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One Belt One Road As A Diversification Strategy:

An Alternative Explanation of Foreign Support for China’s Economic Leadership

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Abstract:

Since the inception of President Xi Jinping's regime, it is widely believed that he abandoned Deng Xiaoping's "hide your strength and bide your time philosophy", actively flexing China's muscles in multiple policy areas in the hope of shaping the international world order decisively in favor of his country, a rising superpower. Under this context, China launched an important economic project aimed at regional and Eurasia economic integration, the One Belt One Road Initiative. Backed by China's economic prowess and strong domestic nationalism, OBOR is widely seen as not just an international economic initiative, but also a part of Xi Jinping's efforts to bring about a China-centric world order, challenging the existing US-led system.

Contrary to popular belief, I approach the question of China's rise in a multi-polar context. I show that countries are signing up to China's OBOR not in anticipation of a Chinese world order, but simply as a diversification strategy to reduce dependency on the existing US system. I aim to demonstrate three things in this paper: First, although grievances over the existing US system are substantial, the appeal of OBOR nevertheless comes primarily from China's inherent economic strengths. Second, China's conservative economic policies would not extend into its future, and that a hypothetical Chinese economic leadership may not look so different from that of America's. Third, state leaders may be keenly aware of this development and thus do not perceive a China-centric system to be their solution for grievances over the existing US-led system. Fourth, under this context, countries dissatisfied with the status quo may be pushed to turn to all other major powers they can find to relieve themselves from the American shock.

Introduction:

In May 2017, hundreds of heads of state and high-level officials gathered in Beijing to attend the First One Belt One Road Forum. Regarded as President Xi Jinping's signature foreign policy project, One Belt One Road (OBOR) is widely interpreted as part of China's global ambition to supplant the United States and become the new world leader in the 21st century[1]. Both academic literature and media reports place OBOR at the center of the US-China conflict, often interpreting a country's stance toward OBOR as an indicator of its choice between the US and China. While the United States pioneers free democracy and economic liberalism, China is believed to be the opposite, symbolizing autocratic repression and a state-directed economy. Since the two countries differ drastically in their visions of the world, naturally, one may wonder: Why would countries sign up to a Chinese economic world order, distancing themselves from the US system?

To understand the puzzle, researchers look to China's comparative advantages for clues. Broz, Zhang, and Wang hypothesize that China's capital controls policies, unconventional from a western perspective, might have helped *pull* in followers to OBOR[2]. They argue that countries are *pushed* toward China by grievances over the current US-led international economic system and see China as their solution by promoting capital controls worldwide and creating a tightly regulated system distinct from that of America's liberal economic order[3].

[1] I thank Prof. Robert Gulotty at the University of Chicago for his guidance along the way. I thank Prof. J. Lawrence Broz at the University of California, San Diego, and Prof. Zhiwen Zhang at Sun Yat-sen University in Guangzhou (Zhuhai Campus), China, for their kind suggestions with my project.

[2] Broz, et al. 2020.

[3] Broz, et al. 2020.

While their point of view echoes popular perception in the west that portrays China as an antithesis of the US, the idea that China could rival the US and somehow bypass basic western economics on its way to a globalized economy is most likely ill-advised. In fact, this argument ignores actual policy development on the ground and vastly overestimates China's international appeal. China would probably not prove to be an exception to economics textbooks and would not stick with its current system of capital controls and heavy regulations if it were to become an advanced economy. This possible convergence between the Chinese economy and America's suggests that the world economic order may not be so different for the international community even if it were under Chinese leadership. Provided that countries are aware of such a scenario, they could not have supported OBOR in anticipation of a Chinese economic order different from that of America's.

I argue that countries are signing up to China’s OBOR project not necessarily in support of China’s economic leadership, but simply do so as a diversification strategy to reduce dependency on the existing US-led system. I seek to demonstrate that a hypothetical Chinese economic leadership would share fewer features with its conservative past, but more with the existing liberal approach advocated by the US. Assuming that state leaders bring such a possibility into their calculations, I seek to prove that grievances over the US-led system are driving countries not just to China, but also to other major powers as well. Overall, I would show that diversification, instead of supporting Chinese hegemony, could be the main contributor to China's OBOR.

Theoretical Discussion:

Strategic diversification is a common tactic for countries stuck between competing superpowers. Historically, when two superpowers engage in intensive competition, smaller countries could theoretically take advantage of this international context and extract better conditions for themselves. James and Imai show that during the Cold War, the intensity of the rivalry between the US and the USSR is positively associated with developing countries' bargaining power, thereby fortifying their positions in a negotiation relative to a major power[4]. Their conclusion is echoed by Bueno de Mesquita and Smith, who find that a developing country need not offer much policy concessions when both the US and the USSR sought to be its donor, relative to when the US was the sole major supplier of international aid[5]. The reason might be that countries caught between the competition of two major superpowers can play the powers off of one another, "receiving incentives from both powers and allying with neither"[6]. Evidently, for smaller countries, diversification is an attractive strategy amid great power competitions.

To prove that state leaders are signing up to China's OBOR as a diversification strategy, I seek to challenge two commonly held assumptions in recent IR literature, that state leaders see today's international system as a bipolar context between China and the US, and that a Chinese-centered economic system would have contrary practices to an American one. I agree that grievances with the US-led world order may have been driving countries into China's arms. Yet, I suspect that countries may also turn to other major powers, which possess international influence lesser, but nevertheless substantial, than the US and China, to mitigate their dilemma with the existing economic system. Furthermore, China's economic leadership may not look so

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[4] James and Imai, 1996.
[5] Bueno de Mesquita and Smith, 2016.
[6] James and Imai, 1996.

different from that of America's because the country is on track to liberalize its financial system. Therefore, it is questionable whether countries driven by grievances over the US-led financial system are supporting China's OBOR initiative in anticipation of a different economic world order with Chinese characteristics.

Bipolarity

Stemmed from the Cold War era, bipolarity often refers to power distributions within the international system in which two states are significantly more powerful than others[7]. Theoretically, the US and China could fit into this category: They are the largest and second largest economies in the world, and both far outweigh the third, being almost five times and three times the size of Japan's GDP respectively. Naturally, the dispute between the No.1 and No.2 economies of the world receives much attention. In his remark on the US-led liberal international world order, Mearsheimer predicts that the power struggle between the US and China would result in two separate systems engaging in vehement security competition while maintaining a thin layer of cooperation on selected matters[8]. On the other end of the Pacific, Chinese political scientist Yan Xuetong provides a similar account, suggesting that there would be a bipolar US-China system with alliances formed on an issue-by-issue basis rather than two comprehensive and enclosed rivalry blocs[9].

However, the possibility of a bipolar world order is unlikely in some views. Nye notes that even if China matches America's economic might, the world would not be bipolar because

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[7] Wagner, 1993.
[8] Mearsheimer, 2019.
[9] Yan, 2019.

of the importance of Europe and Japan[10]. Walt shares such a point of view when he predicts that the end of American hegemony could potentially result in “a multipolar system containing several unequal great powers”[11]. Interestingly, neither scholar believes that China could become a superpower equal to the present-day US in terms of international influence. Nye contends that China’s authoritarian system does not share the “soft power appeal of the 1950s Comintern” or that of Maoism which used to drive protesters to the streets internationally[12]. Furthermore, the internal power balance of Asia would make Chinese hegemony in the region extremely difficult: Both Nye and Walt note that the rise of China may send Asian states to ally with the US and counter Chinese influence collectively[13]. Together with a vast alliance and advantages in both hard and soft power, they believe that the US would remain the strongest nation regardless of the power distribution in the future[14]. A bipolar world in which China and the US stand as equal seems unlikely to Nye and Walt.

China’s Capital Control

China’s capital control policies have long been a hallmark of its economic system, differentiating itself from America's approach. Historically, the US often advocates “the Washington Consensus”, prioritizing free movement of capital and convertibility of exchange rate over independent monetary policy, which have led to complaints from developing countries about the “the Taper Tantrum”[15]: When the US Federal Reserve begins quantitative easing and

[10] See Sugeno, M. (2020, February 25). 'The future is not Asian': Joseph Nye. Retrieved July 05, 2021, from https://asia.nikkei.com/Editor-s-Picks/Interview/The-future-is-not-Asian-Joseph-Nye .
[11] Walt, 2011.
[12] Nye, 2020.
[13] Sugeno, 2020. Walt, 2011.
[14] Sugeno, 2020. Walt, 2011.
[15] Broz, Zhang and Wang, 2020.

releases large amounts of US dollars into the world, domestic currencies of emerging markets and current account deficits appreciate significantly. However, once the Fed signals the end of expansionary monetary policies, foreign capital would exit emerging markets and return to the US, causing currency depreciation, reserve losses, and stock market declines[16]. Evidently, capital flights related to US monetary policies have been a major concern under the US-led liberal international order.

China, on the other hand, has long adopted the opposite practices of capital controls, and a managed floating exchange rate regime. The country regulates every capital flow in and out of the country by the National Develop and Reform Commission and intervenes in the currency market to maintain RMB's exchange rate within a predetermined range, sacrificing integration into the international capital market for monetary independence and internal financial stability. While the "Washington Consensus" causes countries susceptible to US monetary policies, the Chinese approach is often credited to be the chief factor that helped China survive the East Asian Financial Crisis and the 2008 Financial Crisis relatively intact[17]. Given China's successes, scholars naturally hypothesize that a Chinese economic leadership may continue to adopt tight capital regulations and countries that suffer from financial instability would show support for China anticipating restrictive capital account policies in the future[18].

Nonetheless, there is considerable evidence against China's commitment to capital controls in the long term. In a recent publication, Yanliang Miao, the current chief economist at China's State Administration of Foreign Exchange Investment Center, writes that China intends

[16] Eichengreen and Gupta, 2015.
[17] Broz, Zhang and Wang, 2020.
[18] Broz, Zhang and Wang, 2020.

to establish a highly flexible and convertible capital account in the future[19]. Chinese officials recognize that theoretically, opening up the country's capital account can bring great benefits to the country, facilitating much-needed reforms in China's financial sector and RMB's internationalization. In 2002, the officials introduced the Qualified Foreign Institutional Investor program (QFII), to allow licensed international investors to invest in China's stock exchanges[20]. Over the years, the quota for QFII increased tremendously and was eventually eliminated in May 2020, allowing international investors to choose the currency, timing, and amount of investment so long as they register with relevant authorities[21]. With both inward and outward FDI on the rise, China seems to move steadily toward opening up its capital account.

China's liberalizing trend is keenly appreciated by international investors. No systematic study on China's commitment to capital account liberalization emerged in my search but there are substantial comments from financial institutions in America and Europe. Ernst & Young, a renowned American accounting and consulting firm, notes that China's recent mergers and adjustments to its financial regulatory agencies have greatly simplified regulatory structures and minimized "inconsistencies and sudden modifications to rule-making and policing"[22]. The firm credits Chinese agencies for "greater standardization of market entry rules to the removing of ambiguity around foreign [financial institutions'] entry policies", stating that "...China is determined and committed in efforts to liberalize its financial markets to the outside world"[23]. European financial institutions share similar optimism toward China's financial liberalization.

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[19] Miao and Deng, 2020.
[20] See https://www.investopedia.com/terms/q/qualified-foreign-institutional-investor-qfii.asp
[21] See the announcement from China's State Administration of Foreign Exchange. https://www.safe.gov.cn/en/2020/0507/1677.html Accessed July 05, 2021.
[22] "Financial liberalization in China: How inbound financial institutions should strategize". *Ernest & Young*, 2019. https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-financial-liberalization-in-china.pdf Accessed July 05, 2021.
[23] Ernest and Young, 2019.

The BBVA Group, a famous Spanish multi-national bank, says that China's latest round of reforms since 2018 could result in real breakthroughs due to domestic needs for reforms and external pressure from the US-China trade war[24]. In sum, the possibility that China would liberalize its capital account is much appreciated across the globe.

Quantitative Analysis:

Demystifying OBOR

Contrary to common belief around the OBOR, my contention is that countries are signing up for China's OBOR initiative, not in expectation of a Chinese economic world order that contrasts the American system. As illustrated above, there is substantial evidence arguing against the two prevalent assumptions, which are bipolarity and Chinese economic conservatism. Yet, on the other hand, Broz et al. find that greater dissatisfaction over the existing US-led international system would *push* countries to exhibit bigger support to OBOR by sending heads of states, instead of other lower-level officials, to attend China's First Belt and Road Forum in Beijing, 2017. How to reconcile the experiment with my substantive findings?

To examine the validity of the *push* theory, I turn to the Second Belt and Road Forum for clues. In 2019, China held a Second Belt and Road Forum in Beijing. This time the forum received greater participation from the international community than the first one, with thirty-seven state leaders and a-hundred-and-fifty countries represented at the meeting[25]. Of all the

[24] "China's Financial Liberalization: Time to Restart". *BBVA Research*, 2018. https://www.eulerhermes.com/en_global/news-insights/economic-insights/financial-liberalization-in-china-a-turning-point-.html Accessed July 05, 2021.
[25] China's Ministry of Foreign Affairs. (2019, August). *"一带一路"国际合作高峰论坛*. "一带一路"国际合作高峰论坛概况 - 中华人民共和国外交部.

participants, twenty-three countries attended both forums with another twenty countries attended only once. A list of participants is attached in the appendix section. Six countries, Argentina, Fiji, Poland, Spain, Sri Lanka, and Turkey only attended the first forum. And the second forum saw fourteen new members participating. Apparently, China's OBOR gained more momentum between the first forum and the second one.

For the *push* theory to hold, I hypothesize that dissatisfaction over the existing international financial system should still *push* countries to China, and thus would have contributed to leadership attendance for the Second Belt and Road Forum as well. For my dependent variable, I proxy a country’s support for OBOR with leadership participation in the Second Belt and Road Forum. OBOR is one of the most important international projects for China as for President Xi Jinping personally. With the US and China at odds on every front, state leaders attending the summit are keenly aware of the message they would send to the US and China, depending on the seniority of the emissary they dispatch. Furthermore, traveling to China and attending the summit in person requires time and effort. Compared with reading out an official statement at home, it is much more costly for national leaders to signal their support in-person to Xi Jinping, making their attendance much more meaningful.

I interpret cabinet-level attendance as a rather ambiguous stance toward OBOR and China. Diplomatically, cabinet ministers resemble less authority than national leaders, and thus should only signal a lesser degree of support, especially when other state leaders are present.

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https://www.fmprc.gov.cn/web/wjb_673085/zzjg_673183/gjjs_674249/gjzzyhygk_674253/ydylfh_692140/gk_692142/ Accessed Aug 2, 2021.

Attendance by low-level officials or non-attending, naturally, would most likely symbolize zero interest in the project.

I collected data on leadership participation for the Second Belt and Road Forum from the joint communique issued by all state leaders attending the forum, labeled ATTENDANCE, in which participation by the head of state would be coded as 1, and 0 for all else[26]. Like Broz et al., I collected data on minister-level attendance, labeled ORDERED ATTENDANCE, in which head-of-state attendance is coded as 2, minister attendance as 1 and lower-level officials and non-attending as a 0, based on China's Ministry of Foreign Affairs and internet search[27]. To reflect possible changes in the *push* factors between the first and second forum, I also updated key explanatory variables in Broz et al.'s experiment to 2018, one year prior to the Second Forum. I now move on to offer a brief introduction of the independent variables.

The first category of the explanatory variables is the *pull* variables, which measures China's inherent economic attractiveness. China's fast-growing economy and vast market size provide a strong incentive for countries to deepen economic cooperation with the country. Furthermore, OBOR provides countries with large amounts of Chinese investment in

[26] The Second Belt and Road Forum for International Cooperation. (2019, April 27). *Joint communique of the leaders' roundtable of the 2nd belt and road forum for international cooperation*. Joint Communique of the Leaders' Roundtable of the 2nd Belt and Road Forum for International Cooperation - Belt and Road Forum for International Cooperation. http://www.beltandroadforum.org/english/n100/2019/0427/c36-1311.html Accessed Aug 2, 2021.

[27] Chinese officials did not release an official guest list for minister-level officials. Thus, I collected the data from two sources: 1. China's Ministry of Foreign Affairs maintains a web page with each country that has a diplomatic relation with China. The page would document major exchanges between the two countries, and sometimes visits by key ministers would be documented. 2. A web search. Since there is not much information in English about the Second Belt and Road Forum, I searched "[country name]+minister/representative+Second Belt and Road Forum" in Chinese, on the Chinese search engine toutiao.com developed by Bytedance.

infrastructure development, offering immediate financial benefits for governments in need[28]. The enormous economic benefits *pulling* nations into China's orbit are represented by three *pull* variables, FTA WITH CHINA, BIT WITH CHINA, and ONE BELT ONE ROAD POSITION. While FTA WITH CHINA measures whether there is a free trade or preferential trade agreement between the two countries, BIT WITH CHINA captures bilateral investment treaties with China. ONE BELT ONE ROAD POSITION, on the other hand, represents whether a nation is geographically positioned along the trade routes of OBOR designated by the Chinese government[29].

The rest of the independent variables are *push* factors measuring how grievances over the current US-led international economic order are *pushing* countries toward China. It is argued that the current US-led order did not accommodate the interests and concerns of developing nations adequately and thus fueled their frustration with the status quo. The grievances can be divided into three categories: Grievances over the current international system, international governance, and the United States' disruptive behaviors.

Grievances over the international system refer to a set of financial hardships that take place because of the system's design. Financial recessions are negative events that occur cyclically under the existing system and are built-in as a correction mechanism of the current US-led international capital market. Radke contends that the boom phase of a business cycle would give rise to improved lending conditions that induce a "cumulative upward process" in goods and financial markets that would eventually give rise to "irrational exuberance", in which

[28] Belt and ROAD Initiative (BRI). European Bank for Reconstruction and Development (EBRD). https://www.ebrd.com/what-we-do/belt-and-road/overview.html
[29] Data for ONE BELT ONE ROAD POSITION is from the Chinese Ministry of Commerce at http://fta.mofcom.gov.cn/english/index.shtml

asset bubbles begin to compile[30]. Then, a negative shock would occur and induce a "cumulative downward process", driving down prices and hence starting the recovery phase of the economy. Economic downturns put enormous political and socioeconomic pressure on governments, and developing economies only feel more burden than their developed counterparts, having to deal with not just a recession, but also "the Taper Tantrum". Thus, I use FINANCIAL CRISES, which documents the cumulative count of financial crises for a country from 1990 to 2016, to represent grievances over periodic financial downturns. I use VARIABILITY OF CAPITAL ACCOUNT POLICY, which measures the variability of capital account restrictions as the standard deviation of the normalized Chinn-Ito openness index, for each country, from 1990 to 2018[31], and VOLATILITY OF PORTFOLIO OUTFLOWS, which measures the volatility of short-term capital net outflows, to represent countries' grievances over international capital flights.

The calculation for VOLATILITY OF PORTFOLIO OUTFLOWS follows Broto et al.'s method[32]: We first derive quarterly residuals derived from an ARIMA (1, 1, 0) regression of a country's quarterly portfolio net outflows as a share of its GDP, from the first quarter of 1990 to the last quarter of 2018. Then we convert the residuals to absolute values and take the average of their yearly standard deviation to derive the variable for each country.

Another source of grievance comes from international governance. In a financial crisis, nations would typically turn to the IMF for outside funding to sustain themselves. Nevertheless, the IMF often imposes conditions that require significant policy and institutional changes before the disbursement of the loan, including labor market liberalization, public sector employment

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30 Radke, 2005.
31 Chinn, Menzie D. and Hiro Ito (2006). "What Matters for Financial Development? Capital Controls, Institutions, and Interactions," *Journal of Development Economics,* Volume 81, Issue 1,(pp. 163-192).
32 Broto et, al., 2011.

reduction, and decreases in government wage spending[33]. Aimed at shrinking the state-owned sector, these reforms can cause sharp consequences on local societies in the short run and are often accused of being a source of unrest. Moreover, IMF appears to bias favorably toward US allies, attaching fewer conditions for nations that pursue US-friendly policies[34]. Negative social consequences and geopolitical bias may have driven countries' increasing dissatisfaction with the IMF.

I use SOCIAL UNREST UNDER IMF, to represent grievances over the IMF. This variable details the number of years under IMF programs when a general strike, anti-government demonstration, government crisis, or major riot occurred for a given country. Each year is coded as 1 if a social crisis takes place while the country happens to be under an IMF program, and 0 otherwise. We sum up all the values for each country from 1990 to 2018 to derive the variable.

The last category of *push* variables refers to grievances over the United States' disruptive behaviors. Current international economic and financial institutions, such as the WTO and the IMF, are largely the work of the US, the incumbent hegemon of the world. However, despite being the founder of the system, the US consistently attempts to obstruct its operations. In WTO, the US is the largest user of trade exceptions, dumping tariffs on "thousands of companies, on hundreds of separate products, and more than 50 different WTO members"[35]. Meanwhile, it seeks to paralyze the very organization it created just twenty years ago, by blocking new appointments to the WTO's Appellate Body[36]. In regard to the IMF, discontent with the decreased voting share, the US Congress did not ratify the IMF's 2010 reform package until

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[33] Kentikelenis et al., 2016.
[34] Dreher et al., 2009.
[35] Bown, et al. 2010.
[36] Kuijper, 2017.

2015, which would have given developing economies greater quotas and better representation of their actual share of the world's GDP. In both the WTO and the IMF, the US appears to be a major hurdle in the operation of the organizations, which may have fueled countries' dissatisfaction with the hegemon's obstructive behaviors.

Thus, I use WTO COMPLAINTS AGAINST THE U.S., which measures a country's number of complaints filed against the US between 1995 to 2018, to represent a country's grievances over America's cheating policies. The variable, IMF GOVERNANCE DEFICIT, measures a country's IMF vote share minus GDP share of the world in 2015, before the implementation of the 2010 reform package, to represent a country's grievances over the United States' uncooperative behaviors. Together, these two variables could help examine if the United States' abuse of the international system is driving discontent that may have contributed to the global support for China.

It should be noted that I did not update FINANCIAL CRISES, because the data source currently stops at 2016[37], and IMF GOVERNANCE DEFICIT since this measurement is related to the lack of representation in IMF voting power before the implementation of the reform package. *Pull* factors in Broz et al.'s model, ONE BELT ONE ROAD POSITION, FTA WITH CHINA, and BIT WITH CHINA are kept for comparison purposes to see whether *pull* or *push* factors contribute more to the outcome variable and are not updated.

Since our dependent variable, ATTENDANCE, is binary and categorical, following Broz et al., I deployed a cross-sectional probit model which specifies as follows:

$$Pr(ATTENDANCE = 1) = C + \beta_1 PullFactors + \beta_2 PushFactors + \epsilon_i$$

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[37] See https://www.hbs.edu/behavioral-finance-and-financial-stability/data/Pages/global.aspx

Table 1 Key Descriptive Statistics for the Second Belt and Road Forum

	(1) FINANCIAL CRISES (Mean)	(2) VARIABILITY OF CAPITAL ACCOUNT POLICY (Standard Deviation)	(3) VOLATILITY OF PORTFOLIO OUTFLOWS (Standard Deviation)	(4) SOCIAL UNREST DURING IMF PROGRAMS (Mean)	(5) IMF GOVERNANCE DEFICIT (Difference)	(6) WTO COMPLAINTS AGAINST THE U.S. (Mean)	(7) ONE BELT ONE ROAD POSITION (0, 1)	(8) FTA WITH CHINA (0, 1)	(9) BIT WITH CHINA (0, 1)
Head of State	4.1944	0.1138	1.1184	22.2973	0.1096	0.7027	0.7027	0.3784	0.8378
Cabinet Minister	5.4074	0.0981	0.2102	13.0615	0.1480	1	0.3231	0.1077	0.6769
Lower-Level official	3.5211	0.1047	0.2855	15.2023	-0.0150	0.5506	0.2247	0.0334	0.3371

Table 1 shows the key descriptive statistics for participation in the Second Belt and Road Forum. The numbers roughly corroborate with the *push* theory's predictions. Countries that sent heads of states typically experience higher variability in VARIABILITY OF CAPITAL ACCOUNT POLICY, VOLATILITY OF PORTFOLIO OUTFLOWS, and SOCIAL UNREST DURING IMF PROGRAMS than those that sent cabinet ministers, suggesting that grievances over capital flights and IMF conditionality could be contributing factors. However, countries sending cabinet ministers appear to experience more FINANCIAL CRISES and file more WTO COMPLAINTS AGAINST THE U.S. than those represented by heads of states and others, implying that grievances over financial setbacks and US obstruction in the WTO may not be important enough for countries to pivot toward China. All three of the *pull* variables exhibit a pattern fully in line with the theory, among the countries that sent national leaders to the second forum, seventy percent are along the OBOR trading routes, thirty-seven percent have free trade agreements with China, and eighty-three percent have signed bilateral investment treaties with China--All measurements are far higher than countries with minister-level attendance or lower-level representatives.

Table 2 Probit Model: Participation in the Second Belt and Road Forum

DV=ATTENDANCE VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8	(9) Model 9
ONE BELT, ONE ROAD POSITION	1.069***	0.868***	0.663***	0.706***	0.615**	0.488*	0.656***	0.611**	0.648**
	(0.223)	(0.236)	(0.250)	(0.273)	(0.260)	(0.286)	(0.249)	(0.253)	(0.252)
FTA WITH CHINA		0.999***	0.976***	0.891***	0.910***	1.121***	0.952***	1.113***	0.994***
		(0.303)	(0.310)	(0.314)	(0.315)	(0.326)	(0.318)	(0.328)	(0.311)
BIT WITH CHINA			0.607**	0.484*	0.587**	0.818**	0.623**	0.679**	0.581**
			(0.269)	(0.284)	(0.288)	(0.342)	(0.267)	(0.275)	(0.276)
FINANCIAL CRISES				0.00467					
				(0.0190)					
VARIABILITY OF CAPITAL ACCOUNT POLICY					1.135				
					(1.083)				
VOLATILITY OF PORTFOLIO OUTFLOWS						0.430**			
						(0.179)			
SOCIAL UNREST DURING IMF PROGRAMS							0.00267		
							(0.00367)		
WTO COMPLAINTS AGAINST THE U.S.								-0.0744	
								(0.0554)	
IMF GOVERNANCE DEFICIT									0.234
									(0.377)
Constant	-1.353***	-1.435***	-1.737***	-1.607***	-1.853***	-1.926***	-1.791***	-1.732***	-1.724***
	(0.159)	(0.165)	(0.228)	(0.259)	(0.297)	(0.339)	(0.231)	(0.230)	(0.236)
Observations	192	192	192	162	178	128	192	192	184

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 2 summarizes the result of our preliminary analysis. Consistent with Broz, et al.'s experiment, the *pull* factors, ONE BELT ONE ROAD POSITION, FTA WITH CHINA, and BIT WITH CHINA remain highly statistically significant, suggesting that China's inherent advantages remain strong in attracting potential followers for the second forum. However, in my experiment, only VOLATILITY OF PORTFOLIO OUTFLOWS has indicative power among the *push* factors, whereas Broz et al also find FINANCIAL CRISES, VARIABILITY OF CAPITAL ACCOUNT POLICY, and SOCIAL UNREST UNDER IMF PROGRAMS to be statistically significant. This loss of statistical significance among push variables suggests that they may not be the principal motivation for countries to attend the second forum, or at least much less definitive than the first one. However, the continued importance of VOLATILITY OF PORTFOLIO OUTFLOWS across both forums certainly signals that concerns over capital flights may have helped China expand its network, raising red flags about the US-liberal approach.

Table 3 Probit Model: Average Marginal Effect Analysis

DV=ATTENDANCE VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8	(9) Model 9
ONE BELT, ONE ROAD POSITION	0.254***	0.191***	0.141***	0.168***	0.135**	0.112*	0.139***	0.129**	0.143***
	(0.0455)	(0.0486)	(0.0510)	(0.0615)	(0.0555)	(0.0636)	(0.0503)	(0.0513)	(0.0531)
FTA WITH CHINA		0.220***	0.208***	0.212***	0.200***	0.258***	0.201***	0.235***	0.219***
		(0.0613)	(0.0610)	(0.0694)	(0.0647)	(0.0650)	(0.0623)	(0.0630)	(0.0628)
BIT WITH CHINA			0.129**	0.115*	0.129**	0.189**	0.132**	0.143**	0.128**
			(0.0565)	(0.0666)	(0.0615)	(0.0765)	(0.0556)	(0.0568)	(0.0599)
FINANCIAL CRISES				0.00111					
				(0.00452)					
VARIABILITY OF CAPITAL ACCOUNT POLICY					0.249				
					(0.237)				
VOLATILITY OF PORTFOLIO OUTFLOWS						0.0991**			
						(0.0406)			
SOCIAL UNREST DURING IMF PROGRAMS							0.000565		
							(0.000779)		
WTO COMPLAINTS AGAINST THE U.S.								-0.0157	
								(0.0115)	
IMF GOVERNANCE DEFICIT									0.0517
									(0.0830)
Observations	192	192	192	162	178	128	192	192	184

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Moving on to average marginal effects, the results confirm that the *pull* factors show substantially stronger influence on the outcome variable than the *push* factors, suggesting that the appeal of OBOR comes primarily from China's inherent advantages, instead of dissatisfaction with the US-led system. FTA WITH CHINA exerts a twenty-percent greater influence on the likelihood of leadership participation, indicating that the OBOR may be mostly attracting China's existing economic partners, not new followers necessarily. Within the *push* factors, VARIABILITY OF CAPITAL ACCOUNT POLICY demonstrates the highest effect, although not statistically significant. VOLATILITY OF PORTFOLIO OUTFLOWS shows moderate strength, far more than the rest of the *push* factors albeit less than all the *pull* factors, suggesting that grievances over short-term capital flows are significant but not strong enough to outweigh China's endogenous appeals. Seemingly, OBOR's appeal comes overwhelmingly from China's inherent advantages, not dissatisfaction over the current international order.

Overall, the probit model concludes that China's *pull* factors remain highly attractive to the international community for the second forum, while for the *push* factors, only volatility of short-term capital flows appears to be driving countries closer to China. Most of the *push* factors are not substantial enough to make countries risk upsetting the United States and attend China's Second Belt and Road Forum.

To further test our preliminary findings, I deploy an ordered probit model on minister-level data, in which ORDERED ATTENDANCE is the outcome variable. I assume that Y^*, the exact but unobserved dependent variable that represents a country's latent true stance toward OBOR, is mapped to an observable variable y_i, the seniority of the emissary sent to the Second Belt and Road Forum. Hence, a nation would decide its y_i, among the options of Head of State, cabinet minister and lower-level officials or non-attending, if the latent variable Y^*falls below, within or above certain cut points, τ_1 and τ_2, with $\tau_2 > \tau_1$. Then, y_i could be written as:

$$y_i = \begin{cases} 0 & \text{if } Y_i^* < \tau_1 \\ 1 & \text{if } \tau_1 < Y_i^* < \tau_2 \\ 2 & \text{if } Y_i^* > \tau_2 \end{cases}$$

And the form of the ordered probit regression is specified as:

$$Y_i^* = C + \beta_1 PullFactors + \beta_2 PushFactors + \epsilon_i$$

Where β_i stands for the vectors of parameters to be estimated for the independent variables respectively.

Table 4 Ordered Probit Model: Participation in the Second Belt and Road Forum

DV=ORDERED ATTENDANCE VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8	(9) Model 9
ONE BELT, ONE ROAD POSITION	0.766***	0.592***	0.341*	0.444**	0.283	0.0737	0.340*	0.308	0.339*
	(0.181)	(0.187)	(0.191)	(0.216)	(0.200)	(0.211)	(0.191)	(0.194)	(0.192)
FTA WITH CHINA		0.914***	0.874***	0.806***	0.813***	0.953***	0.873***	0.937***	0.904***
		(0.254)	(0.255)	(0.261)	(0.257)	(0.275)	(0.258)	(0.251)	(0.252)
BIT WITH CHINA			0.734***	0.553***	0.695***	0.644***	0.734***	0.776***	0.648***
			(0.191)	(0.215)	(0.203)	(0.232)	(0.190)	(0.195)	(0.196)
FINANCIAL CRISES				0.0214					
				(0.0139)					
VARIABILITY OF CAPITAL ACCOUNT POLICY					0.756				
					(0.861)				
VOLATILITY OF PORTFOLIO OUTFLOWS						0.243**			

						(0.107)			
SOCIAL UNREST DURING IMF PROGRAMS							0.000139		
							(0.00268)		
WTO COMPLAINTS AGAINST THE U.S.								-0.0361	
								(0.0280)	
IMF GOVERNANCE DEFICIT									0.306
									(0.210)
/cut1	0.159	0.193*	0.504***	0.511***	0.542***	0.274	0.506***	0.496***	0.468***
	(0.108)	(0.110)	(0.148)	(0.176)	(0.193)	(0.203)	(0.150)	(0.148)	(0.153)
/cut2	1.175***	1.260***	1.633***	1.570***	1.676***	1.467***	1.635***	1.629***	1.592***
	(0.125)	(0.133)	(0.188)	(0.211)	(0.225)	(0.237)	(0.186)	(0.188)	(0.189)
/cut3	2.968***	3.166***	3.524***	3.510***	3.538***	3.331***	3.526***	3.533***	3.491***
	(0.431)	(0.506)	(0.565)	(0.555)	(0.564)	(0.632)	(0.566)	(0.570)	(0.567)
Observations	192	192	192	162	178	128	192	192	184

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5 Ordered Probit Model: Average Marginal Effect Analysis

DV=ORDERED ATTENDANCE VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8	(9) Model 9
ONE BELT, ONE ROAD POSITION	0.0119	0.00934	0.00597	0.00867	0.00515	0.00179	0.00596	0.00533	0.00612
	(0.00998)	(0.00767)	(0.00545)	(0.00798)	(0.00524)	(0.00503)	(0.00545)	(0.00510)	(0.00560)
FTA WITH CHINA		0.0144	0.0153	0.0158	0.0148	0.0231	0.0153	0.0162	0.0163
		(0.0118)	(0.0122)	(0.0125)	(0.0120)	(0.0179)	(0.0122)	(0.0128)	(0.0129)
BIT WITH CHINA			0.0129	0.0108	0.0126	0.0156	0.0129	0.0134	0.0117
			(0.0100)	(0.00824)	(0.00995)	(0.0116)	(0.0100)	(0.0106)	(0.00926)
FINANCIAL CRISES				0.000418					
				(0.000502)					
VARIABILITY OF CAPITAL ACCOUNT POLICY					0.0137				
					(0.0200)				
VOLATILITY OF PORTFOLIO OUTFLOWS						0.00589			
						(0.00458)			
SOCIAL UNREST DURING IMF PROGRAMS							2.44e-06		
							(4.70e-05)		
WTO COMPLAINTS AGAINST THE U.S.								-0.000625	
								(0.000682)	
IMF GOVERNANCE DEFICIT									0.00553
									(0.00557)
Observations	192	192	192	162	178	128	192	192	184

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4 reports the results from the ordered probit regression that are largely consistent with our previous model. The *pull* factors, ONE BELT ONE ROAD POSITION, FTA WITH CHINA, and BIT WITH CHINA all remain highly significant, with VOLATILITY OF PORTFOLIO OUTFLOWS being the only push factor that is statistically indicative for the Second Belt and Road Forum. In terms of average marginal effects as shown in Table 5, the gap between the pull variables and VOLATILITY OF PORTFOLIO OUTFLOWS actually expanded, with the exception of ONE BELT ONE ROAD POSITION, which exerted weaker influence on the outcome variable than VOLATILITY OF PORTFOLIO OUTFLOWS does. For the probit model, the average marginal effect of VOLATILITY

OF PORTFOLIO OUTFLOWS is about fifty-two percent of that of BIT WITH CHINA, and thirty-eight percent of that of FTA WITH CHINA. However, for the ordered orbit models, both ratios decrease to thirty-eight percent and twenty-five percent respectively. Evidently, the introduction of minister-level data has diluted the importance of VOLATILITY OF PORTFOLIO OUTFLOWS and other *push* factors in a country's decision toward OBOR.

While the salience of the *push* factors is significantly reduced, in both attempts, the importance of the *pull* factors is further fortified and converges well with findings from the First Belt and Road Forum, highlighting the inherent economic attractiveness of China. Such a contrast between the *pull* and *push* factors suggests that grievances over the US-led economic system are not a priority for countries in their considerations toward the OBOR, relative to the economic benefits China has to offer. Indeed, for state leaders of the international community, benefits from economic cooperation with China are almost a certainty guaranteed with China's strong economy and vast market size. On the other hand, despite many complaints about the status quo, the US dollar is still the world reserve currency that the international community demands in times of crisis. It remains unclear if China has the will or the capability to circumvent the United States and build an economic leadership, let alone promoting different governance practices which may or may not be universally applied. Thus, countries may see OBOR merely as a venue to extract sure economic benefits from China, instead of a vague and undetermined vision of an alternative international economic order.

Suspicion of a Chinese global economic order could also help explain why, despite overwhelming evidence on China's plan to open up its capital account, countries are still signing up to OBOR. Broz et al believe that nations support OBOR hoping China would spread its restrictive economic practices to the world. However, as illustrated above, financial guidelines from Chinese officials and the actual policies implemented by the country both suggest otherwise, that China is committed to open up its capital account and liberalize its financial system following the footsteps of western developed nations. Since the international financial community is aware of China's liberal financial reforms, state leaders are most likely not counting on China to provide a different global economic system to the status quo, and thus would not have supported OBOR anticipating a new and better world order.

Overall, the results from the Second Belt and Road Forum differ considerably from the first one, raising questions if countries are proactively endorsing a China-centric economic system distinct from that of America's. Support for OBOR stems mainly from China's own economic attractiveness and grievances with short-term capital flows contribute to the support to a much lesser extent. The next section will explore why countries are supporting OBOR if they were not up for a new economic world order.

The Case for Diversification

My belief is that countries are signing up to OBOR not to support Chinese economic leadership, but simply as a diversification strategy to reduce their dependence on the existing US-led system. I concur with Broz et al. that grievances over the current international system are certainly driving countries away from the US. However, I suspect that China alone is not the solution to their problem and countries could be turning to major geopolitical and economic power other than China and the US for alleviation. In other words, OBOR is merely one part of an overall diversification strategy countries are undertaking to relieve themselves from the American shock.

Under a diversification strategy, countries would avoid relying on a sole source for benefits and thus would connect with as many powers as they can to hedge against shocks from a single power and strengthen their bargaining positions against each power alone. For example, Wilkins shows that Japan has been developing its foreign policies beyond the traditional Tokyo-Washington partnership, cultivating alliances with emerging powers in East Asia, such as India, Australia, and Southeast Asian countries to hedge against a possible breakdown of the Japan-US alliance and changing geopolitical landscapes[38]. In recent years, central Asian countries, rich in natural resources, have also diversified away from Russia to China, reducing their dependence on the traditional leader in their region[39]. If grievances over the existing system are indeed pushing a country to diversify away from the US, countries should strengthen ties with economic powerhouses other than China as well, to reduce their concentration risk on any single power and achieve a diversified portfolio.

To test if countries are really pursuing a diversification strategy, I plan to examine if dissatisfaction with the current order is pushing countries closer toward the European Union (EU). While conventional wisdom often categorizes Europe as a declining power, bullish predictions see Europe as the only remaining superpower, next to the US, thanks to long-term institutional advantages and a highly productive economy. Moravcsik argues that Europe enjoys sizable civilian influence and is the only power other than the US to be able to project both soft and hard power worldwide[40]. His point of view echoes with Nye's as both liberalists cast doubt on China's capability to project soft power globally and thus dismiss the possibility of China ever becoming a superpower. As Moravcsik puts it, the world would be bipolar with the United

[38] Wilkins, 2010.
[39] Contessi, 2015.
[40] Moravcsik, 2009.

States and Europe, not China[41]. Under the leadership of the EU, Europe's geopolitical and economic significance should warrant itself as a potential alternative to the United States and China.

I plan to use currency swaps and repurchase agreements with the European Central Bank to represent a country's stance toward the EU. Although the Eurozone does not incorporate all of the EU members, it includes almost all the developed economies in western Europe and constitutes the third largest economy in the world alone, next to the US and China[42]. Since the US dollar has long been held as a symbol of America's financial prowess, the Euro should also serve as an indicator to the EU's economic appeal. Thus, if a country is attempting to hold more Euros in its reserve, it may be signaling a willingness to invite further economic ties with the EU and subsequently, decreasing its dependence on the American economy.

One way for countries to acquire Euro is through the liquidity lines. Liquidity lines are currency swap or repurchase agreements (repos) that allow one central bank to issue currency to another central bank in exchange for some predetermined conditions and collaterals. In both swaps and repos, a central bank would provide its home currency to a foreign one expecting collateral, denominated in foreign currency for swaps, and home currency for repos. Aimed at assuaging tensions in the international funds market, both programs are deployed extensively during the Great Recession in 2008 and the Covid-19 pandemic, according to the ECB[43], often serving as immediate alleviations to economic and financial crises. Since periodic financial

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[41] Moravcsik, 2009.
[42] European Central Bank. (2021). *Structure of the euro area economy*. European Central Bank. https://www.ecb.europa.eu/mopo/eaec/html/index.en.html Accessed Aug 06, 2021.
[43] European Central Bank. (2021). *Central bank liquidity lines*. European Central Bank. https://www.ecb.europa.eu/mopo/implement/liquidity_lines/html/index.en.html Accessed Aug 06, 2021.

crises and risks associated with capital flows are part of countries' grievances over the existing global financial system, a country that established liquidity lines with the ECB could be seen as supporting the EU as an alternative economic and financial center, aside from US-led financial institutions and arguably, China.

Table 6 List of ECB's Liquidity Lines (As of March 2021)

Country	Program	Expiration Date	Max Borrowable Amount (in millions)
Albania	Repo	2022	400
Bulgaria	Swap	2022	2000
Canada	Swap	Standing	Unlimited
China	Swap	2022	45000
Croatia	Swap	2022	2000
Denmark	Swap	Standing	24000
Hungary	Repo	2022	4000
Japan	Swap	Standing	Unlimited
Romania	Repo	2022	4500
San Marino	Repo	2022	100
Serbia	Repo	2022	1000
Sweden	Swap	Standing	10000
Switzerland	Swap	Standing	Unlimited
North Macedonia	Repo	2022	400
United Kingdom	Swap	Standing	Unlimited
United States	Swap	Standing	Unlimited

Table 6 shows the list of countries that currently possess liquidity lines from the ECB, as of March 2021. In total, sixteen countries, mostly from European countries other than the Eurozone members, sign up for currency exchanges. The ECB also partners with other major economies, such as the US, China, and Japan, acting as an important pillar in the world economy.

I construct our dependent variable, EURO, by coding countries that have liquidity programs with the ECB as 1, and all else 0. Most of our independent variables are still the *push* factors from the previous experiment since we want to know if grievances over the status quo are pushing countries toward Europe as well. To account for the EU's *pulling* ability, I introduce an additional explanatory variable, FTA WITH EU, to see if trade agreements would also lead to financial integration with the EU[44]. A country would be coded 1 for this variable if it currently enjoys a trade agreement with the EU and 0 otherwise. To address omitted variable bias, I introduce three control variables, EUROPE DUMMY, GDP, and GDPPC to control for a country's geographic location, total GDP, and GDP per capita[45]. The purpose is to test if signing up to ECB's liquidy lines is solely a European phenomenon or a luxurious option for countries with high levels of economic development similar to that of the Eurozone members'. For EUROPE DUMMY, I coded 1 for a country if it locates in Europe according to the UN geoscheme system and 0 otherwise[46]. I took the logarithmic values of both GDP and GDP per capita for each country to construct GDP and GDPPC, and reduce the skewness within the data. It should be noted that I excluded the US, China, and the nineteen Eurozone members from my dataset since I consider them to be polar powers, each projecting considerable influence in their regions and the world.

Since the outcome variable is binary, I use a probit regression specified as follows:

$$Pr(EURO = 1) = C + \beta_1 PullFactors + \beta_2 PushFactors + \beta_3 Controls + \epsilon_i$$

[44] Data for FTA WITH EU comes from the European Commission Directorate-General for Trade. https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/
[45] Data for GDP and GDPPC come from the UN Statistics Division. https://unstats.un.org/unsd/snaama/
[46] Data for EUROPE DUMMY comes from the UN Geoscheme. https://unstats.un.org/unsd/methodology/m49/#geo-regions

Where β_i stands for the vectors of parameters to be estimated for the independent variables respectively.

Table 7 Key Descriptive Statistics for ECB's Liquidity Lines

	(1) FINANCIAL CRISES (Mean)	(2) VARIABILITY OF CAPITAL ACCOUNT POLICY (Standard Deviation)	(3) VOLATILITY OF PORTFOLIO OUTFLOWS (Standard Deviation)	(4) SOCIAL UNREST DURING IMF PROGRAMS (Mean)	(5) IMF GOVERNANCE DEFICIT (Difference)	(6) WTO COMPLAINTS AGAINST THE U.S. (Mean)	(7) FTA WITH EU (0, 1)
Yes	5.6154	0.1575	0.1433	6.6429	0.2492	2.7143	0.5
No	4.12	0.0972	0.0565	17.1329	0.0622	0.4430	0.4114

Table 7 reports key descriptive statistics for ECB's liquidity programs. Promisingly, the data converges well with my hypothesis. Relative to other countries, states that established liquidity lines with the ECB tend to have greater trade cooperation with the EU, more FINANCIAL CRISES, wider VARIABILITY OF CAPITAL ACCOUNT POLICY and VOLATILITY OF PORTFOLIO OUTFLOWS, greater under-representation in IMF GOVERNANCE DEFICIT and far more WTO COMPLAINTS AGAINST THE U.S.. This tentative result suggests that countries may indeed be pushed toward the EU by dissatisfaction with the status quo.

However, perplexingly, it looks like countries that suffered more incidents under IMF programs tend to stay away from the ECB, as the average of SOCIAL UNREST DURING IMF PROGRAMS for countries cooperating with the ECB is far lower than those who are not. Preliminary statistics clearly goas against my expectation that social conflicts would drive countries closer to the EU and thus further away from the US. It is possible that countries are reluctant to do so suspecting that the EU shares America's stance on IMF conditionality and thus may not be willing to help them.

Table 8 Probit Regression: Participation in ECB's Liquidity Lines

DV=EURO VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
FTA WITH EU	0.572	0.475	0.715	0.661	0.959*	0.453	0.478	0.266
	(0.671)	(0.633)	(0.579)	(0.519)	(0.494)	(0.557)	(0.418)	(0.377)
FINANCIAL CRISES	0.0147	0.0165	-0.0356					
	(0.0504)	(0.0498)	(0.0526)					
VARIABILITY OF CAPITAL ACCOUNT POLICY	1.366	-0.0492		-1.222				
	(2.494)	(2.286)		(1.928)				
SOCIAL UNREST DURING IMF PROGRAMS	-0.0310**	-0.0222*			-0.0256**			
	(0.0124)	(0.0118)			(0.0110)			
WTO COMPLAINTS AGAINST THE U.S.	0.210***	0.123*				0.136**		
	(0.0704)	(0.0678)				(0.0632)		
IMF GOVERNANCE DEFICIT	3.154**						1.347**	
	(1.483)						(0.640)	
VOLATILITY OF PORTFOLIO OUTFLOWS	-19.93							-1.604
	(14.67)							(5.260)
EUROPE DUMMY	3.129***	3.192***	2.540***	2.467***	3.055***	2.949***	2.321***	2.055***
	(0.633)	(0.635)	(0.432)	(0.376)	(0.497)	(0.506)	(0.378)	(0.389)
GDP		0.577	0.782	0.419	1.095***	0.461		
		(0.720)	(0.493)	(0.293)	(0.374)	(0.392)		
GDPPC		-0.133	0.731	0.979*	-0.151	0.154		
		(0.800)	(0.610)	(0.565)	(0.471)	(0.433)		
Constant	-3.535***	-8.890	-14.16***	-11.06***	-14.34***	-8.901*	-2.701***	-2.148***
	(0.958)	(6.422)	(4.776)	(3.670)	(4.131)	(4.839)	(0.283)	(0.288)
Observations	95	140	143	159	172	172	164	109

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9 Probit Regression: Average Marginal Effect Analysis

DV=EURO VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
FTA WITH EU	0.0427	0.0275	0.0489	0.0405	0.0584*	0.0293	0.0362	0.0305
	(0.0506)	(0.0375)	(0.0411)	(0.0325)	(0.0314)	(0.0362)	(0.0339)	(0.0459)
FINANCIAL CRISES	0.00110	0.000955	-0.00243					
	(0.00375)	(0.00287)	(0.00361)					
VARIABILITY OF CAPITAL ACCOUNT POLICY	0.102	-0.00285		-0.0748				
	(0.189)	(0.132)		(0.118)				
SOCIAL UNREST DURING IMF PROGRAMS	-0.00232***	-0.00128*			-0.00156***			
	(0.000844)	(0.000658)			(0.000588)			
WTO COMPLAINTS AGAINST THE U.S.	0.0157***	0.00709*				0.00879**		
	(0.00537)	(0.00386)				(0.00405)		
IMF GOVERNANCE DEFICIT	0.236**						0.102*	
	(0.106)						(0.0547)	
VOLATILITY OF PORTFOLIO OUTFLOWS	-1.489							-0.184
	(1.049)							(0.605)
EUROPE DUMMY	0.234***	0.185***	0.174***	0.151***	0.186***	0.191***	0.176***	0.236***
	(0.0379)	(0.0393)	(0.0285)	(0.0221)	(0.0237)	(0.0282)	(0.0200)	(0.0377)
GDP		0.0334	0.0535	0.0256	0.0667***	0.0298		
		(0.0426)	(0.0351)	(0.0192)	(0.0201)	(0.0248)		
GDPPC		-0.00770	0.0500	0.0599*	-0.00921	0.00997		
		(0.0466)	(0.0408)	(0.0320)	(0.0283)	(0.0280)		
Observations	95	140	143	159	172	172	164	109

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 8 and 9 report the results from the regression and average marginal effects analysis. I construct two baseline regressions, model 1 and 2, separating IMF GOVERNANCE DEFICIT and

VOLATILITY OF PORTFOLIO OUTFLOWS from GDP and GDPPC to avoid endogeneity issues because GDP data was used in the construction of the two *push* variables. Among the control variables, EUROPE DUMMY consistently shows strong statistical significance, confirming that the EU's financial influence is largely confined within the European continent. Interestingly, GDP and GDPPC do not demonstrate much statistical significance across the models, suggesting that countries at various levels of economic development are turning to the EU for help.

Contrary to the experiment with China, the *pull* factor for the EU, FTA WITH EU, turns out to be insignificant in most of the models, implying the possibility that the EU may not bear inherent economic advantages strong enough to *pull* in followers as China could. For our *push* factors, FINANCIAL CRISES, VARIABILITY OF CAPITAL ACCOUNT POLICY and VOLATILITY OF PORTFOLIO OUTFLOWS, the variables that measure grievances over the US liberal approach, have not returned any statistical significance. One interpretation could be that countries are hesitant to turn to the EU for help fearing it may be a proponent of a liberal global financial system, since the creation of the EU requires the liberalization of cross-border capital movement within the Union and a harmonized monetary policy system, reflecting the liberal doctrine of the Washington Consensus[47]. Hence, countries may have perceived the EU to be in favor of economic liberalism and thus would not turn to the organization for help.

For *push* factors, SOCIAL UNREST UNDER IMF PROGRAMS returns moderate statistical significance, albeit with a negative sign contrary to my expectation. This requires more exploration, but one explanation could be that countries may have perceived the EU, alongside the US, to be the main string-pullers behind the IMF. Core members of the EU were founding

[47] Fitoussi and Saraceno, 2013.

members of the IMF and during the rescue operation for the European Sovereign Debt Crisis, the EU effectively delegated supervisory power to the IMF and relied entirely on the organization's expertise[48]. Painfully aware of the EU's tight relationship with the IMF, those who suffer from IMF conditionality may have decided to stay away from the organization as far as possible.

Encouragingly, WTO COMPLAINTS AGAINST THE U.S. and IMF GOVERNANCE DEFICIT, which measure grievances over America's disruptive policies, show substantial statistical significance in the regression with positive signs, conforming to the theory's prediction. This result indicates that countries, primarily European, may have further integrated themselves into the intra-European economic system to seek shelter from the United States' discriminatory international practices. Indeed, the EU may also have been discontent with America's troublesome international practices: The EU has often been on the receiving end of America's punitive tariffs and has a long-standing dispute with the US, overstate subsidies to aircraft industries, that triggered a tariff war between the two economies during the Trump administration. Meanwhile, the EU may have been dissatisfied with the US Congress' obstinate refusal to ratify IMF's 2010 reform package, since the implementation of the package is linked to the replenishment of IMF's funding pools, provided by reserve-rich emerging economies, as an aftermath of the 2008 Financial Crisis[49]. Dissatisfaction with the United States' abuse of its privilege in the international system may have rallied countries under the EU's belt and hence, decreased their reliance on the US system.

For average marginal effect analysis, EUROPE DUMMY exhibits the highest effect among statistically significant variables, reaffirming my previous observation that participants of the EU

[48] Hodson, 2015.
[49] Lesage, 2013.

system may have primarily been European countries. IMF GOVERNANCE DEFICIT reports a twenty-three percent effect on the outcome variable in the baseline model and ten percent in model 7, much higher than WTO COMPLAINTS AGAINST THE U.S. and SOCIAL UNREST DURING IMF PROGRAMS, showing that grievances related to US reluctance over IMF reforms played a major role in pushing countries toward the EU. Although the sign of SOCIAL UNREST DURING IMF PROGRAMS is negative, its marginal effect is extremely small and almost ignorable compared with the two *push* variables, thus I conclude that it does not exert a major influence on the outcome variable and that in general, countries are *pushed* by concerns over the United States' unaccommodating behaviors on the international stage to align closer to the EU, more so than other factors considered.

It should be noted that VOLATILITY OF PORTFOLIO OUTFLOWS exhibits a stunningly high marginal effect of negative a hundred and forty percent in the baseline model. However, the variable is not statistically significant, and its marginal effect decreases to negative eighteen percent with geographic controls, so I exclude it from my substantive interpretation.

Overall, the statistical experiment confirms the grievances theory that *push* factors related to disruptive behavior from the US, WTO COMPLAINTS AGAINST THE U.S., and IMF GOVERNANCE DEFICIT have contributed notably to countries' integration into the EU's financial system. This conclusion substantiates my earlier hypothesis that grievances over the existing US-led system are pushing countries toward not only China, but also other great powers like the EU, suggesting that countries' support for the OBOR are not necessarily in recognition of a Chinese economic leadership, but simply acts as a diversification strategy to diversify away from the US. A discussion of my experiment and my conclusion will be offered in the final section.

Concluding Remarks:

While existing research largely depicts China as an antipode to the United States and interpret today's international system in a bipolar context, I set out to show an alternative version, that China would not extend its conservative economic policies into the future and would liberalize its economy following the footsteps of the United States'. I show that the appeal of OBOR comes primarily from China's inherent advantages, and grievances over the existing US-led system, although substantial, are not major factors. Furthermore, dissatisfaction with the status quo is pushing countries not just to China, but also other major powers like Europe, suggesting that countries supporting OBOR may not be looking for a Chinese economic leadership, but is simply diversifying away from the US and reducing its dependency on the current system.

There are three limitations to my research. First, countries' perceptions of China's future monetary policy are hard to substantiate. My theory is based on a different assumption from prevailing research, that China would not stick to its capital account policy in the long run. However, it is difficult to prove if the international community shares my perspectives since comments on China's financial reforms are quite rare from government officials. I am only able to establish my claim through reports from renowned international financial institutions, but not statistical experiments. Future research is needed to systematically examine states' perceptions of China's financial future.

Second, the importance of the Second Belt and Road Forum might have been less significant than the first. Skeptics could argue that the first forum is always the most important one since it is the cornerstone of a series of future initiatives. Thus, those who attended the first forum may not feel the need to demonstrate their willingness again in the second forum, which was held only two years after the first forum. This absence from possible supporters indicates that attendance data for the Second Belt and Road Forum may not have accurately represented international support for OBOR at the time, making our result from the second forum potentially questionable.

Lastly, the European system may not have possessed the capability to alleviate countries from American influences. Europe shares a closer and much less competitive relationship with the US than China does. Due to the depth and width of the Trans-Atlantic partnership, one could argue that the European system, and the Euro, are just a sub-system of the US economic order with no sheltering effect from the American shock. Then, countries connecting themselves with the EU may still be indirectly affected by American turbulences, and thus remain heavily dependent on the US economy, invalidating my argument on diversification. Future research is needed to determine the degree of the EU's economic and financial independence.

My theory bears two significances. First, it aims to provide an alternative interpretation of the current international context. I seek to present a multilateral version of the current international geopolitics and China as a practical entity that is not antithetical to the US or American ideals. My goal is not to dismiss previous interpretations, but simply to establish an argument for ideas that are overlooked amid intense rivalries between the US and China. The US and China, albeit magnificent in their capabilities, are not the only countries in the world. There are other powers, with different interests and concerns, that could influence the future of geopolitics as well. On the other hand, China is not necessarily an antipole to the US. Since Deng Xiaoping’s economic reforms, it embarked on a path to prosperity not through a central-planning system, but a market economy. China has proved to be receptive to western ideas that could further its growth and does not reject them solely based on their American heritage. The world may be more complex than just the US-China conflict.

Second, the US-China competition is not just a matter of China's rise, but also of America's deficiencies. In my last experiment, America's disruptive behaviors on the international stage turn out to be a significant factor driving countries toward Europe. Indeed, grievances over the current system are not a product of China's, but that of America's. If the United States were to sustain its global leadership over the next century, it should not just focus on its rival, but also address the concerns within the current world order, among its friends and allies, so that it may present itself as a responsible international leader and keep countries under its belt.

Overall, I hope this paper has shed new light on known facts and provided inspiration for curious readers. With more theories developed and more facts uncovered, I sincerely hope the field of political science may get closer to the truth and invent innovative solutions to contemporary issues.

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Appendix:

A1: List of Participants at First and Second Belt and Road Forums

Country	2019 Second Forum	2017 First Forum	Total Participation
Argentina	0	1	1
Austria	1	0	1
Azerbaijan	1	0	1
Belarus	1	1	2
Brunei Darussalam	1	0	1
Cambodia	1	1	2

Chile	1	1	2
Cyprus	1	0	1
Czech Republic	1	1	2
Djibouti	1	0	1
Egypt	1	0	1
Ethiopia	1	1	2
Fiji	0	1	1
Greece	1	1	2
Hungary	1	1	2
Indonesia	1	1	2
Italy	1	1	2
Kazakhstan	1	1	2
Kenya	1	1	2
Kyrgyzstan	1	1	2
Lao People's Democratic Republic	1	1	2
Malaysia	1	1	2
Mongolia	1	1	2
Mozambique	1	0	1
Myanmar	1	1	2
Nepal	1	0	1
Pakistan	1	1	2
Papua New Guinea	1	0	1
Philippines	1	1	2
Poland	0	1	1
Portugal	1	0	1
Russian Federation	1	1	2
Serbia	1	1	2
Singapore	1	0	1

Spain	0	1	1
Sri Lanka	0	1	1
Switzerland	1	1	2
Tajikistan	1	0	1
Thailand	1	0	1
Turkey	0	1	1
United Arab Emirates	1	0	1
Uzbekistan	1	1	2
Viet Nam	1	1	2