

The positive externalities of US–China institutional balancing in the Indo-Pacific

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The COVID-19 pandemic accelerated the international order transition, featuring intensified strategic competition between the United States and China, especially in the Indo-Pacific region.¹ A prevailing view of US–China competition is the ‘Thucydides trap’—rooted in power transition theory and suggesting that strategic competition between a rising power and the hegemon will inevitably lead to conflict in the international system.² Challenging this pessimistic and alarmist view, we propose a soft balancing argument—institutional balancing for peace—to emphasize the positive outcomes of the strategic competition between the US and China.³ We argue that hard balancing—military-orientated alliance-building and arms races—is just one side of the story of the strategic competition between the two nations. Because of deepening globalization, economic interdependence and nuclear deterrence in the international system, the US and China have engaged in

* This article is part of a special section in the January 2025 issue of *International Affairs* on ‘Soft balancing in the regions: causes, characteristics and consequences’, guest-edited by T.V. Paul, Kai He and Anders Wivel. An earlier version of the article was presented at the 2023 annual convention of the International Studies Association (ISA). The authors would like to thank T.V. Paul, Anders Wivel and the participants in the ISA panel for their constructive comments and suggestions. All errors are the authors’ own. The major idea of institutional peace theory in this article is primarily based on our forthcoming book, *The upside of US–Chinese strategic competition: institutional balancing and order transition in the Asia Pacific* (Cambridge, UK: Cambridge University Press, forthcoming). This project is funded by the Australian Research Council (DP230102158 and DP210102843). Kai He is an Associate Editor of *International Affairs*; this article was accepted for publication prior to his appointment

¹ Richard Haass, ‘The pandemic will accelerate history rather than reshape it’, *Foreign Affairs*, 7 April 2020, <https://www.foreignaffairs.com/articles/united-states/2020-04-07/pandemic-will-accelerate-history-rather-reshape-it>; Henry A. Kissinger, ‘The coronavirus pandemic will forever alter the world order’, *Wall Street Journal*, 3 April 2020, <https://www.wsj.com/articles/the-coronavirus-pandemic-will-forever-alter-the-world-order-11585953005>. (Unless otherwise noted at point of citation, all URLs cited in this article were accessible on 1 Oct. 2024.)

² Graham Allison, ‘The Thucydides trap’, *Foreign Policy*, 9 June 2017, <https://foreignpolicy.com/2017/06/09/the-thucydides-trap>. For power transition theory, see A. F. K. Organski, *World politics* (New York: Knopf, 1958). For different views, see Steve Chan, *Thucydides’s trap? Historical interpretation, logic of inquiry, and the future of Sino-American relations* (Ann Arbor, MI: University of Michigan Press, 2020); Huiyun Feng and Kai He, eds, *China’s challenges and international order transition: beyond ‘Thucydides trap’* (Ann Arbor, MI: University of Michigan Press, 2020); Steve Chan, Huiyun Feng, Kai He and Weixing Hu, *Contesting revisionism: the United States, China, and the transformation of international order* (Oxford: Oxford University Press, 2021); Kai He, Huiyun Feng, Steve Chan and Weixing Hu, ‘Rethinking revisionism in world politics’, *Chinese Journal of International Politics* 14: 2, 2021, pp. 159–86, <https://doi.org/10.1093/cjip/poab004>.

³ For an overview of soft balancing theory, see the introduction to this special section: T.V. Paul, Kai He and Anders Wivel, ‘Soft balancing in the regions: causes, characteristics and consequences’ *International Affairs* 101: 1, 2025, pp. 3–15, <https://doi.org/10.1093/ia/iaae286>.

international balancing through international institutions to compete for security, power and influence.⁴ Institutional balancing between the US and China has led to three positive externalities for the region: sustained institutional dynamism, new incentives for regional cooperation, and the provision of public goods, unintentionally fostering regional peace and prosperity in the long run.⁵

It is worth noting that other International Relations (IR) theories also offer contrasting perspectives on the pessimistic outlook of power transition theory regarding US–China competition. For instance, David Kang argues that most Asian countries have refrained from balancing against China owing to cultural factors, suggesting that an imminent conflict between the US and China may not be inevitable.⁶ Liberals and constructivists, such as G. John Ikenberry and Alastair Iain Johnston, also propose that US–China competition might not escalate into war because China could be either constrained by liberal rules or socialized by cooperative security norms.⁷ These existing optimistic arguments are based to varying degrees on an assumed ‘less intense’ competition between the US and China, owing to the absence of hard balancing against China or the evolving nature of China’s challenge. However, the resurgence of geopolitics and the escalating strategic competition between the US and China, particularly since Donald Trump’s first presidency, have challenged their optimistic views.⁸

In this article, adopting a realist approach, we acknowledge the increasing intensity of US–China competition. However, we suggest that it is crucial to unpack the nature of this competition by analysing both states’ respective balancing strategies. We argue that both the US and China have engaged in a hybrid balancing strategy, including both hard military balancing and soft institutional balancing, in their strategic competition.⁹ While acknowledging the importance of hard military

⁴ For institutional balancing, see Kai He, *Institutional balancing in the Asia Pacific: economic interdependence and China’s rise* (Abingdon and New York: Routledge, 2009); and Kai He, ‘Institutional balancing and International Relations theory: economic interdependence and balance of power strategies in southeast Asia’, *European Journal of International Relations* 14: 3, 2008, pp. 489–518, <https://doi.org/10.1177/1354066108092310>.

⁵ See Kai He and Huiyun Feng, *The upside of US–Chinese strategic competition: institutional balancing and order transition in the Asia Pacific* (Cambridge, UK: Cambridge University Press, forthcoming); Kai He, ‘The upside of the U.S.–Chinese competition’, *Foreign Affairs*, 14 July 2023, <https://www.foreignaffairs.com/united-states/chinese-competition-asia-stability-institutional-balancing>; Kai He, ‘China’s rise, institutional balancing, and (possible) peaceful order transition in the Asia Pacific’, *The Pacific Review* 35: 6, 2022, pp. 1105–34, <https://doi.org/10.1080/09512748.2022.2075439>. For a similar view, see Jeff D. Colgan and Nicholas L. Miller, ‘The rewards of rivalry: US–Chinese competition can spur climate progress’, *Foreign Affairs* 101: 6, 2022, pp. 108–19, <https://www.foreignaffairs.com/united-states/rewards-rivalry-us-china-competition-can-spur-climate-progress>.

⁶ David C. Kang, *China rising: peace, power, and order in East Asia* (New York: Columbia University Press, 2007). For a similar view but from a different perspective, see Steve Chan, ‘An odd thing happened on the way to balancing: east Asian states’ reactions to China’s rise’, *International Studies Review* 12: 3, 2010, pp. 387–412, <https://doi.org/10.1111/j.1468-2486.2010.00944.x>.

⁷ G. John Ikenberry, ‘The rise of China and the future of the West—can the liberal system survive?’, *Foreign Affairs* 87: 1, 2008, pp. 23–37, <https://www.foreignaffairs.com/articles/asia/2008-01-01/rise-china-and-future-west>; Alastair Iain Johnston, *Social states: China in international institutions, 1980–2000* (Princeton: Princeton University Press, 2008).

⁸ See Walter Russell Mead, ‘The return of geopolitics: the revenge of the revisionist powers’, *Foreign Affairs* 93: 3, 2014, pp. 69–79, <https://www.foreignaffairs.com/articles/china/2014-04-17/return-geopolitics>; and Hal Brands and Michael Beckley, *Danger zone: the coming conflict with China* (New York: W. W. Norton, 2022).

⁹ On hybrid balancing, see T.V. Paul, *Restraining great powers: soft balancing from empires to the global era* (New Haven, CT: Yale University Press, 2018); Ryuta Ito, ‘Hybrid balancing as classical realist statecraft: China’s balancing behaviour in the Indo-Pacific’, *International Affairs* 98: 6, 2022, pp. 1959–75, <https://doi.org/10.1093/ia/iiaac214>.

balancing, which relies on arms races and alliance-building, we focus on exploring how the US and China have employed various institutional balancing strategies against each other, as well as the consequences for the Indo-Pacific region.

There are four parts to this article. First, we introduce our argument for institutional balancing for peace (shortened to ‘institutional peace’)¹⁰ to explain 1) how states use two institutional balancing strategies—inclusive institutional balancing and exclusive institutional balancing—to compete with one another; and 2) what the positive externalities or unintended consequences are from institutional-balancing-based competition between states. Second, we apply the ‘institutional peace’ argument to examine the dynamics of institutional balancing between the US and China in Indo-Pacific security since the 2008 global financial crisis. We discuss institutional balancing between the US and China through major multilateral and unilateral security institutions, such as the various trilateral dialogue mechanisms, the Quad (Quadrilateral Security Dialogue), the Shangri-La Dialogue, the Conference on Interaction and Confidence-building Measures in Asia and the Shanghai Cooperation Organization.

Third, we explore the three unintended consequences or positive externalities that US–China institutional balancing has brought to the region. We argue that these positive externalities are potentially conducive to regional peace and prosperity in the long run. In conclusion, we argue that if the US and China can keep their strategic competition inside and between institutions and avoid the negative externalities of direct military confrontations, the potential order transition might be more peaceful than previous ones in history.

Institutional peace theory

The ‘institutional peace’ argument presumes that the deepening globalization and existing nuclear deterrence have changed the nature of the international order transition. Both the United States and China, as nuclear powers, will do their best to compete for power and influence, but at the same time, they will avoid direct military conflict because a nuclear showdown will destroy not only their adversaries, but also themselves. Therefore, international institutions, an important pillar of the international order, will become the focal point of competition among great powers, especially the United States and China, during the order transition.¹¹

Institutional peace theory is built on Kai He’s previous research on institutional balancing among states in the Asia–Pacific after the Cold War.¹² It suggests that the

¹⁰ For other usages of ‘institutional peace’, which emphasize the role of international law in constituting peace, see Oliver P. Richmond, *Peace: a very short introduction* (Oxford: Oxford University Press, 2023), ch. 6.

¹¹ Kai He and Huiyun Feng, ‘International order transition and US–China strategic competition in the Indo Pacific’, *The Pacific Review* 36: 2, 2023, pp. 234–60, <https://doi.org/10.1080/09512748.2022.2160789>.

¹² For example, see He, *Institutional balancing in the Asia Pacific*; and He, ‘Institutional balancing and IR theory’; Kai He, ‘Role conceptions, order transition and institutional balancing in the Asia-Pacific: a new theoretical framework’, *Australian Journal of International Affairs* 72: 2, 2018, pp. 92–109, <https://doi.org/10.1080/10357718.2018.1437390>. For the theoretical application and extension of institutional balancing theory, see Kai He, ‘Contested regional orders and institutional balancing in the Asia Pacific’, *International Politics* 52: 2, 2015, pp. 208–22, <https://doi.org/10.1057/ijp.2014.46>; Kai He and Huiyun Feng, ‘Leadership transition and global governance: role conception, institutional balancing, and the AIIB’, *Chinese Journal of International Politics* 12: 2,

deepening economic interdependence in globalization and the gradual diffusion of power distribution in the system have encouraged states to pursue a new type of balancing behaviour—institutional balancing—to compete for power and influence in the anarchic international system, unlike the intense military balancing witnessed during the Cold War.¹³ As an important form of soft balancing, institutional balancing theory emphasizes how states have employed both ‘inclusive’ and ‘exclusive’ institutional instruments to compete with one another in world politics. Inclusive institutional balancing refers to an institutional strategy of binding and constraining a target state within the rules, agendas and practices of institutions. By contrast, exclusive institutional balancing means working to exclude a target state from a specific institution so that the target state will be isolated or pressured by the cohesion and cooperation of institutional grouping.¹⁴

It is worth noting that Kai He’s institutional balancing theory shares a key argument with the soft balancing literature, emphasizing the non-military nature of this behaviour.¹⁵ For example, exclusive institutional balancing differs from external balancing because the former relies on institutions—the non-military means to balance—while external balancing specifically refers to military alliance formation. However, exclusive institutional balancing, and soft balancing in general, could be seen as preparation for future hard balancing. This is why China is deeply concerned that the Quad—a current soft institutional balancing grouping—could potentially evolve into a multilateral military alliance, often referred to as an ‘Asian NATO’, in the Indo-Pacific.¹⁶

As a theory of foreign policy, Kai He’s institutional balancing argument can explain various institutional balancing behaviours conducted by states in the international system.¹⁷ It does not, however, account for the outcome of state

2019, pp. 153–78, <https://doi.org/10.1093/cjip/poz003>; Seungjoo Lee, ‘Institutional balancing and the politics of mega-FTAs in East Asia’, *Asian Survey* 56: 6, 2016, pp. 1055–76, <https://doi.org/10.1525/AS.2016.56.6.1055>; and See Seng Tan, ‘When giants vie: China–US competition, institutional balancing, and East Asian multilateralism’, in Huiyun Feng and Kai He, eds, *US–China competition and the South China Sea disputes* (Abingdon and New York: Routledge, 2018), pp. 116–33; Jingdong Yuan, ‘Beijing’s institutional-balancing strategies: rationales, implementation and efficacy’, *Australian Journal of International Affairs* 72: 2, 2018, pp. 110–28, <https://doi.org/10.1080/10357718.2018.1444015>; Sovinda Po and Christopher B. Primiano, ‘Explaining China’s Lancang-Mekong cooperation as an institutional balancing strategy: dragon guarding the water’, *Australian Journal of International Affairs* 75: 3, 2021, pp. 323–40, <https://doi.org/10.1080/10357718.2021.1893266>.

¹³ T.V. Paul suggests that soft balancing, including institutional balancing, has been a viable strategy for states since the post-Napoleonic era: Paul, *Restraining great powers*. In this article, we emphasize that institutional balancing is a ‘new’ balancing strategy compared with the prevailing hard balancing strategy in the Cold War.

¹⁴ He, *Institutional balancing in the Asia Pacific*; and He, ‘Institutional balancing and IR theory’.

¹⁵ For soft balancing, see Robert A. Pape, ‘Soft balancing against the United States’, *International Security* 30: 1, 2005, pp. 7–45, <https://doi.org/10.1162/0162288054894607>; T.V. Paul, ‘Soft balancing in the age of US primacy’, *International Security* 30: 1, 2005, pp. 46–71, <https://doi.org/10.1162/0162288054894652>; and the introduction to this special section: Paul, He and Wivel, ‘Soft balancing in the regions’.

¹⁶ Bhavan Jaipragas and Tashny Sukumaran, ‘“Indo-Pacific NATO”: China’s Wang Yi slams US-led “Quad” as underlying security risk at Malaysia meeting’, *South China Morning Post*, 13 Oct. 2020, <https://www.scmp.com/week-asia/politics/article/3105299/indo-pacific-nato-chinas-wang-yi-slams-us-led-quad-underlying>. For US–China strategic competition and major actors’ responses in the Indo-Pacific region, see Kai He and Mingjiang Li, ‘Understanding the dynamics of the Indo-Pacific: US–China strategic competition, regional actors, and beyond’, *International Affairs* 96: 1, 2020, pp. 1–7, <https://doi.org/10.1093/ia/iizz242>; and Kai He and Huiyun Feng, ‘The institutionalization of the Indo-Pacific: problems and prospects’, *International Affairs* 96: 1, 2020, pp. 149–68, <https://doi.org/10.1093/ia/iizz194>.

¹⁷ He, *Institutional balancing in the Asia Pacific*; and He, ‘Institutional balancing and IR theory’.

behaviour, which requires a theory of international politics.¹⁸ Institutional peace theory, proposed by this research, is a natural extension of the institutional balancing scholarship from foreign policy analysis to the field of International Relations. If Kai He's institutional balancing theory explains *why* and *how* states make use of international institutions to balance for power, security and influence, the 'institutional peace' argument presented in this article aims to address the 'so what' question—that is, so what impact does institutional competition between the US and China in the form of institutional balancing have on potential order transition in the international system?¹⁹ A direct outcome of intense institutional balancing is the production of diplomatic stalemates and even exacerbated strategic rivalries among states. Nonetheless, this rivalry and competition remain confined to the realm of institutions, which is fundamentally distinct from military conflicts. In other words, while states may engage in competition for the leadership and regulation of institutions, the principle of mutually assured destruction (MAD) under nuclear deterrence might prevent them from using force to accomplish their objectives.²⁰

Institutional peace theory posits that institutional balancing between two major powers can produce three positive externalities for the region.²¹ The first beneficial outcome is the increased dynamism of international institutions, which helps maintain their relevance and effectiveness within the international system. The competitive nature of institutional balancing can result in 'institutional Darwinism', where underperforming institutions are replaced by more effective ones.²² This competition-induced Darwinism also prompts institutions to reform, preventing functional stagnation and decline. For example, existing institutions might introduce new functions to address previously unaddressed issues. Additionally, new institutions may emerge to tackle those issues, potentially replacing older ones. In essence, competition among institutions driven by institutional Darwinism forces states to stay alert and to continuously reform and improve existing institutions to prevent their decline within the international system.

The second beneficial effect of institutional balancing as a positive externality is the increased focus on regional cooperation by the United States and China. To outcompete each other in this institutional rivalry, both nations will need to garner support and followers. As a result, the US and China will invest significantly in fostering strong relations with various regional powers. This will lead both coun-

¹⁸ For the difference and debate between foreign policy and international politics, see Colin Elman, 'Horses for courses: why not neorealist theories of foreign policy?', *Security Studies* 6: 1, 1996, pp. 7–53, <https://doi.org/10.1080/09636419608429297>; and Kenneth N. Waltz, 'International politics is not foreign policy', *Security Studies* 6: 1, 1996, pp. 54–7, <https://doi.org/10.1080/09636419608429298>.

¹⁹ See He and Feng, *The upside of US–Chinese strategic competition*.

²⁰ Without nuclear deterrence, states can certainly use military force to challenge institutional leadership and rules. For example, Japan challenged the authority (rules) of the League of Nations by invading Manchuria in 1931 and withdrawing from the League in 1933.

²¹ A related concept of the externality of US–China competition is internality, which refers to internal factors driving US–China competition, such as domestic politics and nationalism.

²² T. J. Pempel, 'Soft balancing, hedging, and institutional Darwinism: the economic–security nexus and east Asian regionalism', *Journal of East Asian Studies* 10: 2, 2010, pp. 209–38, <https://doi.org/10.1017/S159824080003441>.

tries to prioritize issues that previously held low importance on their agendas, including various non-traditional security concerns. The intensified competition between the US and China will drive enhanced regional cooperation on specific issues. In other words, their rivalry will inadvertently foster greater cooperation with regional actors, ultimately benefiting regional development and security.

Finally, the third externality is known as ‘public goods competition’, which is connected to the second externality but encompasses a wider range of issues. To gain support from secondary regional powers, the US and China are increasingly incentivized to compete in providing public goods, either on their own or through institutions. This competition in public goods provision will result in the replacement of existing public goods that were initially supplied by hegemonic or dominant states during the early stages of institutional formation. Emerging powers will need to offer new types of public goods to replace the old ones, while dominant states will also need to provide new public goods to attract followers.²³ Consequently, institutional balancing among states during periods of order transition can lead to an overall increase in public goods, which can facilitate a peaceful transition in the international order.

US–China institutional balancing in Indo-Pacific security

In order to test the validity of institutional peace theory, we examine US–China institutional balancing in the security arenas in the Indo-Pacific after the 2008 global financial crisis.²⁴ The financial crisis is widely seen as the beginning of the decline of US hegemony and the potential transition of the international order driven by the ‘rise of the rest’.²⁵ Subsequently, strategic competition between the US and China intensified, driven by factors such as China’s assertive diplomacy and the US pivot or rebalance towards Asia—or, indeed, both.²⁶ Institutional balancing between the US and China in the Indo-Pacific has taken on a more exclusive nature, contrasting with the inclusive institutional balancing observed in multilateral institutions such as the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS), both led by ASEAN in the post-Cold War era.²⁷

²³ For a similar argument, see G. John Ikenberry, ‘Three worlds: the West, East, South and the competition to shape global order’, *International Affairs* 100: 1, 2024, pp. 121–38, <https://doi.org/10.1093/ia/iad284>. In Ikenberry’s words (p. 123), the struggle among the Three Worlds ‘could in fact be a creative struggle. The global West and global East will have incentives to compete for the support and cooperation of the global South. They will need to do so ... by offering enlightened sorts of global leadership, competing to be the better world for the provisioning of global public goods’ (emphasis in original). The US and China are the leaders of the global West and the global East respectively.

²⁴ This section is based on our forthcoming book, *The upside of US–Chinese strategic competition*.

²⁵ Fareed Zakaria, ‘The future of American power: how America can survive the rise of the rest’, *Foreign Affairs* 87: 3, 2008, pp. 18–43.

²⁶ For different views on China’s assertive diplomacy, see Kai He and Huiyun Feng, ‘Debating China’s assertiveness: taking China’s power and interests seriously’, *International Politics* 49: 5, 2012, pp. 633–44, <https://doi.org/10.1057/ip.2012.18>; Andrew Scobell and Scott W. Harold, ‘An “assertive” China? Insights from interviews’, *Asian Security* 9: 2, 2013, pp. 111–31, <https://doi.org/10.1080/14799855.2013.795549>; Alastair Iain Johnston, ‘How new and assertive is China’s new assertiveness?’, *International Security* 37: 4, 2013, pp. 7–48, https://doi.org/10.1162/ISEC_a_00115. For the US pivot or rebalance towards Asia, see Kurt Campbell, *The pivot: the future of American statecraft in Asia* (Boston, MA and New York: Twelve, 2016).

²⁷ For inclusive institutional balancing led by ASEAN in the Asia Pacific, see He, *Institutional balancing in the Asia Pacific*.

The United States took the lead in forming an exclusive institutional alliance to counterbalance China. Initially, the US proposed a US-led minilateral security arrangement with Australia, India and Japan to countervail China's regional influence.²⁸ Reports indicate that US Vice-President Dick Cheney was the first to suggest the Quad proposal to Australia's then prime minister, John Howard, in early 2007. Subsequently, Howard visited Japan to discuss the proposal with Prime Minister Shinzo Abe, who later travelled to India and Washington to finalize the first Quad meeting in May 2007.²⁹ In the same year, Australia, India, Japan and the US officially established the Quadrilateral Security Dialogue (or, as it soon became known, Quad 1.0) to address regional security concerns. However, Australia later withdrew from the group owing to fears of upsetting China.

Under the first Trump administration, the Quad 2.0 was revitalized in 2017 after high-level officials from the four nations attended a meeting of the EAS. The Quad 2.0 was subsequently elevated to the ministerial level in 2019. In March 2021 Quad leaders met virtually for the first time and committed to collaboratively addressing significant challenges in the Indo-Pacific region, implicitly referencing China's increasing influence and assertiveness. In addition, the Quad nations have conducted joint military exercises, including the Malabar naval exercises, to improve interoperability and showcase their commitment to maintaining a free and open Indo-Pacific. The Quad also launched initiatives in vaccine diplomacy, climate change and critical technology.³⁰ Reports suggest that the US' Free and Open Indo-Pacific strategy, and the escalating strategic rivalry between the US and China, could transform the Quad 2.0 into an Asian equivalent of NATO, with China as the primary adversary in the emerging security framework of the Indo-Pacific.³¹

The exclusion of China from the Quad serves as an example of exclusive institutional balancing by the US to counterbalance China. Although the Quad members officially deny that their security cooperation aims to contain China, the discussions clearly target China's growing influence, which poses a challenge to the US-led security order in the region.³² China has expressed significant anger over the US Indo-Pacific strategy and the revival of the Quad, with Chinese foreign minister Wang Yi having famously dismissed the Quad in 2018 as mere 'sea foam' and subsequently criticizing the US strategy as 'bound to be a failed strategy'.³³

²⁸ William T. Tow, 'Minilateral security's relevance to US strategy in the Indo-Pacific: challenges and prospects', *The Pacific Review* 32: 2, 2019, pp. 232–44, <https://doi.org/10.1080/09512748.2018.1465457>.

²⁹ Tanvi Madan, 'The rise, fall, and rebirth of the "Quad"', *War on the Rocks*, 16 Nov. 2017, <https://warontherocks.com/2017/11/rise-fall-rebirth-quad>.

³⁰ Adela Suliman, 'Biden meets "Quad" leaders as U.S., allies step up efforts to counter China', NBC News, 12 March 2021, <https://www.nbcnews.com/news/world/biden-set-first-summit-quad-leaders-u-s-steps-efforts-n1260721>.

³¹ Jagannath Panda, 'Making "Quad Plus" a reality', *The Diplomat*, 13 Jan. 2022, <https://thediplomat.com/2022/01/making-quad-plus-a-reality>.

³² Sheikh Saaliq and Aljaz Hussain, 'In India, top US diplomat calls China "elephant in the room"', AP News, 13 Oct. 2020, <https://apnews.com/article/china-india-foc2cbo68e962d9obe442ea80745961f>.

³³ Joel Wuthnow, 'China's shifting attitude on the Indo Pacific Quad', *War on The Rocks*, 7 April 2021, <https://warontherocks.com/2021/04/chinas-shifting-attitude-on-the-indo-pacific-quad>; He and Li, 'Understanding the dynamics of the Indo-Pacific'; Wang Yi: the U.S. Indo-Pacific strategy is bound to be a failed strategy', Ministry of Foreign Affairs, PRC, 22 May 2022, https://www.mfa.gov.cn/eng/wjzbzd/202205/t20220523_10691136.html.

In addition, the US has established a series of trilateral dialogues with its allies to strengthen security and diplomatic ties to countervail China's expanding influence in the region. One example is the US–South Korea–Japan trilateral ministerial dialogue, which began in December 2010 in Washington DC. This dialogue focuses on enhancing deterrence against North Korea's nuclear and missile programmes. In 2014, as part of the US' strategic rebalance towards Asia, President Barack Obama initiated the US–Japan–Republic of Korea Trilateral Summit at the US ambassador's residence in The Hague on 25 March 2014. This summit was the first meeting of leaders of the three nations in six years, and was also the first ever face-to-face meeting between Abe and South Korean President Park Geun-hye. The summit aimed to stabilize relations between Japan and South Korea, particularly concerning the dispute over wartime history and the 'comfort women' issue, while also coordinating the leaders' policies on North Korea, exerting pressure on China to contribute to North Korea's denuclearization.³⁴

At the 2022 trilateral summit, Japan, South Korea and the United States announced the formation of a Trilateral Partnership for the Indo-Pacific, based on shared values, innovation and a commitment to shared prosperity and security. They pledged unprecedented levels of trilateral coordination, opposed any unilateral changes to the status quo in Indo-Pacific waters and emphasized the importance of maintaining peace across the Taiwan Strait.³⁵ Although China was not explicitly named in the summit's joint statement, it was evident that the trilateral institutional balancing mechanism was aimed at countering China's influence and potential actions in the region, particularly with respect to Taiwan.

Other trilateral ministerial dialogues initiated in the past two decades have included the Australia–Japan–United States Trilateral Strategic Dialogue, which held its first meeting in March 2006 in Sydney; the US–India–Japan Trilateral Ministerial Dialogue, launched in September 2015 in New York; and, most recently, the US–Japan–Philippines trilateral summit held in April 2024 in Washington DC. These dialogues explicitly aim to maintain regional stability and security while implicitly countering China's growing assertiveness in the Indo-Pacific. For instance, during the August 2022 iteration of the Australia–Japan–United States Trilateral Strategic Dialogue, the countries expressed concern over China's large-scale military exercises following the visit to Taiwan of Nancy Pelosi, then speaker of the US House of Representatives, and condemned China's launch of ballistic missiles, some of which landed in Japan's exclusive economic zones, raising regional tensions.³⁶ China's embassy quickly responded, accusing

³⁴ Scott A. Snyder, 'Obama's mission in Asia: bring the allies together', Council on Foreign Relations, 21 April 2014, <https://www.cfr.org/blog/obamas-mission-asia-bring-allies-together>; US Department of State, 'Joint statement on the U.S.–Japan–Republic of Korea trilateral ministerial meeting', 13 Feb. 2023, <https://www.state.gov/joint-statement-on-the-u-s-japan-republic-of-korea-trilateral-ministerial-meeting-2>. For the latest analysis, see Hanna Foreman and Andrew Yeo, 'Promise and perils for the Japan–South Korea–US trilateral in 2023', *The Diplomat*, 30 Jan. 2023, <https://thediplomat.com/2023/01/promise-and-perils-for-the-japan-south-korea-us-trilateral-in-2023>.

³⁵ The White House, 'Phnom Penh statement on US–Japan–Republic of Korea trilateral partnership for the Indo-Pacific', 13 Nov. 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/13/phnom-penh-statement-on-trilateral-partnership-for-the-indo-pacific>.

³⁶ Australian Minister for Foreign Affairs, 'U.S.–Australia–Japan trilateral strategic dialogue: joint statement',

the US of political provocation and criticizing Australia for reversing the right and wrong in the situation.³⁷

In addition to its institutional balancing measures, the US formed a new trilateral security partnership, AUKUS, in September 2021 with Australia and the United Kingdom. Unlike the non-military trilateral dialogues targeting China, AUKUS is a direct military response to China's rise, aiming to enhance deterrence against any regional threat that China might pose.³⁸ Under the AUKUS agreement, the US and UK will share nuclear technology and provide technical support to help Australia build nuclear-powered submarines. This will significantly bolster Australia's defence capabilities, countering China's growing naval power. Consequently, AUKUS is expected to enhance the US' military capabilities against China's expanding influence.³⁹ Although AUKUS represents a hard-balancing ambition owing to its military nature, its future remains uncertain as the US shows reluctance to share sensitive information and technology, even with its allies.⁴⁰ Thus, until AUKUS demonstrates its military strength, it will mainly serve as an institutional balancing instrument against China's power in the region.

In response to the US' institutional balancing efforts, China has developed its own strategies to counter US pressure. In 2014 China revived the Conference on Interaction and Confidence-Building Measures in Asia (CICA), a multilateral security institution established by central Asian states in 1992 to balance against the US. Initially comprising 15 members including China, Russia and some central and west Asian states, CICA was not well known owing to its slow institutionalization. The first meeting of CICA foreign ministers was held in 1999 and the first summit took place in 2002. China's hosting of the fourth CICA summit in 2014 in Shanghai attracted the largest ever participation of heads of state and governments, bringing renewed attention to the organization.

At the 2014 CICA summit, Chinese President Xi Jinping proposed a new 'Asian security concept', emphasizing common, comprehensive, cooperative and sustainable security in Asia.⁴¹ He called for innovative security concepts and a new regional security cooperation architecture. Xi's speech highlighted that Asia should manage its own affairs and security, subtly suggesting that the US should reduce its involvement in the region. Although Xi did not mention the US explicitly, his message was clear: Asia should be for Asians, and the US should leave.⁴²

⁵ Aug. 2022, <https://www.foreignminister.gov.au/minister/penny-wong/media-release/us-australia-japan-trilateral-strategic-dialogue>.

³⁷ Jacob Greber and Andrew Tillet, 'Beijing gives a history lesson as it warns Australia over Taiwan', *Australian Financial Review*, 7 Aug. 2022, <https://www.afr.com/politics/federal/beijing-s-bizarre-history-lesson-as-it-warns-australia-over-taiwan-20220807-p5b7wv>.

³⁸ Vincent Ni, 'Cold War echoes as AUKUS alliance focuses on China deterrence', *Guardian*, 16 Sept. 2021, <https://www.theguardian.com/world/2021/sep/16/cold-war-echoes-as-aucus-alliance-focuses-on-china-deterrence>.

³⁹ 'AUKUS: UK, US and Australia launch pact to counter China', BBC News, 16 Sept. 2021, <https://www.bbc.com/news/world-58564837>.

⁴⁰ Demetri Sevastopulo, 'UK and Australia urge Washington to ease secrecy rules in security pact', *Financial Times*, 5 March 2023, <https://www.ft.com/content/45b9c2c9-f429-438c-8808-9cd92fdef27d>.

⁴¹ Xi Jinping, 'New Asian security concept for new progress in security cooperation', remarks at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia, 21 May 2014.

⁴² Xi, 'New Asian security concept for new progress in security cooperation'.

The US has observer status in CICA, rather, than formal membership. With more than half of CICA's members being—from a western perspective—authoritarian regimes, the forum has become a diplomatic tool for China to gain support from states with similar political systems.⁴³

The unity within CICA provides China with a platform to exert its soft power against US pressures. As the Obama administration (2009–2017) strengthened its bilateral alliances through its 'pivot to Asia', Xi promoted a multilateral security order based on cooperative security, endorsed by other CICA members. This competition between Obama's bilateralism and Xi's multilateralism in regional security reflects a clash of ideas between a dominant power and a rising one during a transition in the international order. It remains to be seen which approach will prevail, but China's CICA policy exemplifies its exclusive institutional balancing strategy against the US.

China's efforts to counter US influence in the security domain also extend to the establishment of the Shanghai Cooperation Organization (SCO) in 2001. The SCO, which evolved from the Shanghai Five, formed in 1996, includes China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan (the original Five) together with Uzbekistan. The organization focuses on countering terrorism, separatism and extremism, promoting regional economic cooperation and maintaining stability. China has used the SCO as a platform to advocate for a multipolar world order and counter US efforts to sustain a unipolar world order. For example, in their 2022 joint statement, the SCO countries reaffirmed their commitment to 'creating a more representative, democratic, just and multipolar world order based on the universally recognised principles of international law, multilateralism, equal, common, indivisible comprehensive and stable security, cultural and civilisational diversity'.⁴⁴ Moreover, at the 2022 SCO summit, Chinese President Xi publicly urged the need to 'prevent foreign powers from meddling in internal affairs and instigating "color revolutions"'.⁴⁵ The implicit messages of the SCO joint statement and Xi's call are aimed at challenging US unipolarity and interventionism.

As US–China competition intensifies, China has expanded the membership of the SCO in order to strengthen its influence against the US. For instance, India and Pakistan joined the SCO in 2017, making it the world's largest regional organization by population. This expansion increased China's influence in south Asia and bolstered its economic power in the region. Iran became a member of the SCO in 2023 and Belarus became its tenth member in July 2024.⁴⁶ Additionally, China has

⁴³ Jamil Anderlini, 'China reinvigorates regional clubs to counter US power', *Financial Times*, 20 May 2014, <https://www.ft.com/content/a01c11b8-e009-11e3-9534-00144feabdco>. For criticisms of AUKUS, see Hugh White, 'Fatal shores: AUKUS is a grave mistake', *Australian Foreign Affairs*, no. 20, 2024, pp. 6–50; Elizabeth Buchanan, 'Pit stop power: how to use our geography', *Australian Foreign Affairs*, no. 20, 2024, pp. 69–86; Andrew Davies, 'Sunk costs: our high-stakes gamble on nuclear-powered submarines', *Australian Foreign Affairs*, no. 20, 2024, pp. 87–100.

⁴⁴ 'The Samarkand Declaration of the Heads of State Council of the Shanghai Cooperation Organisation', 16 Sept. 2022, <https://eng.sectsc.org/documents/?year=2022>.

⁴⁵ See 'China-led SCO pushes multipolar world as Xi warns of "color" revolts', *Nikkei Asia*, 17 Sept. 2022, <https://asia.nikkei.com/Politics/International-relations/China-led-SCO-pushes-multipolar-world-as-Xi-warns-of-color-revolts>.

⁴⁶ Xinhua, 'SCO summit kicks off in Astana with Belarus joining association', 4 July 2024, State Council of

promoted economic integration within the SCO, launching initiatives to increase trade and investment among member states, such as the SCO Development Bank and the SCO Business Council.⁴⁷ These efforts aim to reduce reliance on the US-led global economic order and strengthen economic ties among SCO members.

Positive externalities—institutional dynamism, regional cooperation and public goods

The growing strategic rivalry between the United States and China in the Indo-Pacific has raised concerns about a potential security dilemma and escalating military tensions. However, competition between the two states through institutional balancing has also yielded some positive or unintended benefits for the region. The evolving multilateral mechanisms in the Indo-Pacific have prompted regional actors to reform existing institutions and develop new ones to maintain their relevance and institutional dynamism. Since the 2008 global financial crisis, major powers, notably the US and China, have engaged in multilateral and unilateral institution-building in the region. As a result, ASEAN-led multilateral institutions such as the ARF, APT (ASEAN Plus Three) and EAS have become marginalized within the regional security architecture. For instance, the ARF, which was intended to be the only security dialogue mechanism inclusive of all major powers in the Indo-Pacific, did not involve defence ministers in its meetings, leading to harsh criticism from external powers, especially the US.⁴⁸

In this context, ASEAN established the ADMM (ASEAN Defence Ministers' Meeting) to foster security cooperation and build trust among ASEAN member states. In 2010 the ADMM expanded to become the ADMM-Plus, incorporating defence ministers from the ten ASEAN member states (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand and Vietnam) and eight dialogue partners: Australia, China, India, Japan, New Zealand, Russia, South Korea and the US. Institutionalized as an annual meeting since 2017, the ADMM-Plus is seen as a milestone in reasserting ASEAN's leadership in regional security, although its effectiveness in mitigating US–China strategic tensions remains uncertain. Nonetheless, the ADMM-Plus provides a regular platform for defence ministers in the region to engage with each other.⁴⁹

Another institution addressing regional security issues is the Shangri-La Dialogue (SLD), established in 2002 by the International Institute for Strategic

the People's Republic of China, https://english.www.gov.cn/news/202407/04/content_WS66866147c6d-o868f4e8e8dco.html.

⁴⁷ 'SCO banks to prompt collaboration in key areas to boost regional economic recovery', *Global Times*, 24 Aug. 2022, <https://www.globaltimes.cn/page/202208/1273722.shtml>.

⁴⁸ See David Martin Jones and Michael L. R. Smith, 'Making process, not progress: ASEAN and the evolving east Asian regional order', *International Security* 32: 1, 2007, pp. 148–84, <https://doi.org/10.1162/isec.2007.32.1.148>; Lukas Maximilian Mueller, 'Challenges to ASEAN centrality and hedging in connectivity governance—regional and national pressure points', *The Pacific Review* 34: 5, 2021, pp. 747–77, <https://doi.org/10.1080/09512748.2020.1757741>.

⁴⁹ See Seng Tan, 'The ADMM-Plus: regionalism that works?', *Asia Policy* 22: 1, 2016, pp. 70–75, <https://doi.org/10.1353/asp.2016.0024>; also See Seng Tan, 'A tale of two institutions: the ARF, ADMM-Plus and security regionalism in the Asia Pacific', *Contemporary Southeast Asia* 39: 2, 2017, pp. 259–64.

Studies. Held annually at the Shangri-La Hotel in Singapore, the SLD is attended by defence ministers and military chiefs from 28 Asia–Pacific countries. In contrast to the ARF and ADMM-Plus, the SLD is not an intergovernmental organization, but rather a multilateral security forum, attended by defence ministers and military chiefs from the region. The SLD primarily addresses defence and security issues, making it an essential platform for discussing military and strategic matters.⁵⁰

The US supports the SLD as a counterbalance to China's influence, while China uses it to clarify its positions and respond to criticisms, particularly regarding the South China Sea disputes. The SLD thus serves as a platform for both the US and China to engage in the narrative competition over regional security. As Seng Tan suggests, the intense competition among multilateral institutions could lead to 'multilateralisms at war' in the Asia–Pacific.⁵¹ However, if institutional competition between the SLD and ADMM-Plus can enhance transparency, reduce strategic tensions and manage US–China rivalry, the revived dynamism of multilateralism will ultimately benefit regional security and prosperity.

The US–China strategic competition has also increased regional cooperation, especially on non-traditional security issues, which is the second positive externality of institutional balancing. Both countries seek to outbid each other by engaging regional actors in cooperative programmes with tangible benefits. China has significantly collaborated with ASEAN on non-traditional security through the ARF and ADMM-Plus.⁵² For example, at the first ADMM-Plus China ministerial meeting on disaster management, held virtually in October 2021, ASEAN and China adopted a work plan on disaster management, contributing to the implementation of the ASEAN Agreement on Disaster Management and Emergency Response work programme. In 2022, at the second meeting in the series, they agreed to establish the ASEAN–China Centre for Emergency Management Cooperation in Guangxi, China. China has also cooperated extensively with ASEAN on counterterrorism issues.⁵³ This cooperation addresses regional threats such as natural disasters, public health, terrorism, piracy and transnational crimes.⁵⁴

On traditional security concerns, such as the South China Sea territorial disputes, China has been negotiating a code of conduct (CoC) with ASEAN

⁵⁰ David Capie and Brendan Taylor, 'The Shangri-La Dialogue and the institutionalization of defence diplomacy in Asia', *The Pacific Review* 23: 3, 2010, pp. 359–76, <https://doi.org/10.1080/09512748.2010.481053>.

⁵¹ See Seng Tan, 'Multilateralisms at war? Competing visions of regional architecture in East Asia', in Stephen Aris, Aglaya Snetkov and Andreas Wenger, eds, *Inter-organizational relations in international security: cooperation and competition* (Abingdon and New York: Routledge, 2018), pp. 92–108.

⁵² David Arase, 'Non-traditional security in China–ASEAN cooperation: the institutionalization of regional security cooperation and the evolution of East Asian regionalism', *Asian Survey* 50: 4, 2010, pp. 808–33, <https://doi.org/10.1525/as.2010.50.4.808>; Xue Gong, 'Non-traditional security cooperation between China and south-east Asia: implications for Indo-Pacific geopolitics', *International Affairs* 96: 1, 2020, pp. 29–48, <https://doi.org/10.1093/ia/iiz225>.

⁵³ ASEAN Secretariat, 'ASEAN and the People's Republic of China commence negotiation to establish the ASEAN–China Centre for Emergency Management Cooperation (ACCEMC)', 20 Oct. 2022, <https://asean.org/asean-and-the-peoples-republic-of-china-commence-negotiation-to-establish-the-asean-china-centre-for-emergency-management-cooperation-accemc>.

⁵⁴ For an example of cooperation on anti-terrorism, see Rommel C. Banlaoi, 'Counterterrorism cooperation between China, ASEAN, and southeast Asian countries: current status, challenges, and future direction', *The China Review* 21: 4, 2021, pp. 141–70.

for several years. In 2015 China initiated the ASEAN–China Defence Ministers’ Informal Meeting, to promote defence cooperation.⁵⁵ In 2016 China and ASEAN signed a joint statement on the Code for Unplanned Encounters at Sea to enhance trust and prevent conflicts. In 2018 they reached an agreement on a single draft negotiating text for the CoC, to serve as a basis for future negotiations;⁵⁶ and in July 2023, ASEAN and China reached an agreement to accelerate negotiations for the CoC itself.⁵⁷ If China signs the CoC with ASEAN, it could significantly alter the security dynamics in the South China Sea. However, it is worth noting that the cooperation between China and ASEAN might not have been as vigorous and fruitful without the increasing competition between China and the US. In other words, US competition incentivizes China to seek cooperation with ASEAN, and the CoC is one concrete step in China’s ‘charm offensive’ towards ASEAN states.

Similarly, the United States has enhanced its cooperation with ASEAN to compete strategically with China. In 2009, during his first year in office, Obama became the first US president to meet with all ten ASEAN leaders as a group. That same year, the US signed the Treaty of Amity and Cooperation in Southeast Asia, and it officially joined the EAS in 2011. One motivation for doing so was to gain ASEAN’s support in regional matters. In 2010 the US became the first non-ASEAN country to establish a dedicated diplomatic mission and appoint a resident US Ambassador to the ASEAN Secretariat, based in Jakarta, Indonesia. Additionally, in 2011 the US established a dedicated military adviser/liason officer at its Jakarta mission to ASEAN.

In October 2013 the first ASEAN–US summit was held in Brunei, symbolizing efforts to elevate the partnership to a strategic level. Then, in 2014, US Secretary of Defense Chuck Hagel hosted his ASEAN counterparts at the first US–ASEAN Defense Forum, held in Hawai‘i, to discuss key strategic issues. In 2015 the US introduced a new technical adviser to ASEAN to enhance information-sharing on transregional threats.⁵⁸ By November of that year, US and ASEAN leaders had formally elevated their relationship to a ‘strategic partnership’ during a summit in Kuala Lumpur. A summit held in February 2016 in Sunnylands, California was the first stand-alone US–ASEAN summit to be held in the United States and marked a significant milestone in US–ASEAN relations.⁵⁹

During the first Trump administration (2017–21), US–ASEAN relations faced challenges owing to Trump’s unilateral and unpredictable foreign policies. For

⁵⁵ China Military Online, ‘China–ASEAN defense ministers’ informal meeting kicks off in Beijing’, Mission of the People’s Republic of China to ASEAN, 21 Oct. 2015.

⁵⁶ ASEAN Secretariat, ‘Priority areas of cooperation’, undated, <https://asean.org/our-communities/asean-political-security-community/peaceful-secure-and-stable-region/situation-in-the-south-china-sea/priority-areas-of-cooperation>.

⁵⁷ Ministry of Foreign Affairs of Indonesia, ‘ASEAN–China agree on guidelines to accelerate negotiations for the code of conduct in the South China Sea’, 13 July 2023, <https://asean2023.id/en/news/asean-china-agree-on-guidelines-to-accelerate-negotiations-for-the-code-of-conduct-in-the-south-china-sea>.

⁵⁸ U.S. Mission to ASEAN, ‘U.S.–ASEAN timeline’, 31 March 2022, <https://asean.usmission.gov/u-s-asean-timeline>.

⁵⁹ The White House, ‘Fact sheet: unprecedented U.S.–ASEAN relations’, 12 Feb. 2016, <https://obamawhitehouse.archives.gov/the-press-office/2016/02/12/fact-sheet-unprecedented-us-asean-relations>.

instance, Trump did not attend any EAS meetings during his presidency, raising concerns among ASEAN states. In February 2020, Trump postponed the planned ASEAN–US summit because of the global outbreak of COVID-19. Despite these setbacks in relations, Trump did not entirely alienate ASEAN, considering the strategic competition with China. In 2019 ASEAN introduced a strategy document, the *ASEAN Outlook on the Indo-Pacific*, which was viewed as a pro-US or slightly anti-China gesture by Chinese leaders, as China did not endorse the term ‘Indo-Pacific’ in its own official documents. ASEAN’s adoption of this term indicated alignment with the US in the narrative competition over the Indo-Pacific. The Trump administration welcomed this gesture, and publicly supported both ASEAN’s strategy document and its self-proclaimed ‘centrality role’ in the region.

As the administration of President Joe Biden sought to create a ‘grand alliance’ in its rivalry with China, ASEAN once again became a central focus of its Indo-Pacific strategy. In May 2022 the US hosted a US–ASEAN special summit at the White House, the first such event of its kind to be held in Washington. This summit aimed to ‘re-affirm the United States’ enduring commitment to Southeast Asia and underscore the importance of U.S.–ASEAN cooperation in ensuring security, prosperity, and respect for human rights’.⁶⁰ At the tenth annual US–ASEAN Summit in Phnom Penh, Cambodia, in November 2022, President Biden and ASEAN leaders announced the elevation of US–ASEAN relations to a comprehensive strategic partnership (CSP), highlighting the US’ prioritization of the Indo-Pacific and support for ASEAN’s central role in the regional architecture. Under the CSP, the US launched five new high-level dialogue processes focused on health, transportation, women’s empowerment, environment and climate, and energy, along with enhanced engagement in existing dialogue tracks on foreign affairs, economics and defence.

More concretely, the Department of State provided over US\$860 million in assistance to ASEAN countries in 2022 to support climate initiatives, clean energy transitions, access to education, strengthened health systems, security modernization efforts, the rule of law and human rights.⁶¹ The Department of Defense committed to invest approximately US\$10 million annually in establishing and supporting a new network of emerging defence leaders in south-east Asia.⁶² Although US–ASEAN cooperation benefits both sides, it is evident that competition with China is a key driver for the US to strengthen its strategic ties with ASEAN. Similar to China–ASEAN cooperation, US–ASEAN cooperation might not have reached its current level without the strategic competition between the US and China, particularly through institutional balancing.

⁶⁰ The White House, ‘Fact sheet: U.S.–ASEAN special summit in Washington, DC’, 12 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/12/fact-sheet-u-s-asean-special-summit-in-washington-dc>.

⁶¹ See Ayman Falak Medina, ‘U.S.–southeast Asia relations in the Biden era: a timeline’, 13 Sept. 2023, <https://www.aseanbriefing.com/news/u-s-southeast-asia-relations-in-the-biden-era-a-timeline/>.

⁶² The White House, ‘Fact sheet: President Biden and ASEAN leaders launch the U.S.–ASEAN comprehensive strategic partnership’, 12 Nov. 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/12/fact-sheet-president-biden-and-asean-leaders-launch-the-u-s-asean-comprehensive-strategic-partnership>.

Furthermore, the intense institutional competition encourages both the US and China to provide new public goods, particularly in infrastructure development, which will ultimately enhance regional security and prosperity. The rationale behind this competition is straightforward: both the US and China aim to expand their influence and outdo each other in regional affairs. To attract supporters, both countries need to offer public goods that enhance their credibility and international reputation. In 2013 China launched its Belt and Road Initiative (BRI) as a strategic effort to boost infrastructure and investment globally, from Asia to Europe. The global financial services firm Morgan Stanley estimates that by 2027 China will have invested between US\$1.2 trillion and \$1.3 trillion in BRI-related infrastructure projects.⁶³ According to the Council on Foreign Relations, the BRI is ‘one of the most ambitious infrastructure projects ever conceived’ and is viewed as China’s geo-economic strategy to expand its power and influence in the wake of the global financial crisis.⁶⁴

In addition to the BRI, China proposed the creation of the Asian Infrastructure Investment Bank (AIIB) in 2013, marking a significant challenge to the US-led global economic governance and the post-Second World War international economic order.⁶⁵ The AIIB was officially established in March 2015 with 57 founding members. From an institutional balancing perspective, China’s AIIB initiative represents its strategy to counter US-led global financial institutions, driven by its frustration with the delayed reforms of the International Monetary Fund (IMF). The establishment of the AIIB also signified a clear departure from the traditional international financial governance dominated by western powers, offering an alternative to existing global financial institutions like the World Bank and the IMF, which are led by the US and its allies.

The rise of China’s BRI and AIIB has triggered an ‘infrastructure hype’ in the Indo-Pacific, spurring competition among major powers such as Australia, Japan and the United States to provide aid, finance and assistance to infrastructure projects in developing Asia.⁶⁶ This institutional competition between the US and China has led to an unintended positive outcome, with these major powers offering public goods in terms of infrastructure finance to developing countries. For instance, in 2018 Australia and the US supported Tokyo’s ‘Quality Infrastructure’ concept, with Australia’s Export Finance and Insurance Corporation partnering with the US’ Overseas Private Investment Corporation and the Japan Bank for International Cooperation to offer joint financing for infrastructure projects in Asia. In 2019 Australia, Japan and the US established the trilateral ‘Blue Dot Network’

⁶³ ‘Inside China’s plan to create a modern Silk Road’, Morgan Stanley, 4 March 2018, <https://www.morganstanley.com/ideas/china-belt-and-road>.

⁶⁴ James McBride, Noah Berman and Andrew Chatzky, ‘China’s massive Belt and Road initiative’, Council on Foreign Relations, 2 Feb. 2023, <https://www.cfr.org/backgrounders/chinas-massive-belt-and-road-initiative>; see also Mingjiang Li, ‘The Belt and Road initiative: geo-economics and Indo-Pacific security competition’, *International Affairs* 96: 1, 2020, pp. 169–87, <https://doi.org/10.1093/ia/iizz40>.

⁶⁵ See Daniel McDowell, ‘New order: China’s challenge to the global financial system’, *World Politics Review*, 14 April 2015, <https://www.worldpoliticsreview.com/new-order-china-s-challenge-to-the-global-financial-system>; He and Feng, ‘Leadership transition and global governance’.

⁶⁶ Kai He, ‘The balance of infrastructure in the Indo-Pacific: BRI, institutional balancing and Quad’s policy choices’, *Global Policy* 12: 4, 2021, pp. 545–52, <https://doi.org/10.1111/1758-5899.12970>.

to promote high-quality, trusted standards for global infrastructure development, integrating public and private sectors to support infrastructure projects.⁶⁷

During the G7 summit held in 2021 in Carbis Bay, UK, President Biden introduced a new multilateral infrastructure initiative, the 'Build Back Better for the World' (B3W) partnership. This initiative was designed to offer a sustainable and comprehensive alternative to China's BRI, which has been criticized for its lack of transparency, environmental impact and potential to create 'debt traps'. The B3W initiative aimed to attract private sector investment for infrastructure projects in low- and middle-income countries, with a focus on climate change, health security, digital technology and gender equity. The US and its G7 partners pledged to promote a 'values-driven, high-standard, and transparent infrastructure partnership ... to help narrow the \$40+ trillion infrastructure need in the developing world'.⁶⁸ Unlike Trump, Biden took a multilateral rather than unilateral approach, with initiatives like B3W aiming to counteract China's expanding influence through the BRI and AIIB.

Although US-led initiatives are primarily intended to rival China's AIIB and BRI, they also provide crucial public goods like infrastructure financing and aid to developing countries in the region. Regardless of which country prevails in this infrastructure competition, the strategic balancing between China and the US will yield positive outcomes, including enhanced funding for infrastructure in developing nations, increased economic opportunities for regional powers, and improved environmental standards for infrastructure projects. Ultimately, the economic development of these nations will strengthen regional security and prosperity, fostering a more peaceful environment for future transitions in the international order.

Conclusion

This article conducts an in-depth analysis of the intricate dynamics of institutional balancing in the Indo-Pacific region between the United States and China in the post-global financial crisis era. It suggests three notable unintended positive externalities stemming from the institutional balancing endeavours of these two global powers. This article offers a 'corrective' to the prevailing alarmist view on US-China competition and encourages policy-makers to consider both sides of the coin, avoiding a self-fulfilling prophecy.

Academically, this article makes three contributions to the literature on soft balancing. First, the institutional peace argument proposed here is a natural extension of the institutional balancing theory developed by Kai He more than 15 years ago. To some extent, this research extends institutional balancing or soft

⁶⁷ Max Walden, 'What is the Blue Dot Network and is it really the West's response to China's Belt and Road project?', ABC News, 9 Nov. 2019, <https://www.abc.net.au/news/2019-11-09/blue-dot-network-explainer-us-china-belt-and-road/11682454>.

⁶⁸ The White House, 'Fact sheet: President Biden and G7 leaders launch Build Back Better World (B3W) partnership', 12 June 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership>.

balancing theory, traditionally applied to foreign policy, to the broader context of international politics. It moves beyond the questions of why and how states use institutions to balance towards the ‘so what’ question—the outcome of states’ institutional balancing in relation to potential order transition.

Second, by focusing on institutional balancing between the US and China, it broadens the application of institutional balancing theory in particular and soft balancing scholarship in general, from secondary powers to great powers. This implies that soft balancing is not solely a diplomatic tool for weaker states to manage stronger ones in international politics. Instead, it is a normal balancing strategy applied by all types of powers in world politics.

Third, while this article focuses on US–China institutional balancing in the security realm of the Indo-Pacific region, the institutional peace argument can be generalized to other issue areas and geographical regions. Beyond security, US–China competition spans political, economic, trade and technological domains. For instance, the US has initiated and intensified a trade and tech war against China since the first Trump administration (2017–2021). In addition to a unilateral approach, the US has pursued an exclusive institutional balancing strategy by establishing or proposing new exclusive groupings, such as the Indo-Pacific Economic Forum and the ‘Chip 4 Alliance’ (with Japan, South Korea and Taiwan), to address China’s economic challenge. While the intense competition between the US and China may have negative economic impacts on both countries, exploring the positive outcomes of US–China institutional balancing in the economic and tech arenas for the region is worthwhile. Similarly, the Indo-Pacific is not the sole battleground for US–China competition. Europe, Africa and Latin America have also become new arenas for rivalry between the two great powers. Therefore, other scholars are encouraged to apply both institutional balancing and institutional peace arguments, not only to elucidate the dynamics of US–China institutional competition across various issue areas but also to comprehend the unintended consequences of US–China competition across different regions.

While this article focuses on the positive externalities of institutional balancing, it is crucial to recognize the negative externalities that arise in the context of US–China rivalry. These adverse aspects include the escalation of competition, which, if poorly managed, can lead to diplomatic disputes, intensify strategic rivalries, and, in the worst case, result in full-scale military conflict. History shows that states often resort to military means when dissatisfied with institutional arrangements, as seen with Japan and Germany before the Second World War. Additionally, the heightened military and naval competition, as well as the possibility of limited or proxy wars in Taiwan or the South China Sea, could worsen the negative externalities of US–China rivalry. A critical test for the ‘institutional peace’ theory will be managing these military crises, avoiding violent escalations, and minimizing the negative impacts of US–China competition. To tackle these challenges, enhance the positive externalities of institutional balancing, and ensure a peaceful transition in the international order, two key conditions must be considered.

First, the United States and China need to collaborate to maintain the MAD principle as a deterrence strategy. MAD, based on the idea of deterring military confrontations through mutual nuclear vulnerability, has historically contributed to global stability. During the Cold War, it helped keep tensions ‘cold’ between the US and the Soviet Union (USSR). However, modern military technology developments challenge its continued effectiveness. Advances in cyber warfare, precision-guided weapons, artificial intelligence and asymmetric threats present new obstacles to traditional nuclear deterrence strategies. To sustain MAD as a deterrent, both the US and China must adapt to these changes and continue to exercise restraint, ensuring nuclear weapons remain a deterrent rather than a tool for war.

Second, the US and China must manage their ideological differences effectively. Recent US–China relations have seen increasing ideological tensions, which, if left unchecked, could polarize the world into opposing ideological blocs. Such a division could lead to proxy wars and regional conflicts, reminiscent of experiences in the ‘Third World’ during the Cold War between the US and the USSR. President Biden often framed the current world as being in ‘a battle between democracy and autocracy’.⁶⁹ Although the Communist Party of China is highly ideological domestically, President Xi avoids framing China’s competition with the US as an existential struggle between incompatible world-views when speaking internationally. While Biden sometimes took an ideological stance in foreign affairs, Xi prefers a more measured approach, akin to the martial art of *tai chi*, avoiding direct confrontation.⁷⁰ This approach reflects China’s willingness to avoid ideological clashes and suggests the possibility of a more peaceful transition in the international order. While tensions are inherent in the relationship between the world’s two most powerful countries, adhering to a strategy of institutional balancing and avoiding negative externalities could ensure that the benefits of institutional balancing outweigh the risks.

⁶⁹ Philip Bump, ‘The newly important American political axis: democracy vs. autocracy’, *Washington Post*, 18 March 2022, <https://www.washingtonpost.com/politics/2022/03/18/newly-important-american-political-axis-democracy-vs-autocracy>.

⁷⁰ He, ‘The upside of the U.S.–Chinese competition’.