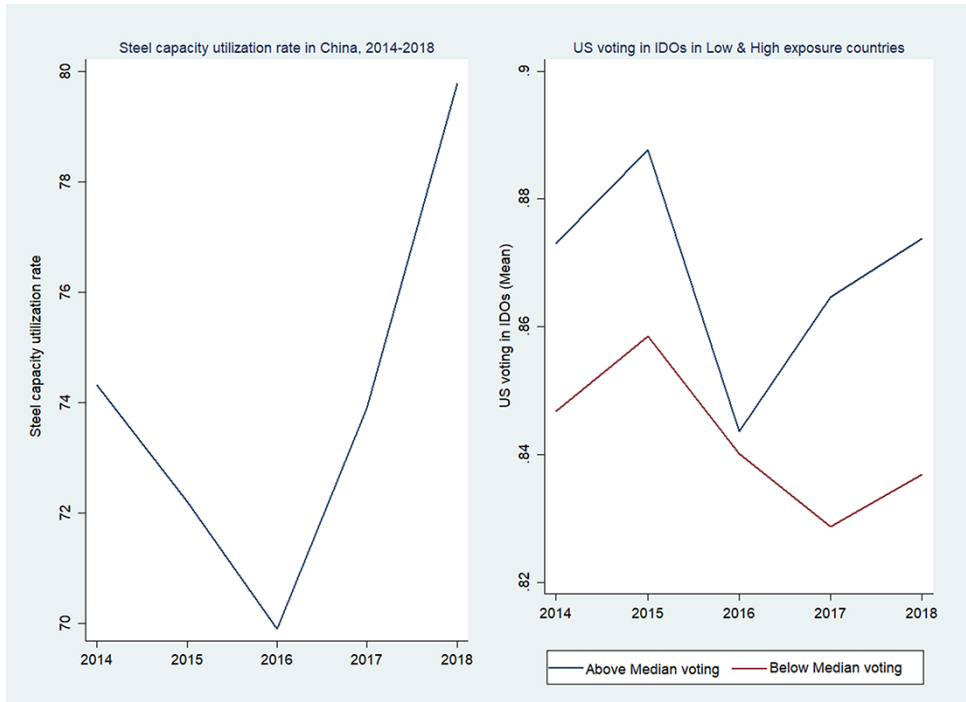


Fig. 4. Parallel Trends of US IDO Voting in High and Low Exposure States and Steel Capacity Utilisation Rate

and *Kleibergen–Paap F-statistic* of above 10 in models 1 and 2, which remain significantly different from zero at the 1% level. These additional statistics on instrument relevance from the first-stage regressions reject the null hypothesis that the instrument selected is not relevant.

With respect to the excludability of our IV, in Figure 3 we plot the parallel trends in the US voting record of IDOs in countries with high and low exposure to Chinese aid against the exogenous variation in the capacity utilisation rate of steel production in China. The left-hand-side graph in Figure 4 displays the temporal evolution of the steel capacity utilisation rate in China, and the right-hand-side graph depicts US voting patterns in IDOs in countries that had high and low exposure to Chinese aid in the past. As seen, there is no clear-cut trend similarity between the capacity utilisation rate of steel production in China and US voting patterns at IDOs relative to countries with high or low exposure to Chinese aid in the past.

Taken as a whole, that our IV is plausibly excludable from US voting patterns at IDOs proves to be highly relevant in this instance. Overall, our results remain robust to addressing endogeneity concerns. The effects of the control variables are roughly the same as those reported in the baseline estimations in Table 2.

In Table 4, we introduce the interaction between AIIB membership and Chinese aid penetration in recipient countries using two measures, namely, the ratio of Chinese aid to total aid from the DAC and the share of Chinese aid in the recipient country's GDP. These variables account for the expectation, in deploying a dispositional balancing strategy, that the hegemon will target states in receipt of prioritised development finance from either China or the DAC. Models 1 and 2 report the interaction results of Chinese aid/GDP, and models 3 and 4 present the results of Chinese aid/DAC aid. In models 2 and 4, we control for IDO-specific dummies, along with year fixed effects.

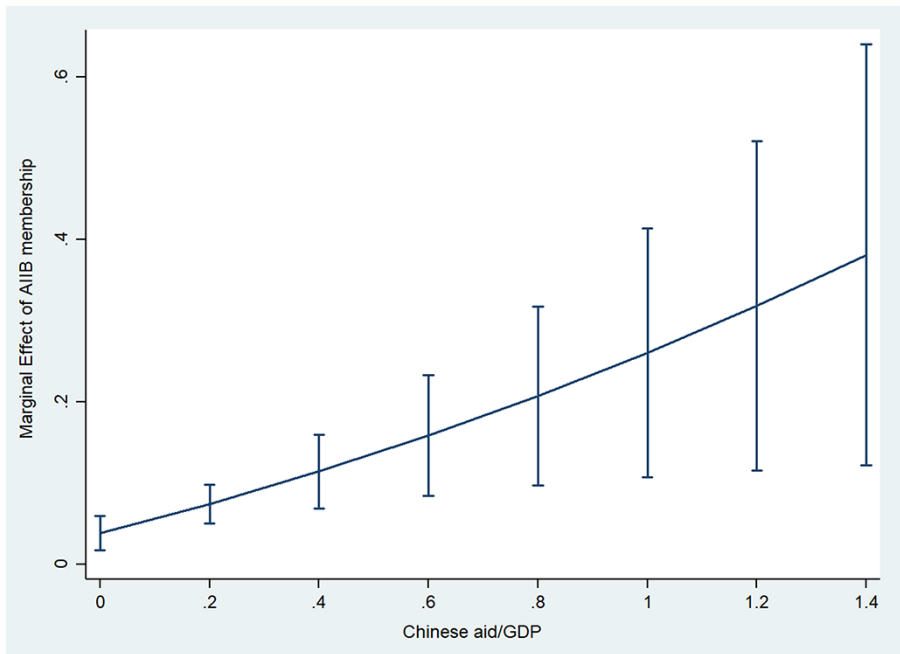


Fig. 5. AIIB Membership, Chinese Aid/GDP, and Marginal Effect on US Voting in IDOs (Model 1, Table 4)

As seen in models 1 and 2, the interaction term is positive and statistically significant at the 5% and 1% levels, respectively. In line with Hypothesis 2, when AIIB membership is set equal to 0, the Chinese aid/GDP measure has a significant negative effect on the US “yes” vote in IDOs (see models 1 and 2). However, Hypothesis 1 still holds because when Chinese aid/GDP is 0, the effect of AIIB membership on US voting patterns in IDOs is positive and remains statistically significant in model 1, while losing statistical significance in model 2. Note that the interpretation of the interaction term in non-linear models, such as the logit estimator, is not straightforward. Consequently, a simple *t*-test on the coefficient of the interaction term is not sufficient to examine whether or not the interaction term is statistically significant.¹³² Therefore, we rely on margin plots. The interactive effect is best assessed through a margins plot depicting the magnitude of the interaction effect from model 1 in Figure 5.

To calculate the marginal effect of AIIB membership on US voting patterns in MDBs, we consider both the conditioning variable (Chinese aid/GDP) and the interaction term and display graphically the total marginal effect conditional on Chinese aid/GDP. The y-axis of Figure 5 displays the marginal effect of AIIB membership, and the marginal effect is evaluated through the Chinese aid/GDP variable on the x-axis. We include the 95% confidence interval in Figure 5. As seen in Figure 5, and in line with Hypothesis 3, AIIB membership increases the probability of the USA supporting loan projects at various MDBs (at the 95% confidence level at least) in tandem with the tendency of Chinese aid to increase in the recipient country. For instance, the marginal effects suggest that, when Chinese aid stands at 1% of a recipient country’s GDP, AIIB membership increases the odds of the USA voting in favour of an IDO project by 30%.

¹³² Chunrong Aia and Edward C. Norton, “Interaction Terms in Logit and Probit Models,” *Economics Letters*, Vol. 80, No. 1 (2003), pp. 123–29.

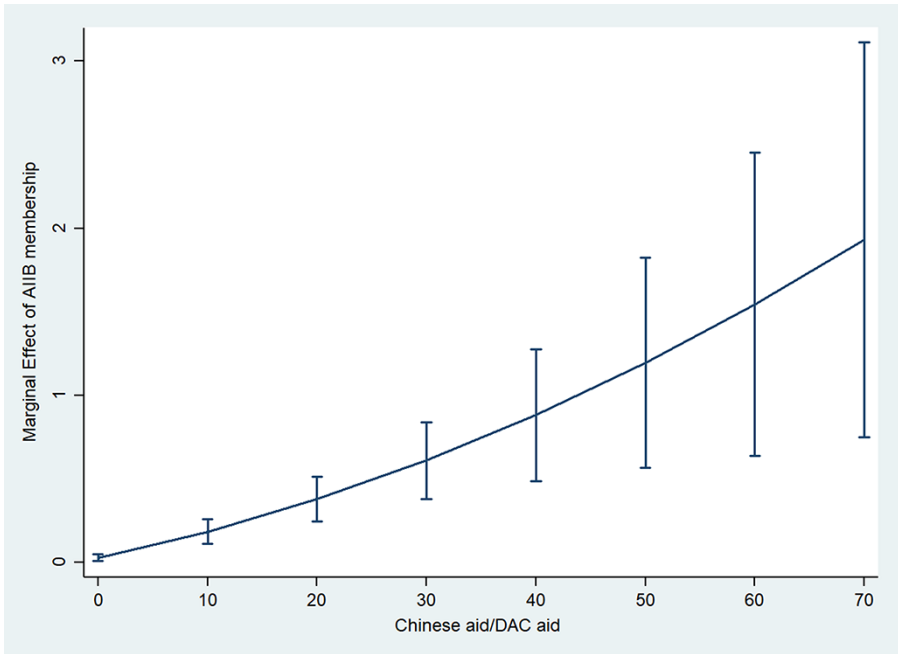


Fig. 6. AIIB Membership, Chinese Aid/GDP, and Marginal Effect on US Voting in IDOs (Model 3, Table 4)

At the maximum bound of Chinese aid/GDP, which is around 1.4%, the effect of AIIB membership on the probability of a US “yes” vote in an IDO is roughly 47% and significantly different from zero at the 1% level.

We also report the margins plot, which depicts the magnitude of the interaction effect of AIIB membership and Chinese aid/DAC aid from the model in model 3, Table 4, shown in Figure 6. As seen, joining the AIIB increases the probability of the USA supporting loan projects at various IDOs (at the 95% confidence level) when there is a tendency for Chinese aid as a share of DAC aid in the recipient country to increase.

The marginal effects suggest that AIIB membership increases the odds of the USA voting in favour of an IDO project by 230% when Chinese aid/DAC aid stands at 50%, which is significantly different from zero at the 1% level. These results are similar to those reported in Figure 4 and suggest that the AIIB initiative might prompt the largest US response when the tendency is for China’s engagement with the target country to increase.

Robustness Checks

We examine the robustness of our findings in several ways. We report the regression results tables and discussion on the results of all robustness tests in the [Online Appendix supplementary files](#). We provide a quick summary of robustness tests here.

First, we use alternative estimation techniques to reassess our baseline estimations by utilising ordered logit and multinomial logit estimators. Next, we estimate our IV models through using alternative instruments. We also re-estimate our IV models in Table 2 by controlling for country-, year-, and IDO-specific fixed effects and probability aid variables. Finally, we have also estimated a kitchen sink model wherein to control a range of other variables. Our main results remain robust to these robustness checks.

Conclusion

From an American perspective, the logic of dispositional balancing in financial statecraft entails emphasising ties with those actors that are subject to China's development finance, and which hence have the disposition to change sides and eventually display loyalty, depending on the incentives that each power offers. Attracting allies is crucial for the emerging power in order to eventually challenge the hegemon's status and order amid a state of international flux. Retaining allies, in turn, represents the hegemon's main opportunity to retain its status within the existing order. In this paper, we have sketched out a theory of dispositional balancing through logit and linear regression analysis. The results show that the USA responds to Chinese power expansion through provision of development finance by supporting IDO projects that target AIIB members, particularly those highly dependent on Beijing's aid, and where China competes most with DAC donors. Results remain statistically significant, once we address endogeneity concerns.

The focus of this article having been on theory building, future research must directly confront the mechanisms of dispositional balancing with other forms of soft balancing, or even hard balancing, in the form of military alliances and aid that also reflect the contest between the hegemon and the emerging power. Particular attention should be paid to the role that regional and medium-sized powers play in driving hegemonic and emerging power behaviour towards dispositional balancing. That is the case because "[a] superpower is sought as an ally against the more imminent threats that arise from other states within the region."¹³³ Moreover, those powers hypothetically refrain from bandwagoning with either the hegemon or the emerging power because both have the assets needed to hedge their position as pivot states in the international order.¹³⁴ The apparent and growing perception that Beijing has been displaying arrogant behaviour in regard to the developing world, particularly through debt-trap strategies within its neighbourhood, suggests that such an agenda for inquiry is in line with the contemporary challenges of world politics. As the debt trap related to BRI loans expands,¹³⁵ incentives might arise for borrowers to sever ties with Beijing, thus opening the door to Washington, and under less costly terms than those during the period under analysis. Another potential research avenue consists in unfolding the potential weaponisation¹³⁶ of US-sponsored IDOs—particularly MDBs—as a means of ensuring that such IGOs continue to be vehicles for the diffusion of liberal values and, hence, preservation of the current international order.

Moreover, in corroborating the generalisations of the argument, it is worth analysing qualitatively whether or not US dispositional balancing also targets NDB members. Throughout the 2010s, Washington pursued stronger diplomatic ties with Brazil and India. Russia—which is also a NDB member—could indeed serve as a case in point to demonstrate the limits of dispositional balancing. Perhaps, this strategy falls short of effectiveness in targeting states with long-standing rivalries with the USA and the core members of its alliance, however. Generalisation claims would also benefit from further corroboration that considers economic statecraft dimensions other than the financial one. Trade-related issues appear as the most appropriate choice for developing external validity tests. In this vein, an eventual US reaction against the China-led Regional Comprehensive Economic Partnership through

¹³³ Stephen Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987), p. 171.

¹³⁴ Robert S. Chase, Emily B. Hill, and Paul Kennedy, "Pivotal States and U.S. Strategy," *Foreign Affairs*, Vol. 75, No. 1 (1996), pp. 33–51.

¹³⁵ Anna Gelpern, Sebastian Horn, Christoph Trebesch, Scott Morris, and Bradley Parks, "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments," Peterson Institute for International Economics Working Paper No. 21–7, 2021, <http://dx.doi.org/10.2139/ssrn.3840991>; Ammar A. Malik, Bradley Parks, Brooke Russell, Joyce Jiahui Lin, Katherine Walsh, Kyra Solomon, Sheng Zhang, Thai-Binh Elston, and Seth Goodman, "Banking on the Belt and Road: Insights from a New Global Dataset of 13427 Chinese Development Projects," Williamsburg, VA: AidData at William & Mary, 2021, <https://www.aiddata.org/publications/banking-on-the-belt-and-road>.

¹³⁶ Farrell and Newman, "Weaponized Interdependence".

existing trade arrangements would confirm the hegemon's preference for dispositional balancing over institutional balancing. The success of the Indo-Pacific Economic Framework, however, would signal a preference for the latter over the former. The Biden–Xi meeting in November 2022 suggests that the current stage of Sino–American relations speaks to the effectiveness of dispositional balancing in preventing order break-up, with the hegemon and the emerging power moving towards an era of “managing fierce competition.”¹³⁷

Actions in favour of DAC members imply that the USA still carries the burden of preserving hegemony and the liberal order while tolerating free-riding on the part of advanced industrial democracies, particularly those states that succeeded to the centres of colonial empires, yet which nevertheless have strong linkages with the developing states that used to be colonies. For the moment, it is no exaggeration to conclude that hindering the emerging power's efforts is a relatively low-cost strategy, but one which may face unforeseeable limitations amid the state of flux of world politics. However, such a scenario increases the chances that, even if the hegemon is unable to restore its bygone days of glory and systemic predictability and stability, its inevitable decline and the likely decay of its order will at least be postponed.

Supplementary data

Supplementary data is available at *The Chinese Journal of International Politics* online.

Conflict of interest statement. None declared.

¹³⁷ Andrew Restuccia, Ken Thomas, Chun Han Wong, and Keith Zhai, “Biden–Xi Talks Mark Shift in U.S.–China Ties toward Managing Fierce Competition,” *Wall Street Journal*, 15 November 2022, <https://www.wsj.com/articles/biden-xi-talks-mark-shift-in-u-s-china-ties-toward-managing-fierce-competition-11668534046>.