Title: Why (Not) Support the Liberal Order? Global Imbalances, Hopelessness and Ambivalence

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Abstract

The crisis of the Liberal International Order (LIO) has been extensively studied. Although the reasons vary, the key boils down to discontent and losing support. Among the LIO's integral pillars, the economic sub-order, specifically the liberalized trade and finance regimes, are meant to support the order, but it seems to have fallen short of doing so. One troublesome symptom is the non-random, persistent global imbalances in terms of trade and current account imbalances. Surplus states tend to exhibit the traits of "winners": a strong industrial sector, better public service provisions, and higher R&D expenditures, vis-a-vis the deficit “loser” states. Unlike economic studies that focus on global imbalances primarily from an economic perspective, this paper explores them from an international politics perspective. Specifically, we show that "loser" states do express concern and complain, and that they are more likely to seek an alternative economic order challenger (the Belt Road Initiative led by China). However, they seem ambivalent about the China-led order due to China's controversial trade practices. Based on a rational choice perspective, the liberal economic order and the LIO, if global imbalances are unsolvable, may be flawed by design, resulting in justice and sustainability problems, and may lose support as states exit. A winner state isn't necessarily a success story, but rather symptomatic of a problem.

Abrégé

La crise de l'Ordre international libéral (OIL) a été largement étudiée. Bien que les raisons varient, l'élément clé se résume à un mécontentement et une perte de soutien. Parmi les piliers essentiels de l'OIL, le sous-ordre économique, notamment les régimes de commerce et de finance libéralisés, est censé soutenir l'ordre, mais il semble ne pas avoir réussi à le faire. Un symptôme préoccupant est l'existence d'un déséquilibre mondial persistant et non aléatoire en termes de balances commerciales et de comptes courants. Les États excédentaires ont tendance à présenter les caractéristiques de "gagnants" : un secteur industriel fort, de meilleures prestations de services publics et des dépenses de R&D plus élevées, par rapport aux États déficitaires "perdants". Contrairement aux études économiques qui se concentrent principalement sur les déséquilibres mondiaux d'un point de vue économique, cet article les examine d'un point de vue des relations internationales. Plus précisément, nous montrons que les États "perdants" expriment des inquiétudes et des plaintes, et qu'ils sont plus susceptibles de chercher un challenger à l'ordre économique alternatif (l'Initiative Ceinture et Route dirigée par la Chine). Cependant, ils semblent ambivalents quant à l'ordre dirigé par la Chine en raison des pratiques commerciales controversées de la Chine. En se basant sur une perspective de choix rationnel, l'ordre économique libéral et l'OIL, si les déséquilibres mondiaux sont insolubles, peuvent être entachés par une conception défectueuse, entraînant des problèmes de justice et de durabilité, et peuvent perdre leur soutien à mesure que les États se retirent. Un État "gagnant" n'est pas nécessairement un cas de succès, mais plutôt symptomatique d'un problème.

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1. Introduction

"China's attempts to position itself as a champion of globalization fly in the face of its status as one of the most protectionist major nations." – CNBC, 2018

"The United States has spent two years chipping away at the World Trade Organization, criticizing it as unfair, starving it of personnel and disregarding its authority, as President Trump seeks to upend the global trade system." – The New York Times, 2019

"Antonio Guterres, the secretary-general of the United Nations, says the International Monetary Fund and World Bank have benefited rich countries instead of poor ones… and left dozens of countries deeply indebted." – The Associated Press, 2023

The post-WW2 liberal international order is in a fragile shape as illustrated by volumes of literature (Colgan and Keohane 2017; Lake et al 2021; Mearsheimer 2019; Simmons and Goemans 2021; Stiglitz 2002; Walt 2018). There are many issues that require thorough research in order to contribute knowledge and make policy solutions, even though the LIO seems to have regained support during Russia's invasion of Ukraine due to the heightened threat perception. Founded on liberal internationalism, the LIO describes a set of liberal principles, ideas, and political agendas for organizing and continuously reforming the global order (Ikenberry 2018). Since economic development and interdependence are believed to be the keys to prosperity and peace, the LIO has a sub-order devoted to liberalizing the global economy, trade and finance. The economic order is not intended to stand alone, but is part of the LIO as its supporting pillar for the overarching goals.

It has been over half a century since the economic order was established, and yet many issues remain. Among the most salient issues that plagued economists and policymakers is the non-random, persistent *global imbalances* in terms of trade and current accounts. While a few countries have achieved modernization, many others struggle in political chaos and economic stagnation. For example, according to the World Bank[1], Honduras, with a 10 million population, remains one of the poorest and most unequal countries, with a small, yet open economy. From 1990 to 2020, its average GDP growth has been around 3%, driven mainly by remittances-fueled private consumption. Notably, Honduras has an ever-expanding external debt, along with a yearly trade deficit of nearly 20% of GDP lasting for 20 years. In fact, for over two decades, all seven Central American countries and many more from the Global South have run persistent trade and current account deficits.

Global imbalances are localized as surpluses and deficits at the country level. Economics research in the past has done extensive work on it and found mixed results. In this paper, we ask, what impacts do global imbalances have on international politics, specifically in relation to the LIO as our interest? As we find, global imbalances are often associated with serious issues behind the scenes, including financial risks, developmental problems, and perceptions of injustice. Our argument is that state leaders have ample reasons to be concerned about persistent deficits, which translates into losing support for the LIO. When suffering states are given a better alternative to solve their problems, they will exit.

[1] See https://www.worldbank.org/en/country/honduras/overview.

This paper is organized as follows. Section 2 provides an overview of the LIO and its crisis, particularly in the economic sub-order. Section 3 talks about global imbalances and gathers the extant research for potential causes. Section 4 investigates the real and perceptual impacts of global imbalances, as well as proposing hypotheses to test. Section 5 is the empirical section. Section 6 discusses the implications and concludes.

2. The Liberal International Order and its Crisis

After World War II, the United States and its democratic allies in the West established the liberal international order. The LIO, unlike its precedents and competitors (such as imperialism, colonialism, communism, and great-power politics), is based on liberal internationalism, which describes a set of principles, ideas, and political agendas for organizing and continuously reforming the world order (Ikenberry 2018). The vision of the LIO originates from the the periods of Enlightenment thinking and industrialism as scattered internationalist ideas, to a more comprehensive agenda and prescriptions for organizing the world and pursue liberal democracies in the early twentieth century, for example, the League of Nations and later the United Nations, which enshrine universal rights and values. Initially, the LIO was organized by western liberal democracies and Japan around economic openness, democracy, multilateralism, and security cooperation. It expanded and globalized after the Cold War ended (Mearsheimer 2019). As a whole, the LIO is an order defined by institutions and rules, as well as a community founded on shared values and expectations. It is the manifestation of the idea that globalization is meant to bring the world closer together and make it more democratic (Friedman 2000;

Fukuyama 1992). A LIO is both the means and the end; it facilitates economic prosperity, ensures peace and promotes values.

In spite of the fact that preserving the LIO has long been a desired U.S. grand strategy (Ikenberry 2011) and that the LIO has been quite successful in the past (Lake et al. 2021), liberal internationalism is never perfect. As a political order based on one political thought, the LIO is by no means superior and must strive to gain legitimacy from public support and consent. In embedded liberalism, for example, liberal internationalism is balanced with domestic social and economic stability (Ruggie 1982). Nonetheless, some scholars have criticized LIO's theoretical foundations. According to Glaser (2019), certain assumptions and mechanisms of some of the LIO concepts are flawed and inherently contradictory to their stated goals. Similar arguments are made by Mearsheimer (2019).

Since the beginning of the 21st century, the LIO has faced multifaceted crises involving both internal and external challenges. To begin with, since the LIO expanded in the 1990s, more states than liberal democracies have joined, upending its political foundations, such as old bargains and institutions based on solely liberal democracies which provide the source of stability (Ikenberry 2018; Glaser 2019). During the Cold War, the liberal order was built on shared interests, values, and threats. A great deal of the vision and agenda of the LIO are not necessarily shared by its new members - emerging powers and the Global South. It was intended to transform them into liberals later on. But having a more diverse membership makes cooperation more difficult, as the socialization theory of international organizations suggests, "it is better to have gradual inclusion in order to always have true believers dominating (Johnston 2001)." As a result, authority and governance became a problem (Acharya 2016). Second and perhaps more important, as the liberal order was largely forged and shaped by American liberal hegemony, the shift away from the order is evident in the power distribution change at the international level. In addition to the American unipolarity being eroded, there is a multipolar world emerging with several illiberal great powers (e.g., Russia, India, and in particular China as the only peer competitor, who seek to convert the LIO to its benefit). By 2021, China's industrial output, nearly 40% of the world, had surpassed that of the G7 combined, and global trade seems to have shifted from mutually beneficial practices to a show of dominance. In contrast, the original liberal democratic patrons seem to be losing their ability to shape and defend the LIO. Consequently, the open, liberal global order is retreating into a mixture of nationalism, populism, protectionism, and great powers competing for influence.

The third issue is that democracies are unable to secure their domestic foundations. Unrest and discontent are rife in democracies. As young democracies struggle with poverty, corruption, and instability, advanced democracies struggle with nativism, populism, economic inequality, and political polarization (Ikenberry 2018). Democratic backsliding is all over the world. There is no doubt that liberal democracies displayed societal civility, economic prosperity, technological advancement, and military security during the Cold War and its early aftermath – a model and a path for the rest of the world to follow. The domestic foundations of liberal democratic societies are eroding today. As a fourth factor, the LIO's legitimacy is tarnished by discontent and dubiousness about international institutions. Nationalism attacks the LIO for the undemocratic, unresponsive, yet ever-expanding supranational organizations that are intruding on sovereign identities (Colgan and Keohane 2017; Rodrik 2011). Some also question the legitimacy of the global institutions due to corruption and bureaucracy (Vreeland 2019).

There are other phenomena that raise doubts about its legitimacy, such as autocrats sitting on the boards of human rights committees or abusing international organizations like Interpol. Lastly, U.S. hegemony is also under attack. As the world all of sudden became unipolar, the constraints on American power waned. In the aftermath of the collapse of the Soviet Union, the U.S. has developed a grand strategy of "liberal hegemony" aimed at spreading liberal democracy through military means (Walt 2018). Along with the wars in Iraq and Afghanistan and the global war on terror, the U.S. power overreach triggered debates (Brooks and Wohlforth 2008). Critics even accuse the U.S. of using the LIO as a shield for exercising American hegemony (Glaser 2019). Spending trillions on wars and democratic state-building has left mostly failed states and further weakened the American domestic shape.

In no way does this paper exhaust all possible reasons and mechanisms for the LIO's appeal failure. Additionally, there is hubris in the United States' diplomacy, free-riding by allies in building the order, overestimated American power and capability, double standards in the treatment of friendly autocracies such as Saudi Arabia, and an inward-looking liberal order that alienates illiberal states, especially great powers (Walt 2018). Identities and socioeconomic issues continue to be contested between traditionalists and progressivists (Búzás 2021). Furthermore, the LIO's openness makes it vulnerable to subversion by challengers such as authoritarianism (Farrell and Newman 2021). Climate change and pandemics may further exacerbate the LIO's problems.

Among the salient crises is the economic one. The LIO is an order based on liberal internationalism, and one of its characteristics is economic openness, which reflects American beliefs about its economic benefits and pacifying effects. Thus, the LIO includes the economic sub-order as one of its constituents, as well as one pillar supporting its goals. Specifically, the economic sub-order is built around free markets and open trade and investments, which distinguish it from previous and other orders and was also the result of U.S. hegemony's attempt to avoid closed regional economies dominated by regional powers (Ikenberry 2018). Following the end of the second world war, several multinational economic institutions were established: the World Bank (1944), the International Monetary Fund (1945) and the General Agreement on Tariffs and Trade (1947). Scholars and policymakers have embraced the belief that opening to trade brings prosperity and economic interdependence prevents conflict (see Gowa 1994; Mansfield and Pevehouse 2000; Russett and Oneal 2001).

A few factors, however, have prevented the economic order from meeting the original expectations. First of all, even though the global economic system facilitates "embedded liberalism," which reconciles openness with domestic stability, global trade still brings significant impacts to social fabrics, industries, families and workers. It has been apparent since the neoliberalism transition in the 1980s, and these effects have been exacerbated by China's inclusion in the WTO, which caused socioeconomic and political instability (Autor et al. 2016; 2020), not only in America. Interestingly however, some observers viewed China's integration into the world economy as strengthening the LIO's economic pillar (Glaser 2019; Johnston 2019). In contrast to the early post-second world war decades, the middle class in advanced democracies has been plagued by economic stagnation and grievance (Inglehart and Norris 2016). As a result, domestic support for the LIO is undermined.

Second, economic globalization has caused severe economic inequality and injustice among individuals and regions, not only at home but also abroad. For instance, a small percentage of entities and individuals have benefited disproportionately from trade and investment treaties (e.g., Baccini et al. 2017). Global income growth distribution is characterized by an "elephant curve": middle class incomes are climbing in some developing countries as well as the incomes of the richest people in the world (Milanovic 2012). However, the middle class in developed countries and many of the poorest countries have seen stagnation. These are some of the reasons the LIO outside of America is perceived as neoliberalism, which over favors capital and free markets and contributes to inequality, environmental degradation, and negative impacts on democracy as a whole (Stiglitz 2002; Brown 2015). Many in the global south who joined the western-led order later on feel disadvantaged and abandoned. Since the 1970s, the Global South has consistently voted at the United Nations calling for a New International Economic Order (NIEO)[2] and a transformation of the liberal economic system (Krasner 1985).

Third, the economic order is prone to instability and vulnerability. The open nature of the global economic system requires member states to lower trade barriers and refrain from restricting capital activities, which often leads to economic instability and suffering. Global financial turmoil, such as the Asia Financial Crisis and the Global Financial Crisis, has plagued the world persistently for decades (Reinhart and Rogoff 2011). According to Broz et al. (2020), developing countries are grieved by financial instability and rigid conditionality imposed by LIO organizations such as the IMF. The grievances they have

[2] "Declaration on the Establishment of a New International Economic Order," United Nations Digital Library, 1974.

experienced have prompted them to seek an alternative economic order, and seem to encourage China to create its own one[3]. "Loser" members' grievances echo our findings.

Fourth, global economic integration and interdependence do not appear to be panaceas on the security and geopolitical fronts. In spite of disagreements, such as the debate on whether trade inhibits conflicts between liberals and realists, liberals have apparently dominated global trade and investments in the past thirty years. However, economic interdependence does not seem to deter aggressions and poses vulnerabilities as demonstrated by Russia's invasion and China's security measures (Pearson et al. 2022). In accordance with Copeland's (1996) theory, tensions between the U.S. and China simply become greater when both expect bleak futures despite the higher level of economic integration. China, which profits greatly from global trade and investment, and Russia, which profits greatly from the global oil market, begin to challenge the liberal order with the accumulated wealth and influence from it.

There are other criticisms of the economic order as well. Despite the LIO's progressive vision of strengthening democracies, its economic system seems to favor mercantilism and autocracies over rule-abiding and democracies. As an interesting fact, China, Russia, and Saudi Arabia ranked among the top three countries regarding trade surpluses in 2022. It has been shown that autocrats distort global markets to achieve nationalist goals by using state-owned enterprises and global institutions (Clegg et al. 2018). The WTO rules designed from the beginning are demonstrated ineffective to deal with states, especially great powers, that practice nonmarket policies (Wu 2016). Some claim that the

[3] "US Congress Pushed China into Launching AIIB, Says Bernanke," Financial Times, 2 June 2015.

past 20 years' economic liberalism has evolved into "hyperglobalization," which contradicts the intentions when the LIO was founded 70 years ago (Rodrik 2008). Economic immigration of labor, too, generates tensions in certain states (Goodman and Pepinsky 2021).

In the end, despite the struggle for leadership and power by some emerging powers, legitimacy for an institution is ultimately dependent on the degree of satisfaction and support among constituent states, whether it's the LIO or an economic sub-order. Therefore, the LIO must align with the majority's vested interests. On the one hand, domestically and internationally, populists and nativists view the LIO institutions as serving winners' interests (Colgan and Keohane 2017). Similar to domestic politics, those who benefit more are likely to be the most supportive. In the Cold War period, the LIO was more attractive to member states because members knew that they would receive tangible benefits and tools for security and prosperity within the order (Ikenberry 2018). In this vein, if member states do not feel they benefit from the order in this regard, and if they see little hope to improve the situation in the foreseeable future, they likely lose interest in and support for the current order. Instead, states may seek an alternative order if someone else provides one or seek revision if they can.

On the other hand, the economic sub-order of the LIO is not intended to stand alone, but is part of the LIO as its supporting pillar. All of these problems suggest that the economic sub-order might actually undermine the LIO itself. A country like China or Saudi Arabia, for example, gains greatly from the economic sub-order, but rejects and undermines many of the LIO's core values. A mercantilist country may well generate tons of surpluses at the expenses of others. Thus, there is a possibility that winners of the system might be detrimental to the legitimacy and endurance of the LIO over time. There is no guarantee that economic gains will translate into support for the LIO as a whole, let alone loss. All this suggests the existence of some paradoxical design flaws between the economic sub-order and the LIO's core values. We have revealed some of such flaws in our findings.

3. The Non-random, Perpetuating Global Imbalances

As part of the post-1945 economic order, international institutions regulate and facilitate international trade and finances, including the General Agreement on Tariffs and Trade (GATT), later the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank. In the decades following World War II, the GATT/WTO has helped lower trade barriers, resolve trade disputes, and stimulate economic growth. In the post-Bretton Woods era, massive cross-border capital flows have followed the teardown of capital controls in the 1980s. International monetary and financial cooperation has been promoted by the IMF and the World Bank. However, these institutions have been subject to a wide range of criticisms. As an example, complaints regarding the WTO include a lack of transparency, a lack of representativeness, and a failure to address the concerns of developing countries (see Wilkinson 2006).

Among the issues created by the global trade and investment system has been the decade-long global imbalances that have attracted the attention of economists and world leaders for over two decades (see Obstfeld and Rogoff 2009 for an overview). Global imbalances began to become evident in the 1970s, shortly after financial globalization had begun (Chinn and Ito 2019), and was exacerbated with the expanding WTO (including China and oil states, see Figure 3). Bordo (2005) gives a historical overview of four phases of financial globalization. There are two types of global imbalances: trade imbalances and current account imbalances. A trade account reflects the results of international trade, while a current account has one more layer of income payments and transfers. Global imbalances have become a puzzle and a concern in the current economic system. In their article, Blanchard and Milesi-Ferretti (2009) describe global imbalances as highly controversial, long worried, and the most complex macroeconomic issue facing economists and policymakers. According to Chinn and Ito (2019), global imbalances reigned in academic debates and policy debates and made a comeback after the 2008 financial crisis.

When it comes to trade imbalances, there are two characteristics to consider. The first characteristic is the almost *non-random cleavage* between trade surplus and deficit countries. Despite studies examining imbalances, little attention has been paid to "global cleavages." Table 1 shows the top 30 countries with average surpluses and deficits (% of GDP) between 2000 and 2018. Most of the top 30 surplus countries are oil-exporting countries (such as Qatar, Saudi Arabia, and Kuwait), finance-intensive countries (such as Luxembourg and Singapore), or industry-intensive countries (such as Switzerland, Netherlands, and Germany). These countries do appear to be the winners of global trade as they tend to enjoy domestic prosperity and a high level of human development (more below). Almost all countries in the developed world run a balance of trade or a surplus, with the exception of a few (such as the U.S., Portugal, and Spain). Most of the top 30 deficit countries are developing states with weaker state capacities and economies, located in Asia, Africa, Latin America, and the Indo-Pacific. In fact, 95 of 153 (I only count what is reported by the World Bank database) run an average trade deficit. Only around 25% of countries run surpluses for most of the same period. Most developing countries have persistent trade deficits. The second characteristic of global imbalances is *persistence*, implying its enduring nature. The sum of trade surpluses in surplus countries reached a historical high of 5% of global GDP right before the 2008 financial crisis, then waned until the pandemic rekindled the trend. China's trade balance reached 4.8% of GDP in 2022. Nearly every year in the last two decades, East Asian industrial countries, core EU states, and oil producers have run persistent trade surpluses.

Average trade surplus/deficit rate (2000-2018)			
Top 30 surplus	**% of GDP**	**Top 30 deficit**	**% of GDP**
Brunei Darussalam	31.5	Timor-Leste	-93.4
Qatar	30.9	Kiribati	-79.7
Luxembourg	29.0	Marshall Islands	-55.3
Kuwait	27.0	Tonga	-44.0
Singapore	25.5	Moldova	-33.4
Gabon	24.8	Kyrgyz Republic	-30.6
Libya	19.4	Montenegro	-28.0
United Arab Emirates	19.2	Bosnia and Herzegovina	-26.9
Saudi Arabia	17.9	Jordan	-26.0
Oman	17.1	Cabo Verde	-25.7
Bahrain	16.7	Lebanon	-25.2
Ireland	16.5	Mozambique	-24.4
Azerbaijan	15.1	Bhutan	-21.8
Malaysia	14.9	Albania	-21.5
Angola	13.1	Sierra Leone	-21.3
Norway	11.4	Nepal	-20.7
Switzerland	9.7	Nicaragua	-20.0
Kazakhstan	9.3	Haiti	-19.5
Russian Federation	9.0	Burundi	-19.4
Netherlands	8.6	El Salvador	-19.3
Iraq	7.9	Honduras	-18.9
Antigua and Barbuda	7.3	Armenia	-18.8
Algeria	7.1	Comoros	-18.6
Paraguay	6.2	Jamaica	-18.5
Congo, Rep.	6.1	North Macedonia	-17.6
Nigeria	6.1	Georgia	-17.4
Denmark	5.9	Guinea	-16.9
Thailand	5.9	Togo	-15.2
Germany	5.6	Senegal	-15.0
Sweden	4.8	Zimbabwe	-14.5

Table 1. Top 30 states with average surplus/deficit rates (2000-2018).

Furthermore, as shown in Table 2, the top range of countries has an average trade balance (2000-2018) higher than 5% of GDP and an average GDP per capita of $27,309, significantly higher than those in the middle range of -5%~5% ($17,079) and those in the bottom range with balance lower than -5% ($3,696). Those in the bottom range are nearly all developing countries and account for half of total states. It is also noteworthy that the Freedom House index for those states at the top is worse than that of those at the bottom, despite them including most industrial democracies. The reason for this is that a number of oil-rich, but autocratic countries are included in the list. In contrast, states at the bottom include many developing democracies such as Ghana (3.4) and Senegal (5.1)[4]. A potential problem here is that it shows that developing democracies do not seem to be particularly favored by the order[5].

Average trade balance (2000-2018)	**GDP per capita (current US dollar)**	**Developing country? (yes:1, no: 0)**	**Average Freedom House index (0-14)**
>5% (n=29)	27,309	0.69	8.27
-5% ~ 5% (n=54)	17,079	0.685	5.08
<-5% (n=70)	3,696	0.986	7.11

Table 2. Descriptive Statistics of Trade Imbalance Stratification (2000-2018).

[4] A Freedom House index ranges from 0 to 14, with lower values meaning more democratic.

[5] As Ikenberry (2018) explains, the world trade system is an integral component of the liberal international order, which supports the liberal vision of organizing the world. A normative goal and social purpose of the LIO is to ensure the security and prosperity of democracies, which the economic sub-order should at least equally favor.

Along with the global cleavage, there is the agglomeration pattern. The top five countries with trade surpluses (China, Germany, Russia, Saudi Arabia, and South Korea) account for nearly 60% of the total world trade surplus (Figure 1). The trade surplus of these countries has been persistent over the past two decades, with China's rising trend particularly evident (see Figure 2)[6]. As an example, consider China, which has the largest trade surplus. During the recent peak in 2016, China ran a merchandise trade surplus totaling 4.5% of its GDP. In the top 60 major economies ranked by GDP, China runs a merchandise trade surplus with 48 countries. Among the 144 states we have data on, China has surpluses with 128. To give an idea of the magnitude, the trade deficit with China accounts for 2% of the U.S. GDP and 5.9% of Mexico's GDP in 2018, respectively. Among the 16 states that record surpluses with China, most are resource-exporting countries like Angola, Mongolia, Chile, Qatar, and Brazil, from which China imports natural resources or agricultural products. In the past, China also generated deficits with countries that exported technological components, such as South Korea, Japan, or Singapore. As China expands indigenization in more technology sectors and supply chains, no bilateral surplus remains in any of these countries (as of 2022).

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[6] Since 2016, China's trade surpluses have started to dip, but they have resumed their growth since 2020. In 2022, they reached a new high of nearly $900 billion.

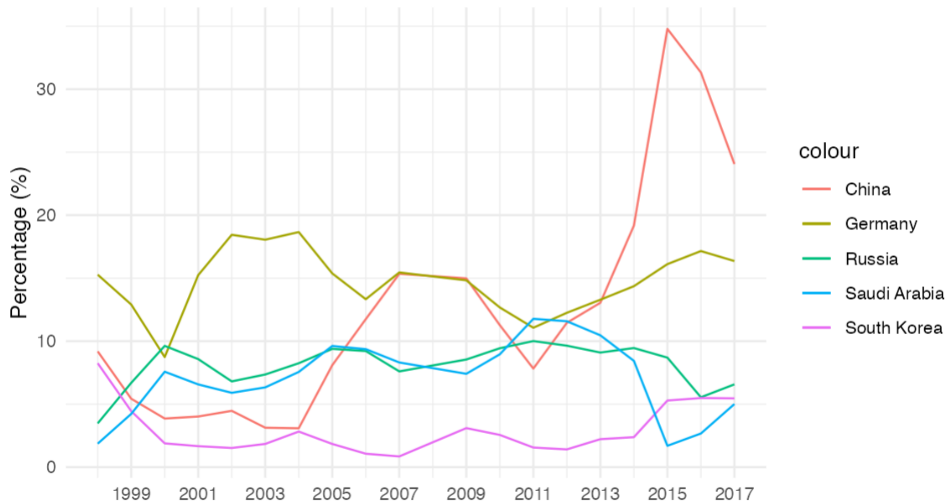

Figure 1. Top Five Countries in Share of World Total Trade Surpluses (1992-2017)

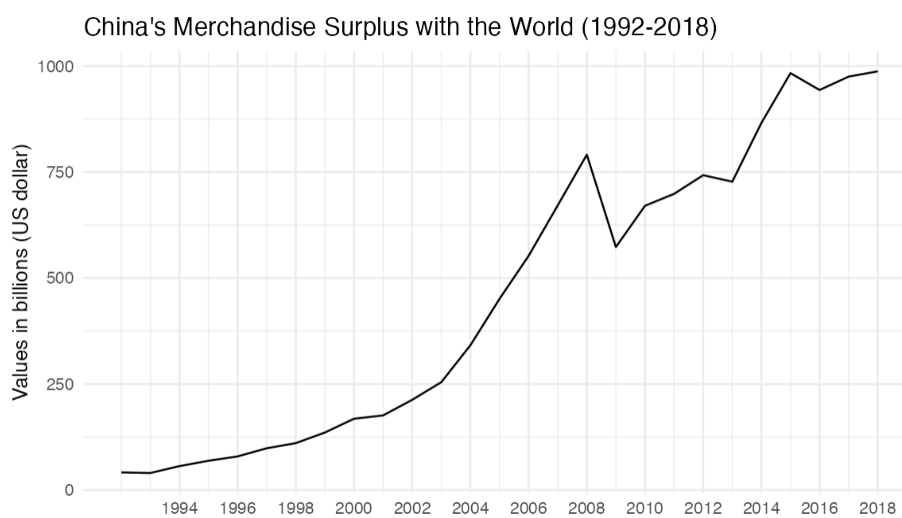

Figure 2. China's Merchandise Trade Balance with the World (reported by trade partners).

In addition to trade imbalances, there are current account imbalances as well. A country's current account reflects both goods and service trade and income flows between the country and the rest of the world such as aid and remittances. Current accounts and trade accounts are closely related. Due to the fact that trade usually accounts for the majority of a country's foreign transactions, trade imbalances can overwhelmingly affect the country's current account[7]. For instance, the U.S. current account deficits are largely owed to large trade deficits, similar to China or Japan's surpluses. Based on our observations of more than 150 countries, trade balances and current account balances usually have similar magnitudes and signs and move along the same directions over time. An imbalanced current account reflects a difference between aggregate production and aggregate consumption of a country, whereas a deficit occurs when the former exceeds the latter. An example would be when a country's real exchange rate depreciates, resulting in more exports than it can consume domestically. In the case of "beggar-thy-neighbor", countries compete for demands and often cause disputes. As with trade imbalances, many countries run persistent current account deficits for two decades, as opposed to those who run persistent surpluses. The two characteristics of global imbalances, *non-random cleavage* and *persistence*, hold for both trade and current accounts. East Asian mercantilist countries, core EU states, and oil producers particularly stand out from the rest. We examine both the trade and current account imbalances in this paper. Due to their different international economic concepts and statistics, we hypothesize they may have similar but different effects when treated as two variables.

[7] An example of the breakdown of the U.S. current account can be seen here: https://www.bea.gov/news/2023/us-international-transactions-4th-quarter-and-year-2022.

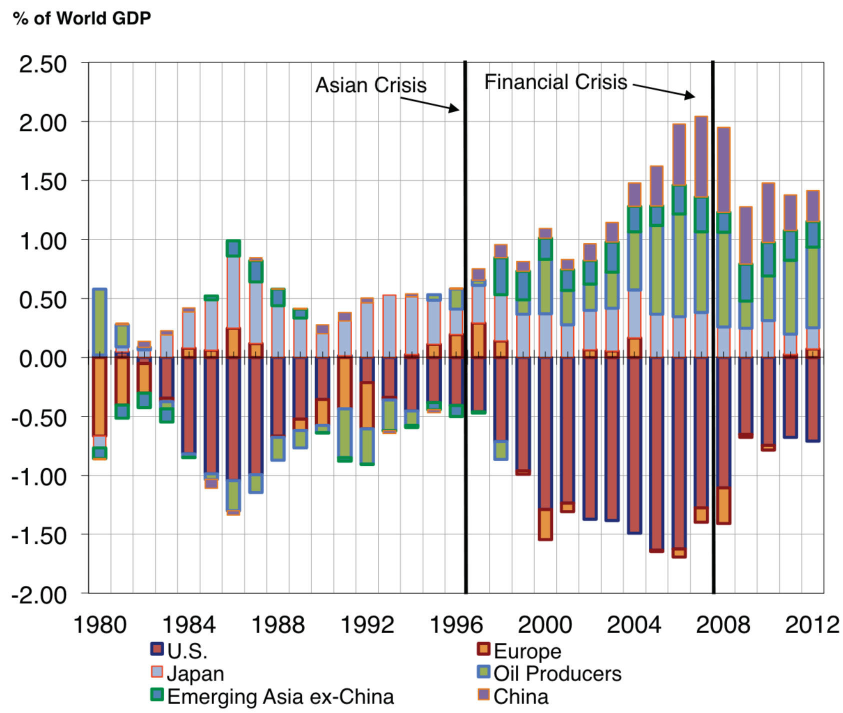

Figure 3. Global Imbalances: Current Account (Gourinchas and Rey 2014)

The causes of global imbalances have attracted abundant academic interest, and research has revealed multiple explanations. However, the results are often inconclusive, incomplete, let alone universal. Many factors and their interactions can affect imbalances, which require more complicated economic models and approaches[8]. China's current account surplus, for instance, has multiple explanations: high savings due to cultural factors, weak social security provisions, aging population, or poor governance of firms, as well as intentional devaluation of exchange rate that stimulates exports more than imports (Yu 2007). It is also possible to have heterogeneous causes for the same country

[8] "A realistic economic model incorporating all elements relevant to the typical country's current account would be hopelessly complex" (Obstfeld and Rogoff 1995).

over time. Since trade balance is an important component of current account balance, the two are closely related and often entangled. In most countries, trade imbalances account for the majority of current account imbalances (Reyes-Heroles 2017). Furthermore, both imbalances often share similar mechanisms of occurrence. The often-entangled causes of two accounts of imbalances can have some idiosyncratic differences as we will see, but we don't specifically write them separately in our paper for simplicity.

In general, the literature explains global imbalances through two angles: “financial explanations” and “real explanations” (Barattieri 2014). Financial explanations are generally related to the intertemporal dynamics of expenditures, savings, investments, and capital flows. Earlier approaches that focus on the static or intratemporal aspect of imbalances (such as the Mundell-Fleming model) contend that fiscal balances are positively correlated with external balances – the “twin deficit” hypothesis (Bussiere et al. 2010, Chinn and Ito 2019). A later theory holds that domestic expenditure depends on the expected growth in income or wealth (the “smooth consumption” hypothesis). Increased consumption will increase imports more than exports, causing external imbalances, which can, however, self-balance, echoing David Hume's claim about “self-limiting trade imbalance” (Obsfeld 2012). This particular theory, however, is limited in empirical consistency (Chinn and Ito 2019). A more common argument is that current account imbalances are driven by forward-looking decisions of savings and investments based on national saving identity (NX = S - I) (Obstfeld and Rogoff 1995)[9]. The patterns of savings and investments depend, for example, on the current or the outlook of socioeconomic conditions, such as demographics, social welfare programs, financial

[9] According to the GDP formula Y = C + G + I + NX, and savings S = Y - C - G, we get NX = S - I.

deepening, interest rates, macroeconomic volatility, investment opportunities, and economic cycle phases (Chinn and Ito 2008; Fogli and Perri 2015; Obstfeld and Rogoff 1995). The last set of theories relates to international investment portfolio choices (Blanchard and Milesi-Ferretti 2009), which are derived from the "saving glut" (Bernanke 2005). Factors that affect portfolio choices include cross-country heterogeneity in supplying safe financial assets (Caballero et al. 2008), different levels in financial development that affect domestic saving and foreign borrowing patterns (Mendoza et al. 2009), institutional and regulatory environment (Alfaro, et al. 2008), and specialization in capital-intensive sectors (Jin 2012). As a result, capital flows from surplus countries as creditors to deficit countries as borrowers, leading to lower interest rate, higher exchange rate, and more imports of the latter. This "saving glut" theory is in particular relevant to the United States: the "safe assets" view dominates the perspective on why the U.S. continues to run current account deficits (Chinn and Ito 2019). And, had the saving glut not existed, according to the models of Kehoe et al. (2018), the U.S. would have run trade balance in a counterfactual scenario.

Financial explanations alone, though explaining certain patterns in data, have limitations. The "smooth consumption" argument, for example, fails when states experience persistent imbalances, and the "twin deficit" theory cannot well explain the U.S. deficit or China surplus (Chinn and Ito 2019). Saving and investment data do not always match that of external balances (Obstfeld and Rogoff 1995) and do not seem to have first-order effects on long-term trends in imbalances (Reyes-Heroles 2017). According to Kamin and Gruber (2009), financial sector development heterogeneity cannot explain the cross-sectional pattern of imbalances. There are still a number of puzzles to be solved. Because capital flows from surplus countries, it is not entirely clear why countries have surpluses or deficits in the first place and persistently. Why do surplus countries often specialize in industrial (such as the East Asian export-oriented model and core Europe) or energy sectors (such as oil states) while deficit countries include many poor countries? "Savings glut" theories work for the U.S. (and some other financially advanced countries), but not for many poor deficit countries.

It is important to note that the national saving identity (NX = S - I) does not necessarily imply causality or its directionality. Therefore, despite the fact that low savings (or higher consumption) may indicate higher net imports, it would not be appropriate to say net exports are *caused* by savings and investments. Otherwise, the imbalance issue could be resolved more easily by reducing expenditures or borrowing to invest more. In fact, as the national income accounting formula shows, savings are endogenous to net exports (a component of national income), which means in some cases, net exports may actually determine savings[10]. For example, between 2000 and 2007, when the determinants of savings in China (be it cultural factors, demographics or social security provisions) did not change much, nonetheless the saving rate jumped significantly from 36% to 49%, a much faster growth rate than the investment rate (Blanchard and Milesi-Ferretti 2009). Meanwhile, China's trade surplus skyrocketed to $308 billion from a very low level ($29 billion) in just seven years since joining the WTO in 2001. It then makes more sense to conclude that China's also skyrocketing saving rate was *caused* by higher income (through trade surpluses), not in the reversed way. This explains why many surplus countries such

[10] Since national income Y = C + G + I + NX, S = Y - C – G, and Y contains NX, S contains NX. Therefore, it is possible that, in some cases, S is determined by NX. For example, a sudden oil price spike for oil exporting countries is an increase in NX which can lead to an increase in S and Y.

as Ireland, Singapore, Luxembourg and oil states also have high national saving rates[11]. As Wen (2011) points out, China's high savings are the consequence of high income growth rate, echoing Modigliani and Cao (2004)[12]. Data has shown that at least since the 2000s, countries of savings are not those that are aging or have low social provision, but emerging Asia exporters and commodity exporters (Obstfeld and Rogoff 2009).

Thus, to better understand the variation in global imbalances, the second strand of theories focuses on real economics that pays attention to trade. By definition and after all, a current account balance represents income earned abroad, whether from trade, which accounts for the majority of the balance, or other sources. Essentially, all trade explanations should explicitly or implicitly identify the channels by which imports and exports are impacted. Research has shown that the lowering down of trade costs leads to trade imbalances (Alessandria and Choi 2021; Reyes-Heroles 2017), an effect substantial in the U.S.-China bilateral trade and especially when trade costs are not reduced symmetrically (Dix-Carneiro and Traiberman 2023)[13]. Economic globalization, therefore, can lead to global trade imbalances if asymmetrical trade cost reductions occur. Similarly, asymmetric trade barriers have often made the bilateral imbalance worse (Cuñat and Zymek 2022), as they penalize trade flows in an unbalanced way[14]. Trade barriers include tariffs and non-tariff barriers such as currency devaluation, customs delays, or domestic

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[11] See https://en.wikipedia.org/wiki/List_of_countries_by_gross_national_savings. The majority of top 20 saving countries run persistent trade surpluses.

[12] Also according to Goldstein and Lardy (2008), after the start of the 2000s, China's savings are half generated by the corporate sector.

[13] In fact, as Dix-Carneiro and Traiberman argue, even if trade costs reduction are applied evenly, they may have different effects due to country-specific traits such as initial openness levels, comparative advantage patterns, third-country effects and labor market frictions.

[14] However, compared to macro (aggregate) trade imbalances, bilateral trade imbalances can be complicated by global value chains. For example, country A imports components from country B, processes, and exports to country C. A can generates trade surplus with C because trade flows are not counted on a value-added basis.

regulations. In addition, a productivity boom among trading partners can lead to trade surpluses, as demonstrated in Autor et al. (2013)'s "China shock" case. This is particularly relevant when productivity booms occur in tradable sectors (Gourinchas and Jeanne 2013). In fact, trade imbalances do appear to be correlated with industry intensity structure, for example, Japan, China, and Germany. Epifani and Gancia (2017) use statistical analysis to demonstrate a positive correlation between trade surpluses and manufacturing output (as a percentage of GDP). In the same way, the advanced U.S. service sector generates service trade surpluses, even though Americans save less. A soaring oil price can result in oil producers' exports ballooning while their imports remain stable, and oil importers generating trade deficits. Lastly, global value chains, in which countries form multi-party dependencies, often generate bilateral trade imbalances[15]. The countries that engage in processing trade usually have deficits with input suppliers and surpluses with final markets.

Among the notable arguments is the "mercantilism" one. Most traditional trade models assume balanced trade (though they allow for sectoral imbalances) for simplicity or to facilitate cross-model comparisons, in which exchange rates essentially adjust the relative international prices (including wages) to balance trade. Unfortunately, the exchange rate mechanism isn't working fully, leading to global imbalances. According to Osgood (2017), only 10% of tradable NAICS industries are based on Ricardian comparative advantage, which involves countries producing homogeneous commodities of advantage. Due to product differentiation in 90% of tradable industries wherein both countries are able to

[15] See the data of oil price and trade surpluses of oil producers: Saudi Arabia, Kuwait, Oman, Norway, UAE, Qatar, Bahrain, Azerbaijan, Iraq, and Libya.

produce the same product type, one can gain advantage in more sectors when it has sufficiently lower relative factor prices. A country can achieve lower relative prices when its exchange rate does not respond appropriately, resulting in trade surpluses[16]. For example, the models of Epifani and Gancia (2017) show that when exchange rate is undervalued compared to the balance counterfactual, lower relative wages allow the country to run trade surpluses and agglomerate global manufacturing production (note that the total number of industries is not indefinite). This argument is typically exemplified by the export-oriented model of Eastern Asia that relies on the currency undervaluation, partly to increase employment in tradable goods sector, promote industrial development (Blanchard and Milesi-Ferretti 2009; Dooley et al. 2005), and accumulate self-insurance reserve (Aizenman and Lee 2007), resembling the stories by the European countries and Japan after the second world war (Dooley et al 2002). As a result, many surplus countries are industry-oriented. The enormous size of China's economy makes it a salient example. Historically, China has maintained and expanded its trade surpluses with most of its trading partners and the Chinese yuan has been pegged to the dollar for two decades before being managed floating in a controversial manner[17]. An undervalued yuan may also affect the exchange rate of many countries that target the US dollar. More examples are oil exporters whose currencies are pegged to the dollar, seeing their trade balances fluctuate in accord with global oil prices, and Germany, the

[16] Exchange rate intervention includes nominal and real exchange rates both of which affect trade flows.

[17] China has been accused of currency manipulation for long (see the USTR report). China's adoption of a managed floating regime provides it room of maneuverability: On a daily basis, PBOC sets a reference rate to keep the value of the currency within a daily trading band defined by the reference rate, so that the price is ostensibly set by market forces, but is under intervention. China uses a small pool of offshore exchange rate in Hong Kong.

industrial powerhouse, running surpluses with many Eurozone neighbors who share the same currency[18].

In synthesis, as far as we see, the trade-focused theories can partially explain the global imbalance pattern, including the persistent external surpluses of East Asian states, core EU states, and oil producers, as well as part of deficits of their trading partners, by trade liberalization, industrial structure and mercantilism. On the other hand, the financial explanation, especially the "saving glut" and global portfolio choices, can account for part of the deficits in financial-advanced countries. As for the persistent external deficits of many poor countries, they are often financed by official grants and loans[19]; weak fiscal and monetary authority, weak industrial development, and global firms and capital may also be contributing factors. Other explanations such as smooth consumption, consumer or fiscal profligacy, low savings, economic cycles, and "twin deficit" are less powerful in explaining the "non-random, persistent" global imbalances. Again, none of the extant studies have been able to provide a definitive, universal answer to the question of what causes it. It is a decade-long, complex issue without a "one-size-fits-all" explanation (Blanchard and Milesi-Ferretti 2009; Chinn and Ito 2019). Even the same country can have different explanations at different times; hence, every case should be examined carefully. As well, there may be many causes and associated issues lurking behind the scenes.

4. Global Imbalances and International Politics

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[18] Indeed, the top 20 trade surplus countries in 2021 mostly include resource-exporting countries such as Russia, Saudi Arabia, the UAE, and Qatar, and manufacturing-oriented countries such as China, Germany, Taiwan and South Korea. See: https://www.statista.com/statistics/256642/the-20-countries-with-the-highest-trade-surplus.

[19] See the IMF article: https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Current-Account-Deficits

What role do global imbalances play in international politics? To answer the question, we need to first answer two sub-questions: 1) the real socioeconomic implications of global imbalances in themselves, and 2) the effect of perceptions of global imbalances. The first sub-question asks whether global imbalances have any real socioeconomic effects on their own. The second is mainly about perceptions, that is, even if there are no real impacts, subjective caution, concern, or preference can have political implications.

In accounting, trade, and current account balances are important measures of a country's economic activities and performance abroad. Because the international economy is complicated and transactions are fleeting all the time, states often don't know whether they gain or lose more and what's causing their problems[20]. Naturally, when visible indicators are not many, trade and current accounts enter into policy considerations. Attention to imbalances has a relatively long history and the views are mixed. Mercantilists of the 17 and 18 centuries, though not blatantly protectionist, widely concerned about running trade deficits (Irwin 1996). However, the mercantilists' concern was not with the imbalance itself, but with the possible impacts on domestic economic development and national power by weak exports. In the mid-18th century, British merchants were frustrated by the trade deficits with Spain, which partly led to the War of Jenkin's Ear (Young and Levy 2011). Later in 1839, Great Britain waged the Opium War with China's Qing Dynasty partly due to trade imbalances. Adam Smith, on the other hand, opposed the mercantilist doctrine, arguing that the concerns over trade balance were absurd that one would lose by running simply deficits (see chapter iii, the Wealth of

[20] For example, in 2010, Guido Mantega, Brazil's finance minister blamed the U.S. for waging a currency war by quantitative easing that appreciates the Real; During his tenure, U.S. president Donald Trump has blamed China for trade deficits harming U.S. economy while most economists disagree; In July 2022, after the 2018 bailout by the IMF, Argentina's inflation surpassed 70% without any clues to the solution.

Nations). As David Hume believes, currency appreciation will result in the elimination of trade surpluses (Hume 1904). As opposed to Smith and Hume, however, John Keynes paid particular attention to the question in his late years and proposed the establishment of the International Clearing Union to eliminate trade imbalances at the 1944 United Nations Monetary and Financial Conference. The concerns of Keynes and many contemporary economists were primarily on imbalances' destabilizing effects informed by the Great Depression (Crowther 1948). In the years following the end of the Bretton Woods System in 1971, mainstream economists have largely ceased to be concerned about these issues partly due to the rise of monetarism. Proponents of monetarism, represented by Milton Friedman, argue that some criticisms of trade deficits are unfair – a deficit country is actually buying more from abroad than it's selling, and the difference is financed by foreign investments which lead to economic growth (Friedman and Friedman 1980), echoing the "financial explanations." However, Friedman did caution against a persistent trade deficit as economic issues such as poor savings may lurk. Nonetheless, the "Nixon shock" in 1971 did start to see global imbalances exacerbating. As economists have become increasingly aware of persistent global imbalances, studies have exploded on them.

Economic studies, in general, in the last decade have found mixed results when it comes to the real socioeconomic impacts of global imbalances. Due to the fact that external imbalances, an accounting statistic, are caused by a variety of factors and can reflect a variety of economic activities as described in the previous section, they may be good, bad, or neutral. Therefore, it is important to identify the factors and causes behind imbalances. In the previous section, we discussed how some external imbalances may reflect optimal capital allocation between savings and global investment opportunities (a "win-win" situation, for example, during the American tech boom in the 1990s) or smooth consumption that is essentially self-conscious, whereas others may indicate distortions or risks. Blanchard and Milesi-Ferretti (2009) summarized the distortions and risks possibly indicated by global imbalances, which were particularly strong from 2001 onward. In addition to domestic or unitary downsides (e.g., underprovision of social insurance, asset bubbles, overspending, an over-appreciation of the exchange rate, a crowding out of manufacturing industries, external debt, and financial instability), there are systemic downsides (such as beggar-thy-neighbor, overaccumulation of reserves, and disruptive adjustments triggered by imbalances that can lead to global financial crises).

Bilateral imbalances are generally less of a concern to mainstream economists (though it is less so for non-economists) since it often represents existing global value chain structures and a diversity of industrial structures that seem complementary (Delpeuch et al. 2021). Aggregate imbalances, however, deserve attention. In the context of "financial explanations," aggregate imbalances may indicate macroeconomic vulnerability during periods of adjustment, both globally and at the national level. A historical example is that global imbalances significantly contributed to the 2008 Financial Crisis (Obstfeld and Rogoff 2009; Bernanke 2009)[21]. The "optimal allocation of capital" or "smooth consumption" story notwithstanding, cautions are warranted. Surely, capital seeking safe assets (e.g., China and Japan buying up U.S. bonds and the global capital influx) lead to the "exorbitant privilege" that the United States is able to cheaply finance budgets and

[21] International organizations such as the IMF also hold the same view. See: IMF, "2020 External Sector Report: Global Imbalances and the COVID-19 Crisis," External Sector Reports, August 2020.

imports. It is not the case for other countries, especially the underdeveloped ones, because they cannot produce safe assets and do not have the dominance of the dollar. Exorbitant privilege is not free though. Persistent current account deficits mean the build-up of the ever-increasing liabilities to the rest of the world. The accumulated debt cannot be increased indefinitely, since it must be repaid (Obstfeld and Rogoff 2009), and is particularly concerning when interest rates are high, as it increases the risk of a potential debt crisis (e.g., the European debt crisis, among others). More concerns arise when borrowed funds do not generate long-term productivity gains, which at best raise questions about solvency capacity and makes shrinking future current account deficit ratio almost unlikely, at worst lead to economic woes. Borrowing for financing debt also means decreasing domestic asset position; today, foreigners hold an increasing amount of U.S. and others' domestic assets. As per the Treasury Department, the majority of assets held by foreigners are in equities and debt rather than in production, worth roughly $25 trillion in 2022. In other words, the Americans are selling domestic assets to finance the deficits of imports and budget. This largely distorts the economy by inflating domestic asset bubbles and exchange rates, and crowding out the real economy (Blanchard and Milesi-Ferretti 2009; Oatley 2015). As well, though not necessarily by causation, external deficits reflect less savings than investment compared to the balance case. According to Chinn and Ito (2008), the U.S. external deficit accompanies a "saving drought" rather than an investment boom. Poor deficit countries in particular have low investments and even lower savings. All these raise concerns as savings and investments are related to long term development. In many surplus countries, however, they are usually higher investments and even higher savings.

From the "trade explanation" perspective, external imbalances, rather than balances, amplify the factor reallocation (e.g., factors in the U.S. quickly moved from tradable sectors, mostly manufacturing, to non-tradable sectors in the wake of trade shocks) and exacerbate domestic economic inequality (Dix-Carneiro and Traiberman 2023; Epifani and Gancia 2017; Kehoe et al. 2018). A recent example of this is the structural shift of the economy and social instability in trading partners when China joined the WTO (Autor et al. 2016; Branstetter et al. 2019; Murray 2017; Pierola and Sanchez-Navarro 2019). Possibly more concerning is the fact that manufacturing, or the industrial sector in general, displays significantly more advanced characteristics for economic development than either services or construction. They include significantly increased economy of scale, higher productivity growth, higher innovation and R&D concentrations, stronger economic backward linkages and multipliers, a basis for future industrial innovation[22], and a source for the majority of exports (Autor et al. 2013; Buera and Kaboski 2012; Greenstone et al. 2010). They are all crucial for the long-term productivity growth (namely, economic growth), especially in underdeveloped or non-resource-dependent countries. Moreover, persistent trade deficits may indicate stagnating or declining industrial development (or deindustrialization), unfair trade practices by trading partners, and an over-appreciation of the exchange rate. That said, if a short-term transitory distributional effect on the labor market such as the "China shock" might be healed by time, the persistent imbalances instead point to the chronic issues a country may face.

[22] Core Europe and East Asia has seen a new industrial revolution happening ahead of others. A indicator is the industrial robots density: https://ifr.org/ifr-press-releases/news/china-overtakes-usa-in-robot-density.

From a global perspective, apart from the accumulating world systemic risks mentioned above, global imbalances are closely related to the distribution of global demand across regions (Chinn and Ito 2019), as external balance equals the difference between a country's output and demand. In surplus countries, more is produced than can be consumed, which is especially problematic during periods of depressed global demand (e.g., during global recessions). Demand affects domestic employment. The demand grab and competition are "beggar-thy-neighbor" which can lead to economic conflicts: protectionism and the possible breakdown of global trade, as exemplified in the 1930s and the recent trade disputes and wars. As a result, surplus countries can cause disruptions to deficit trading partners. For example, economists Joseph Stiglitz and Ben Bernanke have argued that the persistent imbalances within the Eurozone are detrimental and surplus countries like Germany hinders economic development outside of it[23].

Global imbalances become trickier when geopolitics enters the scene. A transition from a liberal to a more realist, multipolar order may have been underway as evidenced by the relative decline of the liberal democracies, the great power competition between the U.S. and China, and the invasion of Ukraine by Russia. This naturally leads to more discussions about strategy, security, and philosophy rather than only economics. As mentioned, among the surplus countries in the current economic order are autocracies (China, Russia, and oil states) and industrial mercantilist countries, potentially infringing on the vision of the LIO and the free trade doctrine (see Irwin 1996). When surpluses are

[23] See https://www.nytimes.com/2016/08/21/books/review/euro-joseph-e-stiglitz.html and https://www.brookings.edu/articles/germanys-trade-surplus-is-a-problem

preferable and deficits indicate various problems, this looks bad as if democracies are less competitive. Instead of pursuing natural liberty and the "win-win" division of labor, the doctrine of mercantilism includes strengthening national power by retaining economic production within the borders and accumulating precious metals (foreign reserves in today's terms) for internal and external maneuvering. Most economists reject mercantilism, but its doctrine reflects some of what modern mercantilist countries believe and practice, at the expense of others. This is especially undesirable if the mercantilists are ideological adversaries of low trust. China, arguably a challenger to the LIO runs massive surpluses in goods but a deficit in services such as overseas travel[24]. Due to its gigantic economic capacity, this implies factor reallocation and more tradable industries (including strategic and security-sensitive ones) agglomerating in China, an effect particularly strong in an age that sees extensive trade between intermediate and final goods (Epifani and Gancia 2017)[25], granting the country considerable economic and political power generated by others' dependency (Flores-Macías and Kreps 2013). Dependency on or or assets held by unfriendly states due to deficits pose threats to national security (Hirschman 1945). A future conflict or competition may make economic interdependence conflictual rather than peace-inducing, and the relative gain concern becomes relevant (Copeland 1996; Matthews 1996). Wealth and power are mutually convertible and reinforcing (Mastanduno 1998). The country's hundreds of billions of dollars of yearly surpluses, mainly from net exports, enable it to accumulate foreign

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[24] See https://tradingeconomics.com/china/current-account.

[25] According to the UNIDO, China's global share of mid-high- and high-technology production (value-added) has increased from 8.7% to 35.7%, more than G7 combined, in only 20 years. See https://www.unido.org/resources-publications-flagship-publications/international-yearbook-industrial-statistics.

reserves and assets overseas[26]. This wealth has been used to fund geopolitical projects, and China has made a number of concerning foreign acquisitions, investments, and loans. It is possible that geopolitical risks partly explain why Donald Trump of the U.S. and Ursula von der Leyen of the EU have become more concerned about trade deficits with China lately, with the former threatening to "phase out all Chinese imports of essential goods in four years."[27]

In addition to the real impacts, subjective perceptions can also have real-world outcomes. Despite economic scholars' mixed views on global imbalances - whether they are good or not, and when and where which theories apply best - policymakers seem to have a more uniform view. Global institutions such as the OECD, IMF (IMF 2020) or European Commission have viewed trade imbalances as threats to macroeconomic stability (Delpeuch et al. 2021). Policymakers' concerns, though pointing to the same global imbalance phenomenon, are mostly on the deficit side; surplus countries rarely complain like their deficit counterparts as if they are winners. That said, even if no real causal effect exists from the persistent deficit per se, policymakers may wonder "why my country," which may be true if the country is struggling economically. For them and the public, easily noticed is that surplus countries tend to be regarded as prosperous and strong. Again, surplus countries do usually have a strong tradable sector, either industry or natural resources. There is a sense that many surplus countries seem to have "deeper pockets" when it comes to public provisions like infrastructure and others; this is easily observed in Gulf states, core EU members, and East Asian industrial countries, as

[26] China has reportedly accumulated around $6 trillion foreign reserve, half of which is hidden and allows China to become a global creditor and fund geopolitical projects such as the Belt Road Initiative. See https://www.bloomberg.com/news/articles/2023-06-30/china-has-3-trillion-of-hidden-currency-reserves-setser-says.

[27] See https://www.axios.com/2023/03/05/trump-china-confrontation-trade.

compared to the rest of the world. According to the data, all ten countries with the highest R&D expenditure as a share of GDP maintained persistent surpluses for decades[28]. National income consists of external surpluses by definition, after all. Surplus in itself surely brings benefits: like oil revenue for gulf states, surpluses mean international purchasing power (money to spend on foreign purchases), a greater source of revenues and savings for infrastructure, education, healthcare, and economic development. However, distortion is on the other side of the same coin: many countries with persistent surpluses have been accused of intentionally undervaluing currencies of some variant to boost their economies (Dooley et al. 2005) and bring competitive advantage (Rodrik 2008). In sum, the perception of state leaders might be shaped by all these factors: since they may not be aware of the real causal links, they may mistake the spurious correlation for real causes by believing that external deficits bring problems to their country. One may, of course, intentionally politicize imbalances for achieving other agenda or diverting attention to the real problems.

For the past several decades, most states have adhered to neoliberalism's tenets of market liberalization, deregulation, and economic openness, but neoliberalism’s intellectual foundation is far from secure. Regarding the free trade doctrine, for example, either the early comparative advantage theories, or later intra-industry and intra-firm theories, the core idea is that free trade increases economic efficiency through specialization of production and therefore brings maximum welfare a country can achieve (Irwin 1996). However, free trade theories, based on ideal assumptions that may not

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[28] See https://en.wikipedia.org/wiki/List_of_sovereign_states_by_research_and_development_spending. R&D expenditure and trade surpluses are likely mutually reinforcing. Higher R&D investment may contribute to industrial competitiveness which leads to surpluses, while surpluses provide more revenue room for R&D expenditure.

always be true in reality, have been accompanied by a number of caveats and disputes, such as infant industry development, terms of trade assuming trade balance, increasing returns to scale in manufacturing, trading partners practicing mercantilism and strategic trade policy, and noneconomic objectives such as protecting agriculture and national security. Ricardo himself admits that his comparative advantage theory would result in offshoring of even advantageous sectors where capital was mobile, resulting in job losses and economic decline (Ricardo 1821)[29]. Welfare-focused neoclassical trade theories ignore key social impacts and fail to distinguish between sectoral differences regarding strategic and security implications. In all of the counterarguments, it is clear that adopting a hands-off, laissez-faire approach to global trade and finance would not yield an unconditionally optimal outcome. Additionally, non-economist state leaders may be influenced by the anti-free trade arguments. The skepticism of politicians and protectionist activists towards fully open economies and trade liberalization is not uncommon, especially when their economies seem to be in trouble in liberalized trade and finance. Admittedly, states commit to international economic liberalization for a variety of reasons including not only economists' welfare maximization, but also economic development, social stability and national power (Krasner 1976).

As international politics is internalized and operated within a global community, equality and global justice carry a lot of weight from the perspective of justice. When some countries gain at the cost of others in a globalized environment that promises success, others are deprived of their opportunities and feel unfairly treated. With global

[29] In the canonical example used by Ricardo, both cloth and wine production in the United Kingdom shall move to Portugal that possesses both absolute advantages through the offshoring by British capitalists.

imbalances persisting, the LIO is far from being just. From a Rawlsian perspective, this disparity between winners and losers does not contribute to the improvement of the most vulnerable states, which requires addressing the systemic causes of inequality and ensuring that the most disadvantaged states receive support and opportunities for development. From a Marxist perspective, this is injustice of an inherently unequal capitalist system which requires challenging the underlying structures that perpetuate exploitation.

We have shown, so far, that persistent global imbalances matter in terms of real versus perceptual, local versus global consequences. States have ample and legitimate reasons to not consider persistent external deficits trivial or innocuous. The persistence of external imbalances indicates oft-serious problems, not merely benignity arguments or protectionist and mercantilist mentalities. Studies have long found that international trade generates domestic winners and losers, producing pro- or anti- trade sentiments (Rogowski 1987; Hiscox 2001), and the same is true for topics such as foreign investments and migration. As well, our examination of past evidence indicates that the economic order appears to be dividing states into two groups: those who win and those who lose. In contrast to surplus winner states, deficit states may legitimately believe they are globalization losers. As a result, external imbalances could play an important role when international economics meets international politics.

This paper aims to answer the question: given the varying consequences, do states worry about global imbalances, or the persistent deficits in their own countries? If so, how do concerns play out in international politics, especially in relation to the global order? Historically, states raise concerns, which can be explained by mercantilist thinking at the time. Since international economic liberalization has been mainstream for quite some time, will states disregard it now?

No, seems to be the answer. As Simmons (2000) points out, the weakening and volatility of balances of payments can delay the acceptance of economic openness obligations significantly, in effect influencing preferences toward international economic liberalization[30]. Broz et al. (2016) describe the wide variety of policies governments adopt when dealing with balance-of-payments pressures, including trade restrictions. This implies that policymakers pay attention to the external account imbalances and attempt to reduce the deficit, since "a country running a balance-of-payments deficit is accumulating debts (Frieden and Walter 2017)." Delpeuch et al. (2021) also find that trade imbalances and real exchange rate appreciation lead to more protectionist policies. In a working paper, Spater finds that current account deficits reduce the support of the public for trade openness based on cross-country survey data. There is also non-academic evidence: America's trade deficit of $400 billion with China annually is one of President Trump's major criticisms. China's steadfast defence for globalization is accompanied by a trade surplus of nearly $1 trillion and a current account surplus of hundreds of billions of dollars. Newspaper headlines such as "China promises to address India's concerns over the ballooning trade deficit (Economic Times, 2019)" and "UK trade deficit widens further as exports suffer (The Guardian, 2016)" are not seldomly seen on the internet. By mining the textual content of media coverage collected by NexisLexis for the past 30 years, we find pervasive concerns about trade imbalances. Table 3 shows several examples of such concerns between different countries and China over time. Note that bilateral current

[30] Balance of payment includes current account and capital account.

account deficits are seldom reported. Interestingly, when facing trade deficits in the past, China has also complained to trading partners regarding the issue (titles marked with stars in Table 3). In sum, states still concern and complain.

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

Table 3. Examples of News Titles Showing Pervasive Concerns over Trade Imbalance

The reason why states have embraced economic openness, in general, is because they believe economic liberalization benefits economic development through international trade and foreign investments as theories show, gaining political support from leaders or benefiting their national interests. By signing trade and investment agreements, countries hope to expand their export markets and attract more investment, which would lead to more jobs and tax revenue. Therefore, it is no surprise that states favor exports over imports, problematize imports competition (e.g., Autor et al. 2013), are more unfriendly to countries that bring in cheaper imports than those that consume their exports (Frieden 2002; Gourevitch 1977). This mechanism can shape policies. More imports could have an adverse effect on foreign policy since local interests need to compete against what is less costly (Cutrone and Fordham 2010). A host government is less likely to break its contract with a firm if it purchases more goods in the host country (Johns and Wellhausen 2016).

As part of theory building, we have shown the reasons why states concern and complain about global imbalances. Suppose a state thinks it is a persistent loser, what might it do then? The answer to this question is part of the theoretical mechanism in our paper. Research shows that disgruntled members seek to challenge or reform existing institutions (Lipscy 2015; Morse and Keohane 2014). Furthermore, as global institutions, the economic sub-order or the broader LIO may be preferred or rejected by members based on rational choice institutionalism (Hall and Taylor 1996). According to rational choice institutionalism, individuals' actions are affected by the institutional context and by the behavior of other actors within the institution. In this account, if a state does not perceive significant benefits from being part of the order and sees a group of others exploiting itself, it may react to “change” or “exit” based on a rational assessment of their self-interest, a behavior choice. A change is usually sought before an exit. In addition, exit may not be an outright departure, but could be one of the choices: losing support, threatening to leave, sabotage, and leaving eventually. For instance, the United States, the only remaining hegemon in the world, not only establishes and reforms international institutions, but also exits them (e.g., the Paris Accord) and paralyzes the economic ones (e.g., the WTO). This mechanism echoes Albert Hirschman's classic book "Exit, Voice, and Loyalty (1970)." Borrowing from Hirschman's idea, when a state who does not see itself as net beneficiary from an institution, sees voicing as futile, or does not have a loyal attachment to the institution, the only outcome may be exit. The concept of loyalty might be more relevant for the vast majority of countries in the Global South than for advanced liberal democracies, since many countries in the Global South do not necessarily share liberal political ideals (i.e., ideological loyalty). In order to gain support among them, economic gains may be the most attractive factor. The purpose of this study is to examine the impact of global imbalances on attitudes toward the liberal order. Thus, our first hypothesis is:

> ***H1:*** *The more negative a state's current account imbalance as a share of GDP is, the more likely it is to join an alternative economic order when made ready.*

If our theory is true, one should expect trade imbalance to have a similar effect. Despite this, current account imbalances and trade imbalances may differ in nuance. Based on our review, current account imbalances appear to be more direct and definitive than trade imbalances. State leaders may worry more about current account imbalances than trade imbalances for a few reasons. As current account deficits directly translate to debts, and are more evidently linked to debt, balance of payment and currency crises, policymakers, particularly those on the right, are likely to pay more attention to them. In contrast, trade imbalances do not directly lead to debt issues. Although both imbalances point to hidden problems, they are often difficult to identify and prove, and different countries may have different issues at different times. Thus the degree of concerns vary. Research on trade imbalances seems more mixed and free trade, although being attacked by many, has become a "policy expedient (Irwin 1996)." It is possible trade imbalances may not be as concerning as current account imbalances. As a result, we have a hypothesis for trade imbalances.

H2: *More negative a state's trade imbalances as a share of GDP is, the more likely it is to join an alternative economic order, but to a lesser extent than current account imbalance.*

If a country is more liberal democratic, it may be more likely to adhere to the LIO's tenets. Thus, while democratic states may feel the same degree of discontent as autocracies, they may not abandon the order as fast for a less liberal alternative. In other words, global imbalances may have different effects on democracies vis-a-vis autocracies.

H3: *More negative current account imbalance as a share of GDP will have a smaller effect on democracies versus autocracies in joining a less liberal, alternative economic order.*

Moreover, states' discontent about the economic sub-order may decrease their support for the LIO in general, particularly for those who are not liberal democracies. As an example, the Global South did not actively support Ukraine against Russian invasion, as did liberal democracies[31]. The most salient difference between a potential China-led order and the LIO is that the LIO adheres to liberal norms, including human rights protection. This is particularly relevant in examining the health of the LIO: there has been report that China actively attempts to suppress liberal values and promoting geopolitical agendas within the existing international institutions, with the United Nations being the center stage[32]. As Flores-Macías and Kreps (2013) find, total bilateral trade volumes are associated with voting convergence on the UNGA human right vote between China and Latin American and African countries. An implication of this finding is that the perception of increased trade bringing more benefits may lead states to accept political influence of the other, echoed by other research (Hirschman 1945; Kastner 2016; Keohane 1984). The fact that China runs trade surpluses with most of its trading partners, and if trade imbalances are perceived negatively, states may not endorse China's global influence, and are therefore less likely to join a China-led order.

H4: *More negative a state's trade imbalance with China as a share of GDP is, the less likely it is to lower support for China's global influence.*

5. Empirics

[31] The Global South's losing support for the LIO is well covered, and this is primarily driven by self economic interests. For example, see https://www.foreignaffairs.com/africa/global-south-un-order-oppression, and https://www.economist.com/china/2023/07/06/chinas-message-to-the-global-south.

[32] For example, see https://www.cfr.org/in-brief/china-undermining-human-rights-united-nations.

Having analyzed these hypotheses in the previous section, we now turn to testing them. For hypotheses H1, H2 and H3, we follow the empirical strategy of Broz et al. (2020), whose focus differs from us, by showing that states that suffer in the current order due to global financial instability (e.g., financial crisis) or IMF conditionality tend to support China's role in the global leadership. In their analytical framework, both pull (economic benefits provided by China) and push (grievances about the current order) factors serve as mechanisms for global leadership transition. As with ours, they depict losers in the global economic system as those which suffer from more financial crises, more variable capital account policies, and more volatile net portfolio capital flows since the 1980s. As a result, the losers instead chose to participate in the 2017 "Belt and Road Initiative summit" in China, described by the mainstream media as China's effort for a "new world order", to show their support for a China's alternative. Our focus, global imbalances, seems arguably more hopeless than financial instability in their research, since loser states can mitigate the impact of financial instability by carefully navigating between global and local monetary policies, imposing policies such as capital restrictions and reserve buffers to mitigate impact. As we have seen, the persistent deficits in our story seem insoluble and beyond control for many, even for major policymakers like the U.S. and the U.K.

Broz and coauthors argue that the support for the BRI summit is the closest measure of losing interest in the U.S.-led economic leadership and support for a Chinese one, for which the authors give four reasons: the BRI as the option China provides to the world in the wake of anti-globalization shifts; the BRI as a unique, historical Chinese vision; that attendance at the BRI is a costly behavioral action; and that the BRI targets the existing order's problems. In short, the BRI is the economic challenger by China to the existing economic order and seeks to solve most of existing problems[33]. In our context, we argue further that the measure not only quantifies the support for China's economic leadership, but also reflects the likelihood and the intention to quit the LIO and join an alternative order if it is better, for a few reasons. First, as Broz et al. argue, attendance means the subjective dissatisfaction about the existing economic order and the active seeking for a solution. Once they see a Chinese economic order that emphasizes an institutional design of capital controls, social stability, low loan conditionality, and few political and normative requirements, most of which is what China is doing or advocates doing and the current order is being criticized for, then joining will be highly likely. Second, a China-led economic order will be largely exclusive to the current one based on the publicly noticed goals, functions and norms, as well as the role to support a China-led overall order. Since one has to join China's economic order in order to reap benefits, staying in the old order is not practical because it means also abiding by the old rules and conditions and meaningless if the new one solves one's problems. Thus exit is likely an associated behavior. Third, many states, especially the Global South, largely do not share the liberal vision, dislike many progressive constraints, or benefit directly from collective security measures like NATO. Therefore, discontented states have few reasons to stick to the LIO and not to join an alternative order that aligns with their economic interest and demands few normative requirements. Fourth, even if the attendance is not explicitly an "exit" yet, given that the China-led alternative is currently not a match to the current economic system, things may substantially change in 10-20 years, as China continues to expand its

[33] See the joint Communique of the 2017 BRI summit : http://2017.beltandroadforum.org/english/n100/2017/0516/c22-423.html.

economy, integrate the global economy, further the domination of world industrial production and trade, and internationalize the Chinese yuan; after all, what we essentially study is the sustainability and durability of the current order. China has spent $240 on BRI projects until 2021 and is reportedly trying to make the BRI more multilateral and consensual, rather than unilateral and coercive[34]. Being the largest beneficiary of the current economic order notwithstanding, China's domestic politics are inherently at odds with the LIO, particularly the political and normative tenets. By building its own, the country also fulfills its geopolitical ambitions as a soon-to-be, or already-is, superpower (Doshi 2021). Hence, overall, the attendance as a behavioral action reflects a state's likelihood and intention to join a China-led order if made better.

With that said, the measure of leader attendance at the 2017 BRI summit serves as our proxy for the intention to exit the current economic order if a better alternative is made ready. As the dependent variable, this measure takes on a binary value of 0 for no attendance and 1 for attendance (only the attendance of the head of a state is counted). Because of the binary dependent variable, we also use a probit model that controls for variables in their full main model specified as below:

$$Pr\ (ATTENDANCE_i = 1) = \beta_0 + \beta_1 ExternalImb_i + \beta_2 PullFactors_i + \beta_3 PushFactors_i + \beta_4 Controls_i + \varepsilon_i.\ (1)$$

[34] See https://www.csis.org/analysis/chinese-multilateralism-and-promise-green-belt-and-road.

where ATTENDANCE is the dependent variable. β_1 is the coefficient of external imbalances (current account/trade imbalances), our quantity of interest. Like their model, β_2 is a vector of coefficients for pull factors on country i, including One Belt One Road geographical position, having bilateral trade agreements with China or not, and having bilateral investment treaties with China or not. β_2 is a vector of coefficients for grievances as push factors. For every model specification, we include the most important push factor in the original model: financial instability, measured by the cumulative count of major financial crises between 1990 and 2017. β_3 is a vector of coefficients to be estimated for a set of control variables, including the UNGA Ideal Point distance from China, regime type[35], leader ideology, whether in Africa or not, GDP, GDP per capita, average GDP per capita growth (2013-2016), and the CIRI Human Rights Index. ε_i is the error term.

[35] For about 10% of countries which are mostly smaller Pacific and Caribbean countries and are missing for Polity IV measures, we use the Freedom House Index to interpolate the missing values.

	Dependent Variable: Attendence (0/1)					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Current Account Balance		-0.067^{**}		-0.177^{**}	-0.154^{*}	-0.295^{**}
		(0.025)		(0.059)	(0.069)	(0.111)
Trade Balance			0.004	$0.071^{\cdot}$	0.052	0.075^{*}
			(0.016)	(0.036)	(0.042)	(0.034)
Current Account Bal. x Trade Bal.					-0.002	
					(0.002)	
Current Account Bal. x Regime Type						$0.020^{\cdot}$
						(0.010)
(Intercept)	-0.373	-2.286	0.376	-1.743	-1.810	-2.197
	(1.258)	(1.680)	(1.943)	(1.944)	(2.038)	(1.973)
BRI Position	0.776	0.565	0.451	0.779	0.800	0.892
	(0.432)	(0.475)	(0.532)	(0.560)	(0.563)	(0.554)
FTA with China	0.379	0.567	0.227	-0.047	0.024	0.082
	(0.369)	(0.457)	(0.478)	(0.578)	(0.609)	(0.614)
BIT with China	1.164^{**}	1.411^{*}	1.128^{*}	1.236^{*}	1.202^{*}	1.270
	(0.414)	(0.577)	(0.481)	(0.592)	(0.600)	(0.676)
Financial Crises (count)	0.089^{***}	0.122^{***}	0.092^{**}	0.108^{***}	0.108^{**}	0.122^{***}
	(0.025)	(0.032)	(0.029)	(0.033)	(0.034)	(0.034)
Ideal Point Distance	-0.568	-0.844^{**}	-0.828^{*}	-1.289^{**}	-1.323^{**}	-1.347^{**}
	(0.311)	(0.324)	(0.343)	(0.424)	(0.448)	(0.455)
Regime Type	-0.018	-0.054	0.029	0.023	0.019	0.063
	(0.034)	(0.046)	(0.049)	(0.059)	(0.061)	(0.065)
Leader ideology	-0.122	-0.272	$-0.304^{\cdot}$	$-0.398^{\cdot}$	-0.410^{*}	-0.486^{*}
	(0.128)	(0.149)	(0.159)	(0.208)	(0.203)	(0.199)
Africa Dummy	$-1.153^{\cdot}$	-1.077	-1.803^{*}	-1.628^{*}	-1.612^{*}	-1.600
	(0.604)	(0.638)	(0.859)	(0.812)	(0.815)	(0.912)
GDP Per Capita Growth	0.013	0.011	-0.011	0.007	0.003	-0.004
	(0.025)	(0.025)	(0.029)	(0.033)	(0.034)	(0.031)
GDP	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP Per Capita	-0.227	0.038	-0.257	0.022	0.031	0.035
	(0.176)	(0.222)	(0.262)	(0.241)	(0.257)	(0.260)
CIRI Human Rights Index	0.093	0.024	0.064	0.001	0.034	0.027
	(0.137)	(0.158)	(0.163)	(0.164)	(0.189)	(0.178)
Num of Obs.	154	123	128	106	106	106

Notes: $^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$; $^{\cdot}p < 0.06$

Table 4. The Impacts of External Imbalances on Support for China's Leadership

Table 4 shows the results of all model variants. Model 1 is their original specification. All our models control for the same variables in model 1. In model 2 and model 3, we add current account balance and trade balance respectively, both as a share of GDP. Model 1 shows that current account is negatively correlated with attendance with the expected sign. In comparison, trade account in model 2 has a positive sign, but not significant. Note that these two models may be biased since we need to put in the theoretically possible variables and interaction terms. Model 4 puts two accounts together, resulting in current account balance being significant at 1% level and trade balance at around 6% level. Interestingly though, the coefficient of trade balance is consistently positive (also in models 5 and 6), with the magnitude of current account balance becoming larger with still a negative sign. This suggests that if a country's average current account balance for the past 20 years is lower by ten percentage points, it raises the odds of joining a China-led order by 83% (1-e^(-1.77)). The positive sign of trade balance is counterintuitive; it looks like when a state runs higher trade deficits, it turns away from China – contradicting our hypothesis (H2) that expects trade account to have a similar, yet weaker effect as current account. One interpretation might be that states do not see China as a solution provider for trade imbalances, even if they worry about it. This is plausible since China's mercantilist trade practices have been accused by many as "predatory trade," "brute force economics" or "China Inc." (Tobin 2023; Wu 2016), and China runs trade surpluses with most trading partners, not to mention the famously known "China shock" which occurs in many countries. For example, the recent exit from the BRI by Italy explicitly mentions China exports too much to it. Instead, many states may expect Chinese to help only when they have current account problems[36]. Model 5 adds the interaction term of current and trade accounts to show whether states worry less about one of the two when the other remains higher; after all, they are two different statistics. The coefficient of the interaction term is insignificant. The last one, model 6, adds an interaction term between current account and regime type. We expect that when states are more democratic, it might be harder for them to join a less liberal order than the autocratic counterparts. The interaction's coefficient is positive and significant at around 5.7% level. It means between full autocracy (-10 in Polity IV) and full democracy (10), the effects of current account balance are -0.09 and -0.49 for democracies and autocracies respectively, with the latter five times as the former. Democracies tend to stick more to the LIO, but the probability of their exits are still non-zero if they feel suffered.

Next, as in hypothesis 4, we are about to test whether trade imbalances might have a negative impact on the support for a potential China-led order. As the tests above revealed, trade imbalances seem to hinder the attractiveness of a China-led order, corroborating the hypothesis that higher trade deficits lead to fewer supporters, not more. In testing H4, we hope to provide more auxiliary evidence. Due to the less interest liberal democracies have shown in such an order, we will focus on the Global South. To avoid confounding geographical and historical factors, like Flores-Macias and Kreps (2013), we also limit the scope of states to Africa and Latin America. We extend their data beyond 2005 until 2016. Surprisingly, the new pattern (the red rectangle in Figure 4) reveals that the average vote convergence of Latin American and African countries with China began

[36] Note that the debt-trap accusation of the BRI didn't exist during the summit in May 2017 until two months later in July when Sri Lanka's Hambantota Port was handed over to China for 99 years. Also note that the debt-trap claim is under debate. See: https://www.chathamhouse.org/2020/08/debunking-myth-debt-trap-diplomacy/1-introduction.

to decline while their trade salience with China continued to rise. Interestingly, the average trade deficit (% of GDP) with China for these countries widened from around -0.3% in 2002 to the lowest -3% in 2015 persistently. It appears that once states become aware that China exports more than it imports, and their trade deficits endlessly widen, they become less supportive of China's agenda.

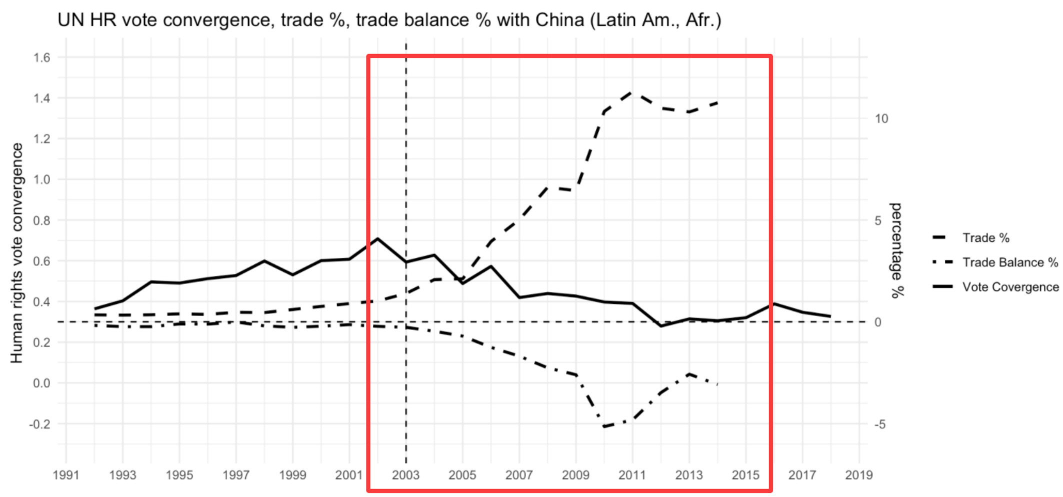

Figure 4. Trade with China and UN Human Rights Vote Proximity (LatAm and African countries)

We use a number of standard control variables to account for the influence of factors that may affect states' foreign policies in Flores-Macias and Kreps (2013), as well as in Gartzke and Li (2003). We will use unit and time fixed-effects models to control for unit specific, time-invariant confounders such as distance or religion, and time-specific, unit-invariant confounders such as China's global reputation rise or decline. The main OLS model is as follows:

$$UNCov_{it} = \beta_1 CHNTradeImb_{it} + \beta_2 CHNTotTrade_{it} + \beta_3 USTotTrade_{it} + \beta_4 JointDem_{it} + \beta_5 CINC_{it} + \beta_5 HR_{it} + \alpha_i + \lambda_t + e_{it} \quad (2)$$

where $UNCov_{it}$ is the *dependent variable*: the UN votes converge on human rights with China. Following the authors, this measure takes the value of 1 if the country voted in agreement with China (yea, nay and abstain); a value of 0 if the country voted in disagreement with China; and a value of 0.5 if one country voted in favor or against but the other abstained. $CHNTotTrade_{ijt}$ is the total trade volume with China in year t which is exports plus imports. Total trade volume is expected to positively affect foreign policy convergence. All trade flows data are in current US dollars. $CHNTradeImb_{it}$ is the trade imbalance with China of a country in the year t. Trade imbalance is constructed using exports minus imports. $USTotTrade_{it}$ is the total trade volume with the US to control for possible US influence against China. $jointDem_{it}$ is the joint democracy value between a country and China where data is from Polity IV and takes the value of one if both countries are not democracies (-10 to 5) in a given year t. $CINC_{it}$ is the composite indicator of national capability, which incorporates demographic, industrial, and military indicators that “reflect the breadth and depth of the resources that a nation could bring to bear in instances” of conflict (Correlates of War 2005). This is to control for the effect of national power on states’ foreign policy choices (Oneal and Russett 1999). Lastly, HR_{it} is a human rights variable that reflects the trade partner’s human rights practices. The source of this variable is the Political Terror Scale (PTS).

	Dependent Variable: UN HR Vote Converge			
	Model 1	Model 2	Model 3	Model 4
Total Trade w/ China (pct.)	−0.007	−0.007	−0.007	−0.005
	(0.004)	(0.005)	(0.005)	(0.005)
Trade Balance w/ China (pct.)		0.000		
		(0.004)		
Trade Balance w/ China (pct., lag)			0.000	
			(0.004)	
Trade Balance w/ China (pct., std.)				−0.020
				(0.011)
CINC	−0.084	−0.085	−0.085	−0.090
	(0.063)	(0.124)	(0.123)	(0.118)
Joint Democracy	0.177***	0.177**	0.177**	0.174**
	(0.028)	(0.064)	(0.064)	(0.063)
Total Trade w/ the U.S. (pct.)	0.000	0.000	0.000	−0.000
	(0.001)	(0.002)	(0.002)	(0.002)
GDP (log)	0.078*	0.078	0.078	0.083
	(0.035)	(0.051)	(0.051)	(0.049)
Num of Obs.	762	762	762	762

Notes: $^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Table 5. Effects of Trade Imbalances on the UN Human Rights Vote Convergence

Table 5 shows the results of the effects of trade imbalances on the UN human rights Vote Convergence. Model 1 resembles the one used in Flores-Macias and Kreps (2013), with extra time-fixed effects and elongated years (1993-2015 instead of 1993-2006). Unlike their result, total trade with China has no effect in the two-way fixed effect model. In model 2-4, we add trade balance with China as a percentage of GDP with the lagged and standardized forms. Trade imbalances in none of the models are significant, showing that trade imbalances may not lead states to be (or not to be) subject to China's political influence. Joint Democracy is significantly positive, meaning that the more similar one's regime type is with China, the more vote convergence is, re-demonstrating the view that autocracies are more supportive of a potential China-led order. The reasons why trade imbalances seem to hinder states' interest in joining a China-led order, yet have no effect on the UN vote are multifaceted: in previous tests, we use states' average *aggregate* trade imbalances of the past 20 years, while here we test the yearly *bilateral* trade imbalance with China for within-unit variations across time. A bilateral trade imbalance is usually less problematic than an aggregate imbalance, as discussed in Section 3. In addition, trade imbalances may be less concerning than current account imbalances as mentioned, so the effects can be quite ambiguous. Also, states may not pay timely attention to the yearly change and translate it into a UN vote; it may take longer for states to notice it and feel the pain. Nevertheless, the null result of bilateral trade imbalances does not contradict our main result that perception of trade, positive or negative, does not seem to push states to a China-led order since China's trade practices are controversial[37]. States seem to hold an ambivalent view on a China-led order even if it is more economically focused. An alternative order has to show it's better (Lake et al. 2021). For those who worry about trade deficits, ceteris paribus, although the U.S. is no less prone to trade discrimination or exceptions, it is largely market-oriented and runs deficits, perhaps still better than an outright mercantilist competitor.

[37] This is not to say trade imbalances of China's trading partners are mostly generated by China. They seem to have other causes, possibly including weak monetary admins, volatile commodity prices, and multinational corporations and global capital. In contrast, China's trade practices seem to work in a more persistent and gradual way, especially for states of mid and large sizes.

6. Conclusions and Discussions

This paper speaks to the decade-long issue of global imbalances, one of those that most plague economists and policy makers. We have shown that global imbalances are non-random and persistent and this not only has economic implications, but weakens the legitimacy of the current international order. Our analysis and literature review indicate that deficit states, which account for over half of the total states and mostly from the Global South, suffer in the current order substantively and perceptually, compared to their surplus counterparts who express “winner traits.” Losers have ample reasons to raise concerns, and after decades of no hope for change, they are more inclined to exit the existing order if a better alternative is available, proxied by their active support for a China-led challenger. On the other hand, the winners, often mercantilists and creditors, may not be the success symptoms of the order; they may undermine it in the long run. The nuance we find, however, is that current account imbalances exert a far greater effect than trade imbalances, which, by contrast, may hinder the centrifugal force because states complaining about higher trade deficits may not see China as the solution due to its widely known, controversial trade practices. Regardless, our findings have implications for the LIO as a whole. It is possible that members suffering from economic suborder will not support the LIO since they do not share the core liberal tenets at least for the foreseeable future.

It's worth highlighting that loser states are not necessarily worried about the numbers per se, but often the associated issues behind the scenes, acute or chronic, such as the risk of uncontrollable debt and financial crises, the loss of developmental opportunities, fiscal incapacity, and the perception of unfair treatment in global finance and trade, all of which are relevant to the vast developmental Global South particularly. Put differently, external imbalances are a reflection of problems and are the focal points that attract attention from the leaders of suffering states. A major builder of the current order, the United States, nearly altered the economic order by paralyzing its key part, the WTO, largely because of astonishing trade deficits. Likewise, China, the largest surplus country in the world, becomes a staunch advocate of free trade.

Our paper unveils that there is a structural issue and that the economic order is unsustainably constructed, as well as the LIO. Obstfeld and Rogoff (2009) propose multiple methods to mitigate global imbalances, including effective financial regulation, tightening monetary policy, coordinating response to large imbalances, abandoning mercantilism, not accumulating reserves, and improving financial development in the poorer economies. These proposals often need system overhauls or are politically or economically impossible, making the issue more intractable. Furthermore, they do not necessarily address the underlying problems. From both the order design and its member perspective, efforts have been tried, including the embedded liberalism and states' policies to protect social stability (Nooruddin and Rudra 2014). Global imbalances, however, seem far beyond control. The fact that global imbalances have persisted for nearly three decades indicates the degree of inevitability and insolubility. The associated problems and declining support make it difficult to sustain the order. In our view, the fundamental cause may be rooted in system design that features hyper-globalization (excessively free capital and goods flows and globalized, yet increasingly concentrated production), coupled with large-scale mercantilism, which also caused other issues like interdependence mess and the rise of challengers. In the absence of a fundamental design change, members may only be able to stay if no better alternative emerges soon. However, this assumes that dissatisfied states or China won't be able to come up with an alternative. The Chinese model of capital controls, industrial development, and social stability has made China a success story and is being incorporated into China-led international institutions. The Chinese government is reportedly improving global governance, dealing with debt issues, and hosting import exhibitions to attract more imports. With China's expanding industrial output already larger than that of the G7 combined, and the integration of the global economy, one shouldn't write off the possibility given the progress and LIO issues.

Another implication that is problematic is on the LIO's normative goal. Although democracies are less likely to support a China-led economic order, the current economic system doesn't seem to favor them, emerging democracies in particular. Instead, autocratic and mercantilist countries thrive instead at others' expense; they get rich and strong but in turn challenge the order[38]. In other words, even the winners are not LIO supporters, let alone losers. Literature has shown that neo-mercantilism, state capacity, and authoritarian government progressed hand in hand after the Cold War (Spruyt 2009). China, Russia and autocratic oil states, with rents from excessive exports, provide public goods or side payments to dissidents without making concessions or build a public perception of “autocracy delivers (perhaps better)” – essentially an inverse relationship between rentier economies and democracy (Chaudhry 1997; Karl 1997). In retrospect, the economic order was designed as an integral part of the liberal order, largely established

[38] For example, the Shanghai Cooperation Organization (SCO), a China-led political economic and security overarching institution, primarily consists of authoritarian states, with goals and norms often contradicting the LIO.

and expanded to support democracies' prosperity and safety as the normative end. This issue again relates to the design of the system, which shapes the outcome. A large part of the design of the system was premised on neoclassical economics, which has a utilitarian focus and neglects normative questions and goals, i.e., what kind of world we expect to live in. Reforms need to be oriented in this direction.

We differ from two sets of papers in our paper. A large number of economic studies have been published on the causes and effects of global imbalances. Their focus is not only economics, but they also tend to have a U.S. centric view that neglects the legitimacy and sustainability of an international regime, which is the LIO in our context. Furthermore, we distinguish from the globalization backlash papers in that they often seem to identify problems that can be addressed within the same LIO framework, such as issues on domestic labor market, migration, and climate change. These problems are not structural to the LIO and can be mitigated with the right policies without overhauling the LIO or given enough time. Our findings reveal the chronic, systemic issue caused by the flawed design of the current economic sub-order that makes the LIO theoretically unsustainable: how one leaf could doom the tree.

A number of important policy implications follow, especially in terms of U.S. foreign policy and grand strategy. According to our analysis, the economic order should be scrutinized for its system design that promotes free capital flows, trade, and mercantilism without thinking about the LIO's social purposes. Moreover, if the U.S.-China great power competition will dominate international politics for a foreseeable future, building a justified, balanced, and inclusive order is crucial. Financial reform should be the first step. A certain degree of capital restrictions should be allowed for developing countries, apart from the current "escape clauses" that allow emergency actions. In trade and investment agreements and other global rules, social stability and economic development should take precedence over the interests of multinational corporations and global capital. The second reform relates to mercantilism. It is true that some of the East Asian mercantilist states have gradually returned to normal (such as South Korea, Japan, or TaiwanIt is true that some of the East Asian mercantilist states have gradually returned to normal (such as South Korea, Japan, or Taiwan). Despite this, China's mercantilism continues and is even more disruptive because of its economic size (e.g., four times Japan, ten times South Korea, and 40% of global industrial output). As a result of mercantilism, factor displacement and global supply chain agglomeration are ongoing, which threaten opportunities, security and justice throughout the world. Therefore, tariffs on Chinese goods may be justified as a way of re-raising trade barriers and costs to correct the issue. Moreover, the exchange regimes need further reforms. Specifically, the international community should watch those with persistent external surpluses, especially those who manipulate currency or peg the dollar (such as oil producers). A third reform area should focus on the LIO's normative goals. The Global South, constituted by many emerging democracies, is apparently losing interests in the LIO primarily because of the negative perception of self economic interest. In essence, what the economic order benefits are not the inherent supporters of the LIO. As rules shape outcomes, emerging democracies should be given preferential treatment, similar to the most favored nation status and generalized preferences. With neoclassical economics and utilitarianism as the once guiding philosophy in decline, social purposes should take on a greater role. As an example, perhaps tariffs based on good governance should be considered (similar to the European Union’s carbon tariffs). When the U.S. and its partners still lead, it is essential to redesign the economic order to be more fair and widely accepted, and align with LIO's social purposes. This is in line with the U.S. strategy too: the fact the U.S. paralyzes the WTO and is forced to join a subsidy war with China reflects the dissatisfaction with the economic order, exactly due to global imbalances. But this does not mean the U.S. wishes an outright leave or abandoning of the LIO (see both 2017 and 2022 National Security Strategy). Inaction could result in more contentious international politics, a loss to an alternative order, or a repeat of the collapse of the Bretton Woods system without much preparation.

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