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July, 2016

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**China's Contradictory Grand Strategy
Manifestations:
Examining the Rare Earths Export Restrictions
and the One Belt, One Road Initiative**

Lukas K. Danner*

In the past few years, China has exhibited a rising assertiveness in international relations, including trade, although its official grand strategy remains "Peaceful Development." Examples of this contradictory trajectory are China's rare earth elements export restrictions (assertive) and the One Belt, One Road initiative (peaceful). This article seeks to establish, on the one hand, whether or not these examples are conforming to or

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diverging from “Peaceful Development,” and therefore actually a manifestation of the alleged rising assertiveness on China’s part, and on the other hand, identify the reason why China is acting ambivalently. To accomplish this, this article gives historical-cultural context to the analyzed cases in order to explain them via an innovative approach using intangible factors rather than the more commonplace materialist explanations. Results of the analysis show that for the understanding of these grand strategy manifestations and their (at times) perceived rising assertiveness and inconsistency, a good grasp of China’s historical memory and sense of legitimacy is determining.

Keywords: China, Grand Strategy, Peaceful Development, Rare Earth Elements, One Belt One Road

Introduction

In the past three decades, China has undergone an unprecedented economic growth. Parallel to the development of the market, the rise of China to great power status was given out as an important goal of the government. This was framed as China's official grand strategy and called "Peaceful Development" (PD). It was first popularized under a different name, though, i.e., "Peaceful Rise," and mainly promoted by Chinese policy advisor Zheng Bijian. A 2005 *Foreign Affairs* article by Zheng then made it more well-known in the West, too. Though, as mentioned, the name was then changed to "Peaceful Development," as "rise" still carried an implicitly more aggressive connotation, whereas "development" had merely a positive economic one.¹

¹ For more in-depth accounts on "Peaceful Development," see, e.g., Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs*, Vol. 84, No. 5 (September/October 2005), pp. 18-24; Barry Buzan, "The Logic and Contradictions of 'Peaceful Rise/Development' as China's Grand Strategy," *The Chinese Journal of International Politics*, Vol. 7, No. 4 (Winter 2014), pp. 381-420; Barry Buzan, "China in International Society: is 'Peaceful Rise' Possible?" *Chinese Journal of International Politics*, Vol. 3, No. 1 (Spring 2010), pp. 29-33; Zhang Feng, "Rethinking China's Grand Strategy: Beijing's Evolving National Interests and Strategic Ideas in the Reform Era," *International Politics*, Vol. 49, No. 3 (2012), pp. 318-345; Timothy R. Heath, "What Does China Want? Discerning the PRC's National Strategy," *Asian Security*, Vol. 8, No. 1 (2012), pp. 54-72; Yuan-Kang Wang, "China's Response to the Unipolar World: the Strategic Logic of Peaceful Development," *Journal of Asian and African Studies*, Vol. 45, No. 5 (October 2010), pp. 554-567; Yi Xiaoxiong, "Chinese Foreign Policy in Transition: Understanding China's 'Peaceful Development,'" *Journal of East Asian Affairs*, Vol. 19, No. 1 (Spring/Summer 2005), pp. 74-112; or Jia Qingguo, "Peaceful Development: China's Policy of Reassurance," *Australian Journal of International Affairs*, Vol. 59, No. 4 (2005), pp. 493-507.

The 2008 global financial crisis which started in the U.S. and hit the West first has been said to have triggered a change in perception on the part of China: As the West now seemed to decline faster, China seemed to be relatively stable and return relatively quickly from the crisis.² This, according to many scholars, has brought about an increased assertiveness in China's international behavior. Since then, China has claimed territory in the East and South China Seas more aggressively—reinforced with so-called “island building”—, has created its own international organizations, i.e., the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) headquartered in Beijing and Shanghai, respectively, or has implemented stricter export restrictions on rare earth elements (REEs)—all of which were perceived by the West and many of China's neighbors as revisionist behavior, challenging the existing international peace. Still, China continued also with its peaceful side of its PD grand strategy, as for example an increased participation in United Nations peacekeeping missions, or the One Belt, One Road (OBOR) major diplomatic initiative.

This article tries to shed light on this allegedly contradictory behavior China exerted since 2008: Serving as the assertive case, the export restrictions on REEs from 2010 until early 2015 (i.e., in the timeframe they were—albeit unofficially and

² To many, “global” financial crisis is a misnomer, as the crisis was mostly one that originated and affected the West. As China is very dependent on exports and, therefore, the health of the global economy, it naturally was affected by it, too.

unadmittedly—in place); and the OBOR initiative will be analyzed as the peaceful case. Needless to say, such actions have reinforced the Western perception that China often acts ambivalently—as the PD grand strategy runs counter to actions such as the REE export restrictions (and—though peaceful—some may misinterpret the OBOR as expansionist and, therefore, assertive, too).³ Already over two millennia ago, Thucydides identified three driving forces of international relations: fear, interest, and honor. While the former two are material, tangible forces, the latter is an intangible, non-material force. Most explanations of China's contradictory behavior use materialist approaches based on fear (military considerations) or interest (economic calculations). However, this article will rely on the driving force of honor and will argue that historical context and legitimacy are key in understanding China's motivation in sometimes acting contradictory to its PD grand strategy. Therefore, a non-materialist approach will be utilized.

In order to make sense of this for both of the above-mentioned examples, first, the article is going to take a closer look at how exactly these cases unfolded. Second, the cases will be connected to China's history and sense of legitimacy—contextualizing it with its historical memories of

³ This article follows the theoretical assumption that grand strategy is divided into diplomatic policy, economic policy, military strategy, and external and internal legitimacy within each of those so-called grand strategy design inputs. Therefore, it treats the export restrictions on REEs and the OBOR initiative as manifestations of China's grand strategy within economic policy and diplomatic policy, respectively.

having been a respected civilization and regional hegemon within its tributary system (i.e., the “China Dream”) but also of been humiliated at the hands of the West and Japan with lost wars, ensuing unequal treaties and consequential semi-colonization and eventual Japanese occupation until 1945 (i.e., the “Century of Humiliation”).⁴ Third, actual convergence with or divergence from PD will be established. And fourth, alternative explanations will be weighed against the non-materialist explanation presented here.

To be able to analyze the present case against the PD grand strategy, seven most important factors of PD were extracted from pertinent sources:⁵ (1) defending China’s territorial integrity, (2) increasing national power, (3) anti-hegemonism, (4) maintaining a favorable economic market, (5) acting in an internationally responsible way, (6) preventing that other nations view China as a threat, and (7) generally increasing China’s reputation.

⁴ To read more on the “Century of Humiliation,” see, e.g., Zheng Wang, *Never Forget National Humiliation: Historical Memory in Chinese Politics and Foreign Relations* (New York: Columbia University Press, 2012).

⁵ For more in-depth accounts of PD, see, e.g., Buzan, “The Logic and Contradictions of ‘Peaceful Rise/Development’ as China’s Grand Strategy,” Zheng, “China’s ‘Peaceful Rise’ to Great-Power Status,” and the two government white papers on PD, i.e., State Council of the People’s Republic of China, *China’s Peaceful Development* (Beijing: Information Office of the State Council of the People’s Republic of China, 2011), at <http://in.chineseembassy.org/eng/zt/peaceful/t855717.htm>. (Accessed July 5, 2016); *China’s Peaceful Development Road* (Beijing: Information Office of the State Council of the People’s Republic of China, 2005), at <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN023152.pdf>. (Accessed July 5, 2016)

The REE Export Restriction Case

In 2010, China significantly diverged from its grand strategy of “Peaceful Development” (PD) when it enacted export restrictions of rare earth elements,⁶ which effectively amounted to an embargo against Japan sanctioning its behavior in an incident with a Chinese captain taken into custody by the Japanese authorities in the East China Sea:

On September 7, 2010, a Chinese fishing boat collided with Japanese patrol vessels near the disputed islands known to the Chinese as Diaoyu and to the Japanese as Senkaku. The Chinese boat's captain and his crew were detained by the Japanese coast guard and taken to Japan, over the Chinese government's strenuous objections. In response, China blocked a number of rare earth exports to Japan, and arrested four Japanese nationals for allegedly trespassing in restricted Chinese military areas.⁷

⁶ REEs are “a set of 17 chemical elements in the periodic table that include 15 lanthanides (lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, lutetium), as well as scandium and yttrium” see: Daniel Pruzin, “WTO Rules against China on Rare Earths Export Restrictions,” *Bloomberg BNA*, March 28, 2014, at <http://www.bna.com/wto-rules-against-n17179889210>. (Accessed July 3, 2016) The export restrictions enacted by China included also Tungsten and Molybdenum, which are outside of the earth elements category but rather are metals.

⁷ Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (New York: Henry Holt and Company, 2015), p. 204.

It was by no means an embargo outspokenly instituted against the Japanese. Rather, because Japan was the main importer of REEs necessary for many products in the semi-conductor or automobile market, this general limitation of exports effectively amounted to an embargo against Japan. These actions by China against Japan, in particular, must be seen within the context and knowledge that China has a quasi-monopoly on the production and export of REEs in the world:

The one commodity where China is accused of mercantilist and monopolist behavior is in so-called rare earth elements, a category of seventeen metallic elements used in high-technology applications as wide ranging as automobile catalytic converters and hybrid engines, compact discs, cell phones, computer display screens, communication systems, missile guidance systems, laser-guided weapons, and high-temperature superconductivity. China is the world's leading producer of rare earths, controlling 95 percent of existing global production and producing more than 120,000 tons in 2010. What is controversial is that China has restricted exports of domestically mined rare earths, which (given its semimonopoly status) severely affects foreign manufacturers of high-tech equipment.⁸

Before the 2010 incident, China had begun to implement a

⁸ David Shambaugh, *China Goes Global: the Partial Power* (Oxford: Oxford University Press, 2013), p. 173.

general export policy which was more beneficial to the prices it could obtain for REEs; as Shambaugh writes:⁹

Beginning in 2009 China began restricting exports of a number of these mineral elements by substantially lowering preset quotas for exports to the European Union [EU]. As a result, the EU—together with the United States and Mexico—filed a case with the World Trade Organization WTO [arguing that China's near monopoly on production combined with its unilaterally restricted exports was discriminatory behavior violating WTO free trade rules by applying export quotas. In July 2011 the WTO agreed, ruling against China. China then denied it was intentionally restricting exports and manipulating the international market by arguing that its production and export quotas were appropriate and fair, and it appealed the ruling. In January 2012, China lost the appeal before the WTO Appellate

⁹ *Ibid.*, p. 173. Contrary to Shambaugh, Smith sees this process of export restrictions as having begun even prior to 2009: “Even before the 2010 incident, the Japanese government struggled to gain Chinese acquiescence in maintaining access to these rare earth minerals. Then in 2006 China began to impose quotas on its exports to ensure environmentally sound practices of extraction but also to ensure that its domestic manufacturers had priority access to them. Although Japanese government officials sought continued access to China’s rare earths, Japan’s quota has already been reduced, as have the quotas on exports to other nations, with China cutting its exports by half since 2005, from 65,580 tons to 31,130 tons in 2012.” See: Sheila A. Smith, *Intimate Rivals: Japanese Domestic Politics and a Rising China* (New York: Columbia University Press, 2015), p. 201f. Indeed, 2005 was the origin of this quota system. See also, e.g., Yap Chun-Wei, “China Ends Rare-Earth Minerals Export Quotas,” *Wall Street Journal*, January 5, 2015, at <http://www.wsj.com/articles/china-ends-rare-earth-minerals-export-quotas-1420441285>. (Accessed July 7, 2016)

Body. This was a prime example of China's state-dominated mercantilist trading practices bumping up against international regulators.

The case's further development saw the appeal to the WTO by the U.S., Japan, and the EU in 2012, China's losing the case in 2014, China's appeal of the WTO verdict shortly thereafter, and the rejection of the latter by the WTO in the same year. Since early 2015, the REE trade has been unrestricted, but by 2012, China had lost its leverage over Japan with this export restriction as Japanese demand decreased and Japan sought REEs elsewhere.¹⁰ The period during the WTO case more or less coincided with the diplomatic ice age between China and Japan from late 2012 to late 2014, when the Senkaku/Diaoyu Islands dispute flared up again and tensions were high.

Detailed Course of Events of the REE Case

As mentioned earlier, the case had its origin in an area seemingly unrelated to economic policy,¹¹ that is, the collision of

¹⁰ See, e.g., Kyodo, "China Losing Rare-Earth Diplomatic Leverage over Japan; Exports Hit Lowest Level in 10 Years," *Japan Times*, October 25, 2012, at <http://www.japantimes.co.jp/news/2012/10/25/business/china-losing-rare-earth-diplomatic-leverage-over-japan-exports-hit-lowest-level-in-10-years/#.VehyyJd81GI>. (Accessed July 7, 2016)

¹¹ This seems unrelated to economic policy apart from the fact that large quantities of fossil natural resources like oil and/or gas are said to be under the seabed in this area of the East China Sea—most prominently the Chunxiao gas field which is located Northeast of the Senkaku/Diaoyu islands and Northwest of Okinawa. With China contesting the territorial ownership of Japan,

a Chinese fishing boat with two vessels from Japanese coastal law enforcement on September 7, 2010. Japanese authorities seized the captain of the Chinese ship together with his crew as a consequence. Japan released the boat and 14 of the crew less than a week after the incident. Tokyo, however, kept Captain Zhan Qixiong in custody, where he remained pending investigation.¹² Even so, China expected Japan to immediately release its captured citizen and apologize for seizing him and his crew in the first place. Equally assertive was how China's behavior translated on the diplomatic level:

*Beijing's initial reaction was to issue a series of diplomatic protests, broadcast increasingly harsh statements from the Foreign Ministry, cut off ministerial-level contacts and refuse to go forward with a meeting this week between Chinese Premier Wen Jiabao and Japanese Prime Minister Naoto Kan on the sidelines of the opening session of the U.N. General Assembly.*¹³

especially what concerns the Senkaku/Diaoyu Islands, this may be said not only to be a political or security-related concern but also related to China's economy and economic policy. In terms of the latter this would be mainly pertaining to China's energy security strategy, i.e., to augment the market and attain as many natural resources as possible to be in a position to fuel growth of its market for decades to come. Besides this potential existence of fossil resources, the fishing grounds near these islands are known to be very rich as well, and therefore can be considered valid to China's economy, too.

¹² See Gordon G. Chang, "China's New Economic Warfare," *Forbes*, September 24, 2010, at <http://www.forbes.com/sites/gordonchang/2010/09/24/chinas-new-economic-warfare>. (Accessed July 7, 2016)

¹³ *Ibid.*

Besides these measures, “China has also detained four Japanese nationals on suspicion of violating a law protecting military facilities.”¹⁴ Japan, however, expected China to pay for damage to the vessels and issue an official apology for encroaching into Japanese waters:

[I]n September 2010, a Chinese fishing boat intentionally rammed two Japanese Coast Guard vessels near the disputed Senkaku/Diaoyu Islands, prompting Japanese authorities to detain the fishing boat’s captain. Far from expressing embarrassment or offering an apology, Beijing instead demanded an apology for itself and flatly refused Japan’s request to pay for the damage to the Coast Guard vessels. China also imposed a (temporary) ban on the export of rare earth metals to Japan, causing harm to the Japanese microelectronics industry.¹⁵

According to Lynch, on September 23, 2010, China started to block REE exports to Japan. As a reaction to the arrest of the fishing boat captain, China ordered authorities to lengthen the customs processing time for all REE shipments to Japan, without officially admitting that such orders existed, of course: “[T]raders in Tokyo said China had blocked exports to Japan of key minerals by slowing down administrative procedures in ports in Shanghai

¹⁴ Yuko Inoue, “China Lifts Rare Earth Export Ban to Japan: Trader,” *Reuters*, September 29, 2010, at <http://www.reuters.com/article/2010/09/29/us-japan-china-export-idUSTRE68S0BT20100929>. (Accessed July 7, 2016)

¹⁵ Daniel C. Lynch, *China’s Futures: PRC Elites Debate Economics, Politics, and Foreign Policy* (Stanford, CA: Stanford University Press, 2015), p. 156.

and Guangzhou to prevent materials being loaded on ships.”¹⁶ At this point, some went as far as calling this behavior “China’s New Economic Warfare”¹⁷—underlining the perceived assertiveness behind this action.

Japan released the captain on September 24, 2010, and China lifted the REE ban to Japan a few days later, “end[ing the] de facto ban on exports to Japan of rare earth minerals.”¹⁸ Still, China did not admit to ever doing anything to halt the REE exports to Japan and other nations, but in the context of the territorial dispute and the fishing boat incident, it was clear that China reacted to what it thought to be unacceptable on the part of Japan. However, the return of the captain to mainland China did not calm the situation—quite the opposite:

Zhan himself remained adamant that he had done nothing wrong. ‘The Diaoyutai Islands are a part of China. I went there to fish. That’s legal,’ he said upon his return to China. ‘Those people grabbed me – that was illegal.’ China’s government shared Zhan’s stance[.] (...) Beijing considers Japan’s Coast Guard patrols to be

¹⁶ AFP, “China Blocked Exports of Rare Earth Metals to Japan, Traders Claim,” *The Telegraph*, September 24, 2010, at <http://www.telegraph.co.uk/finance/china-business/8022484/China-blocked-exports-of-rare-earth-metals-to-japan-traders-claim.html>. (Accessed July 5, 2016)

¹⁷ Chang, *op.cit.* Though, one needs to consider that the *Forbes* magazine—a commercial media outlet—is somewhat sensationalist with catchy expressions like this.

¹⁸ Inoue, *op.cit.*

*illegal, since China claims the disputed islands and surrounding waters as its territory.*¹⁹

On September 30, 2010, China—via its National Tourism Administration—warned its citizens against traveling to Japan “after a group of Chinese tourists were attacked on a trip to Fukuoka.”²⁰ Protests had been ongoing on both sides of the East China Sea as a reaction to the fishing boat incident. Following this incident, Japanese “demonstrators rallied against China’s claim to the [Senkaku] islands and delivered a note to China’s embassy”²¹ in Tokyo. Similarly, on October 17, 2010, China broke up protests by some of its citizens against Japan; anti-Japanese demonstrators had become violent and destroyed Japanese property and businesses.²² While Japanese Prime Minister Naoto Kan “told the Chinese authorities [that] (the demonstrations) were regrettable and strongly urge[d] (China) to ensure the safety of Japanese nationals and firms,”²³ the Chinese stayed stubborn on the issue: “A Chinese foreign ministry

¹⁹ Shannon Tiezzi, “Japan Seeks Chinese Compensation over 2010 Boat Incident Collision,” *The Diplomat*, February 14, 2014; at <http://thediplomat.com/2014/02/japan-seeks-chinese-compensation-over-2010-boat-collision-incident>. (Accessed July 1, 2016)

²⁰ Malcolm Moore, “China Warns Tourists Not to Visit Japan,” *The Telegraph*, October 1, 2010, at <http://www.telegraph.co.uk/news/worldnews/asia/china/8036058/China-warns-tourists-not-to-visit-Japan.html>. (Accessed July 3, 2016)

²¹ BBC News, “Japan Laments China Protest Damage,” *BBC News*, October 18, 2010, at <http://www.bbc.com/news/world-asia-pacific-11562973>. (Accessed July 3, 2016)

²² See *ibid.*

²³ *Ibid.*

spokesman[,] Ma Zhaoxu[,] said it was ‘understandable that some people expressed their outrage against the recent erroneous words and deeds on the Japanese side[,]’”²⁴ but also that “patriotism should be expressed rationally and in line with law.”²⁵ The process of negotiation between China and Japan was lengthy, as presumably intended from the Chinese side. As Smith writes,

[O]n October 19, the China Daily reported that the country would cut its total exports of rare earths by 30 percent in 2011 in order to ‘protect overexploitation.’ The following week, China’s vice-minister of commerce, Jiang Yaoping, visited Tokyo to meet with METI Minister Ōhata. Ōhata repeated Japan’s request that China ease its restrictions on the export of rare earths. On November 13, Minister Ōhata met with Zhang Ping, China’s director of the Development and Reform Commission, on the sidelines of the Yokohama APEC Summit. The METI had initiated this meeting, which lasted for two and a half hours. Afterward, Zhang noted that the rare earth issue would be ‘properly resolve[d] very soon.’ The next day, Minister Ōhata announced that twenty-six of the twenty-seven companies surveyed by the METI reported that for the first time since the trawler incident,

²⁴ *Ibid.*

²⁵ *Ibid.* While this seems to be a standard phrase from the Foreign Ministry, to suggest that patriotism—an emotion—should be expressed rationally seems very far from reality, though. These two, emotion or passion and ratio or reason, have been seen as opposites by many theorists, such as Carl von Clausewitz in his unfinished work *On War*, writing on his famous trinity of war, i.e., passion, reason, and chance. See Carl von Clausewitz, *On War* (North Charleston, NC: CreateSpace Independent Publishing, 2012 [1874]).

they could see 'signs of improvement.' By the end of the first week of December, Ōhata reported that twenty-one shipments were confirmed the week before and an additional ten more shipments were released that week. More shipments were still stuck in customs, but the Chinese government was working with METI to clear them. By late December, shipments had returned to normal levels.²⁶

On November 24, 2010, China finally started to “resum[e its] rare earth exports to Japan” as the Japanese Ministry of Economy, Trade, and Industry confirmed the anticipated arrival of two shipments by sea.²⁷ However, even though China resumed exports, it was reported on December 28, 2010, that “China cut its export quotas for rare earths by 35 percent in the first round of permits for 2011, threatening to extend a global shortage of the minerals.”²⁸ The official story behind this move was that the quota for exports had to be reduced “because some of the companies mining the minerals were causing ‘severe’

²⁶ Smith, *op.cit.*, p. 192.

²⁷ BBC News, “China Resumes Rare Earth Exports to Japan,” *BBC News*, November 24, 2010, at <http://www.bbc.com/news/business-11826870>. (Accessed July 3, 2016)

²⁸ Bloomberg, “China Cuts Export Quotas for Rare Earths by 35%,” *Bloomberg*, December 28, 2010, at <http://www.bloomberg.com/news/articles/2010-12-28/china-cuts-first-round-rare-earth-export-quotas-by-11-correct->. (Accessed July 3, 2016) An immediate reaction by the Japanese was to seek diversification of the countries from which it obtained REE, since it realized its over-dependence on China in the embargo. As a consequence, Japan started “negotiating agreements with Vietnam, Mongolia and Australia to develop new mines” (BBC News, “China Resumes Rare Earth Exports to Japan.”).

environmental damage and had to be closed.”²⁹ In addition to the cut in the export quota, China also announced that it would “raise export taxes for some rare earth elements to 25 percent[,] (...) up from the 15 percent temporary export tax on neodymium.”³⁰ By mid-December 2010, the U.S. was considering filing a complaint against China with the WTO. Japan and the EU were also considering such move but it did not materialize until prices rose significantly and the situation became more dire:

*In 2010, China's export restrictions of rare earths led Japan to consider similar steps under the WTO, and when export restrictions resulted in a global price increase the following year, Japan initiated consultations with the United States and the European Union, and the three parties filed a WTO complaint in March 2012.*³¹

Finally, on March 14, 2012, U.S. President Barack Obama announced the WTO case against China in cooperation with the EU and Japan. The president justified the complaint against China with classical liberal free trade rhetoric, as follows:

²⁹ *Ibid.*

³⁰ *Ibid.* It is important to separate the deliberate and secret order to delay exports of REEs to Japan in customs and the cut in export quotas from the fact that, in 2009, China had already begun to exert governmental influence on the quantity of REEs exploited and on the domestic market, so as to have prices rise—similarly to what OPEC orchestrated in the 1970s. From this intervention in the price mechanism, the customs delays, temporary bans, and reductions of export quotas have to be viewed separately.

³¹ Smith, *op.cit.*, p. 38.

*American manufacturers need to have access to rare earth materials which China supplies. Now, if China would simply let the market work on its own, we'd have no objections.' Instead, Chinese policies 'currently are preventing that from happening and they go against the very rules that China agreed to follow[.]'*³²

With this March 2012 announcement, the case concerning the Chinese quasi-embargo on REEs entered the WTO's dispute settlement process.³³ The resolution of this case, including the following appeal by China, would take more than two and a half years. China's defense strategy rested heavily on the argument that the export restrictions were taken to protect the well-being of

³² CNN, "Obama Announces WTO Case against China over Rare Earths." *CNN.com*, March 13, 2012, at <http://www.cnn.com/2012/03/13/world/asia/china-rare-earths-case>. (Accessed July 4, 2016)

³³ Interestingly, as mentioned above, this case which began in March 2012 was not the first WTO dispute settlement case against China's export practices: "This request for consultations was the first step in the dispute settlement process at the WTO. The request (Dispute Settlement 431, DS431) by the European Union, the United States, and Japan for consultations with China at the WTO on rare earth export restraints was made on March 13, 2012, and came on the heels of a prior dispute settlement panel finding against China on 'measures related to the exportation of various raw materials' (DS394). Although Japan did not participate in this dispute settlement case, the WTO panel found that 'China's export duties were inconsistent with the commitments China had agreed to in its Protocol of Accession. The Panel also found that export quotas imposed by China on some of the raw materials were inconsistent with WTO rules' ('DS394 Summary of Key Findings,' released on July 5, 2011). China appealed this decision the following month, but in January 2012 it lost its appeal on export restrictions on raw materials. Thus, the case on rare earths followed immediately on the heels of the WTO finding against China" (Smith, *op.cit.*, p. 322).

its population by reducing their production.³⁴ However, the effect that China supposedly intended for the quasi-embargo restricting the export of REEs diminished about two years after it was enacted. On October 24, 2012, a Japanese news outlet reported that “China los[t] its rare-earth diplomatic leverage over Japan.”³⁵ This was largely because the demand from the Japanese market was much below the projected export quota that the Chinese had set at the start of the year, which was about 31,000 tons.³⁶ This “suggest[ed that] Beijing may no longer be able to use rare earth minerals as a “diplomatic card” against Japan in dealing with bilateral issues such as disputes over the Japanese-controlled, China-claimed Senkaku Islands in the East China Sea.”³⁷

As the conflict over the islands exacerbated starting in autumn 2012, this overshadowed the two-year-old REE embargo, as the dispute over the archipelago started to move from the economic and diplomatic realms into that of the military.³⁸ The above-mentioned realization that in terms of REEs Japan had been overly dependent on China as a supplier certainly helped accelerate Japan's partial “emancipation” from China in this area:

³⁴ See, e.g., Pruzin, *op.cit.*

³⁵ Kyodo, *op.cit.*

³⁶ See *ibid.*

³⁷ *Ibid.*

³⁸ See chapter VI, case one, below; different from the situation in September 2010, “[i]n the wake of Japan's effective nationalization of the Senkakus in September [2012], [the Chinese government did not follow] (...) growing calls in China that Beijing should restrict rare earth exports to Japan. [It] ha[d] continued to export rare earths to Japan” despite the on-going dispute in the East China Sea (*Ibid.*).

“Along with efforts to diversify sources of rare earth imports, Japan ha[d] developed alternative materials and advanced recycling technology in a bid to shield itself from China’s restriction of rare earth exports.”³⁹ Because on February 19, 2014, “the legal right to claim damages [in the fishing boat incident of 2010] would have expired[.]” Japan’s “government ha[d] filed a suit with the Naga District Court in Okinawa [against captain Zhan] seeking (...) [\$140,000] to pay for repairs to the damaged Japanese vessels.”⁴⁰ Naturally, the Chinese Foreign Ministry rejected this move by Japan and backed its citizen and its own claim to the islands in the East China Sea—not unusual, since China and Japan’s foreign relations had experienced an exceptional ice age from autumn 2012 to winter 2014 surrounding the dispute over the Diaoyu/Senkaku Islands following the purchase from private owners of the largest of the islands by the Japanese state:

China fired back at Japan in Tuesday’s regular Foreign Ministry press conference. Spokesperson Hua Chunying told reporters that the 2010 collision ‘was a severe incident when the Japanese side grossly infringed upon China’s territorial sovereignty and damaged Chinese fishermen’s legitimate rights and interests.’ Hua also reiterated Beijing’s position that ‘any judicial measures adopted by the Japanese side against Chinese

³⁹ Kyodo, *op.cit.*

⁴⁰ Tiezzi, *op.cit.*

*fishermen and fishing boats, including detention and investigation are illegal and invalid.*⁴¹

The WTO finally ruled on March 26, 2014, “that the Chinese restrictions, which [took] the form of export quotas, export duties and other measures, ran counter to commitments China made when it joined the WTO in 2001.”⁴² Even though China tried to utilize its “right to invoke Article XX of GATT 1994,”⁴³ it had no right to—in the WTO’s view—⁴⁴ since there was no

*‘indicat[ion of a] (...) link between the duties and any environmental or health objective,’ [as] the panel declared. ‘Furthermore, some of the evidence submitted by the complainants seems to indicate that, contrary to China’s assertions, the export duties at issue are designed and structured to promote increased domestic production of high value-added downstream products that use the raw materials at issue in this dispute as inputs.’*⁴⁵

China appealed the WTO decision within the necessary time period. However, with a final WTO decision on August 7, 2014, China lost its appeal and was required—just as in the case on export restrictions on other natural resources decided on a year

⁴¹ *Ibid.*

⁴² Pruzin, *op.cit.*

⁴³ *Ibid.*

⁴⁴ Or, at least, in the view of three of the four judges on the panel deciding over China’s REE export restrictions.

⁴⁵ Pruzin, *op.cit.*

earlier—that it needed to abide by official regulations and discontinue the export restrictions to accommodate the WTO nondiscrimination rule. Indeed, by September 8, 2014, China's REE exports increased by a margin of 31 percent from the previous month.⁴⁶ Starting January 4, 2015, China officially announced that it had ended the quotas for REEs.⁴⁷ On April 24, 2015, China decided to discontinue the export tax on REEs would to strengthen renewed demand.⁴⁸ Nevertheless, whereas China was producing and offering nearly all REEs on the market in the mid- and late 2000s, now the estimate was that it “produce[d] about 85 percent of global supply.”⁴⁹ However, given that China had followed a policy of restricting REE exports, it is no surprise that the market share dropped in reaction to Japan and others seeking the necessary resources elsewhere.

Localization of the REE Case in Terms of Honor and Legitimacy

Even though China enacted export restrictions on certain natural resources in the mid-2000s, tungsten, and molybdenum

⁴⁶ Xinhua, “Rare Earth Exports Jump 31% in China in August,” *Want China Times*, September 9, 2014, at <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20140909000075&cid=1203>. (Accessed July 4, 2016)

⁴⁷ See Yap, *op.cit.*

⁴⁸ See David Stringer, “China Export Tax Decision to Boost Rare Earth Demand, Lynas Says,” *Bloomberg.com*, April 24, 2015, at <http://www.bloomberg.com/news/articles/2015-04-24/china-export-tax-decision-to-boost-rare-earth-demand-lynas-says>. (Accessed July 5, 2016)

⁴⁹ *Ibid.*

can be seen as a manifestation of the economic policy of China's overall grand strategy, which pertains to internal legitimacy. They certainly stand out as the most salient case in the analyzed time period in terms of the unambiguous assertiveness China showed on the economic front. For the most part, China kept with its general abiding by capitalism—perhaps “with Chinese characteristics”—and continued with “playing our game.”⁵⁰

Naturally, it seems contradictory at first glance for China to go so hard against (especially) Japan on the economic dimension: Japan has been the number one trade partner of China for decades and it has a big stake in China with a relatively high amount of foreign direct investment (FDI) in China throughout the last three plus decades. In a word, it comes across as *irrational* for China to do as it did, let alone contradicting its own PD grand strategy. Such sanctioning behavior is usually utilized in situations in which one nation (or a coalition) tries to compel the sanctioned nation to do something, or—at the least—deter it from further escalating the situation. Examples include the sanctions enacted against Iran because of its nuclear program and against Russia because of its assertiveness in eastern Ukraine and the annexation of Crimea.

Relating this assertive behavior to honor and internal legitimacy is not overly difficult since this case involves China's

⁵⁰ Edward S. Steinfeld, *Playing Our Game: Why China's Rise doesn't Threaten the West* (Oxford: Oxford University Press, 2010).

main regional rival, Japan, which some may identify as an arch-enemy of China. As mentioned earlier, China's honor was hurt significantly by Japanese militarism and imperialism in the late nineteenth up until the mid-twentieth century in the First and Second Sino-Japanese Wars and colonization/quasi-annexation of its northeastern territory and eastern seaboard. In today's nationalism within China, Japan still plays an important negative role, especially with respect to overcoming this humiliating trauma. It is not too farfetched to say that much of the nationalist anger associated with this humiliation is directed against Japan and less so against other great powers who were equally involved in this chapter of Chinese history (e.g., Britain, which started it with the First Opium War).

The immediate relationship to the humiliating trauma and China's humiliation of national honor in the past is that the incident which kick-started the REE embargo happened in maritime territory which China considers to be a historically inherent part of its erstwhile imperial empire. Therefore, as China sees it, Japan's control over this part of the East China Sea is an "ill-gotten [territorial gain]"⁵¹ through unlawful, unfair means. As mentioned above, the trauma China suffered at the hands of the Western aggressors and Japan triggered a preoccupation with China's sovereignty and especially territorial integrity. On the one hand, China aims to reunify its territory to reach the glory that it once had under the largest territorial

⁵¹ Pillsbury, *op.cit.*, p. 205.

expansion during the Qing era. This, for the moment, is restricted to the East and South China Seas, as well as Taiwan, and “South Tibet” (Arunachal Pradesh).⁵² On the other hand, as China's internal legitimacy is increasingly tied to nationalism and ancient culture, and less so to the Marxist-Leninist-Mao-Deng ideological spectrum and economic growth, assertive moves against Japan placate the population and back approval rates for an otherwise not legitimized regime. In relation to nationalism and the Japanese “other,” what is also particular striking is that the incident together with the Chinese assertive economic reaction happened only very shortly before the thirty-eighth anniversary of the official start of Sino-Japanese foreign relations in 1972.⁵³

That China's internal legitimacy still depended on economic growth (i.e., how successful the government was in lifting people out of poverty, creating new jobs, pushing annual growth of gross domestic product (GDP) toward double digits, keeping the market stable) was forgotten for a couple of days by the government. First, the Chinese Communist Party (CCP) via its Foreign Ministry issued extremely nationalist statements against Japan filled with rage to backtrack to the course of PD:

⁵² In the longer term, Chinese territorial expansion could also involve territory in the Russian Far-East bordering Heilongjiang (formerly Manchuria) and Mongolia (Outer Mongolia).

⁵³ Equally interesting is the beginning of the Sino-Japanese ‘ice age’ from 2012 to 2014. The incident occurred correspondingly just a few days before the scheduled celebration of the fortieth anniversary of Sino-Japanese official foreign relations.

Because instead of a common identity there are clashing national sensitivities, any inter-state confrontation on any issue that is more than narrowly technical can arouse emotions, generating fears, resentment, or mistrust as the case might be, and necessarily affecting relations with the state in question across the board. (...) [This kind of] misapplication of norms has occurred as often as there have been confrontations of late, most notably perhaps the September 7, 2010, incident near the Senkaku Islands (Diaoyutai to the Chinese). This was followed by inflammatory Chinese Foreign Ministry declarations that duly produced anti-Japanese agitations, the arrest of some visiting Japanese executives, a de facto embargo on rare-earth exports to Japan—and very soon thereafter, by Chinese Foreign Ministry statements that recalled the importance of Chinese-Japanese economic relations, called on the public to stop anti-Japanese demonstrations, and invited the Japanese to continue investing in China.⁵⁴

In summary, the Chinese preoccupation with territorial integrity plus the involvement of Japan as the “other” against which most Chinese nationalism is directed made for a situation in which the trauma of national humiliation was triggered and the cultural driver of honor interfered with perhaps otherwise rational behavior and led China off the rational course, off the course of its PD grand strategy, and toward irrational behavior.

⁵⁴ Edward Luttwak, *The Rise of China vs. the Logic of Strategy* (Cambridge, Massachusetts: Harvard University Press, 2012), p. 77.

Determining Convergence with or Divergence from Peaceful Development

Having established that it was a case of internal legitimacy in conjunction with the cultural driver of honor which led China to stray from its PD grand strategy course, below the specific divergence from (and partial conformance with) PD will be scrutinized further.

When it comes to the PD factor of defending one's territory, in China's view, Japan was the first to breach the *status quo* and arrest a Chinese national in waters which China claims but does not control. The REE quasi-embargo was intended as retaliation to a violation of China's (perceived) territorial integrity by Japan. Since the Chinese government does not have to justify its grand strategy to the community of states but rather its own population, it is reasonable to say that this action was beneficial to China's internal legitimacy and its pursuit of national interests, in this case to reunify territories which China considers unlawfully annexed by Japan. That no violent conflict occurred, but merely escalation of words and some assertiveness on the economic front involving the REEs, should also be counted favorably toward *peaceful* in China's PD grand strategy.

What concerns the factor of increasing national power, on the one hand, if the unilateral export restrictions on REEs and tungsten and molybdenum increased China's overall revenue and profit and at the same time gave it an edge in industrial targeting

in support of its own industries, it may be interpreted as a power increase on the dimension of economic capabilities. Also, the world really only realized how powerful China was in terms of access to natural resources such as the REEs in question as the media hyped the situation after the initial export stop, or customs delay, which China imposed. China did flex its (economic) muscles there and the world realized that China had the upper hand when it comes to access to these resources.

Power is often defined as “the ability to get others to act in ways that are contrary to their initial preferences and strategies;”⁵⁵ however, “[e]conomic measures are somewhat more complex. Negative sanctions (taking away economic benefit) are clearly felt as coercive.”⁵⁶ China did not regain its maritime territories in the East China Sea by enacting the temporary export stop (or delay) and four-year plus export restrictions. However, the initial export slowdown may have led to Japan releasing the captain and crew of the trawler which encroached into waters under Japanese control. China got Japan to do something that very likely was not its first preference. So the two rounds of assertive measures, short-term export stop plus mid-term export restrictions, did get Japan to do something it did not initially plan to do and exemplified the power and capability increase China had achieved in the last decades; these measures also illustrated the complex interdependence between a once isolated nation and the

⁵⁵ Joseph S. Nye, Jr., *The Future of Power* (New York: PublicAffairs, 2011), p. 11.

⁵⁶ *Ibid.*, p. 12.

developed world with which the former could hurt the latter significantly. On the whole, China conformed to PD here, too.

Pertaining to the PD factor of ‘anti-hegemonism,’ as the export restrictions went mainly against Japan, a U.S. ally, anti-hegemonism (or balance of power behavior) was observed when looking at it from a global perspective. Also, Japan, along with the U.S. and the EU, was party to the WTO case against China. Seeing this from a West versus East perspective, or a developed country (DC) versus less developed country (LDC) vantage point, the anti-hegemonism would have been conformed as well. However, China also had a longstanding strategy in which it tried to break the alliance between Japan and the U.S. by attracting Japan and calling on to its Asian nature to illuminate the externality of the U.S. in “their” region: “Beijing’s willingness to extend spats like these to international trade was worrisome. (...) Then for the first time, Japan joined European and American governments in requesting consultations at the WTO with China concerning its restraints of rare earth exports.”⁵⁷ Whereas Japan had not really sided with the West before on such economic issues within the WTO, the export restrictions on REEs had now led it to do exactly that. Thus, in a way, this behavior contradicted the *divide et impera* strategy of China against the U.S.-Japan alliance. Nevertheless, it was still conforming on the whole, as the behavior was directed against the alliance.

⁵⁷ Smith, *op.cit.*, p. 201.

The PD factor of maintaining favorable economic markets may be debatable as to whether it is actually conforming or diverging—especially because this is an outward-looking factor category in China's PD grand strategy. Rather than either-or, one can argue that it was both conforming *and* diverging at the same time. On the one hand, China may not have suffered under unfavorable conditions, but it was the international market which became more unfavorable concerning REEs and China was diverging from PD, acting assertively, selfishly, and without regard for other nations in the market, which is often referred to as *neo-mercantilism*. On the other hand, China had the upper hand in the control of REEs, tungsten, and molybdenum, having a quasi-monopoly and, therefore, was able to create a market in which it could profit by driving up the price of REEs through reducing the supply for export, while giving its own domestic market a decisive edge in access to REEs. Thus, China conformed here, too. The fact that this played out as described above reinforces the analysis that this is a case of internal legitimacy—China looking out for the benefit of its own population, not that of others, especially DCs.

For the factor of China living up to international responsibility, another more outward-looking factor, it was clearly diverging here. The export limitations hit the international market hard for the years it was enacted. Objectively speaking, there cannot be much discussion that this was irresponsible behavior on the part of China and nothing where other nations would think

they benefitted. Here, China diverged from PD. Subjectively speaking, it is possible to ask, as one Chinese scholar once did, “‘Responsible to whom? To whose standards? The United States? Never!’”⁵⁸

Another outward-looking PD factor, i.e., whether others perceived China as a threat, the export restrictions were also a rather clear case of divergence from PD. Whereas this was not on a military or violence dimension, it may still have caused a perception in other states that China is looking out for itself more than for the global good; for China to become a global (or regional) hegemon, it would use threats of a coercive hegemon (rather than rewards). Here, too, China diverged from its PD grand strategy.

When it came to increasing China's international reputation, which is yet another outward-looking factor in the PD grand strategy, China has more likely than not actually decreased its international reputation with the assertive nature of the REE export restriction. Since this whole case revolves around internal rather than external legitimacy, this makes sense. Going hand in hand with the two above-mentioned factor divergences, China also diverged from this factor of increasing its international reputation.

⁵⁸ Shambaugh, *op.cit.*, p. 40; partially quoted from David Pilling, “Keeping Its Distance,” *Financial Times*, February 11, 2010, at <http://www.ft.com/intl/cms/s/0/77a928a0-1511-11df-ad58-00144feab49a.html#axzz3noKp8ej8>. (Accessed July 4, 2016)

Alternative Explanations

It seems relatively clear that China reacted with an REE quasi-embargo to Japan's arrest of the fishing boat captain and crew in disputed waters of the East China Sea. Nevertheless, the process of influencing and manipulating the price mechanism by means of restricting exports with quotas which started in 2009 and not in particular with respect to Japan should be separated from the exacerbation that occurred in 2010 and the following years. What remains unclear is how intentional this quasi-embargo was on the part of the Chinese and, if it was not intentional that exports were held at customs, then was it the intent of the Chinese government not to intervene in customs officials' independent patriotic acts? Either way, a minimum amount of intent can certainly be assumed. As Smith (2015b, 201f) writes, taking the intentionality argument further in terms of using it as a threat or not in 2010 and onwards:

Whether the Chinese government used this as a threat during the crisis remains suspected but unconfirmed. The difficulty in assessing the exact role of Chinese officials in the embargo of rare earth materials lies partly in the lack of transparency over the export process. If an embargo was imposed, it was informally imposed, and the question remains whether the Beijing officials were aware of the actions taken by customs officials at the point of export.

Other than these arguments, there is not much room for alternative explanations. Certainly, that this is a long-term development in China's export strategy concerning REEs has to be mentioned. However, the Chinese government undoubtedly used the crisis with Japan in 2010 to exacerbate the mild trend in export reduction as evidenced since 2006 and—more so—since 2009. Even so, back in 2009, prices of metals—even REEs—had declined in value in response to the 2008 global financial crisis and the toll it took on the global economy resulted in less demand in raw materials. Reducing its exports merely meant adjusting to this situation to not lose too much on the lower prices which resulted from lower demand.⁵⁹ By 2010 and onwards, the global economy had picked up momentum, and—if the initial export reduction was in reaction to a weak global economy—then reducing it further would not have made sense. In essence, this particular case is unambiguously an assertive strategic act using economic means by China against Japan.

Conclusion of the REE case

In almost every respect, the case of the REE export restrictions catered to China's internal legitimacy. No nation could have approved of what China did with its market might in the area of REEs in its assertive and unilateral manner. Its own population, and especially the hyper-nationalists among them, surely was

⁵⁹ Though, the Chinese government had also argued that low prices for REEs were in part caused by the West's control over prices attempting to keep them artificially low.

pleased when China stood up against the ex-colonial lord and showed Japan (and the West) its growing muscles: “To demonize Japan, China has sent the message that it regards Japan’s wealth, and its position as America’s ally in Asia, as products of ill-gotten gains from World War II. Professor Arne Westad (...) calls this phenomenon a ‘virulent new form of state-sanctioned anti-Japanese nationalism.’”⁶⁰

The cultural driver of honor was important here because China attempted to correct and avenge its erstwhile violation of national prestige and reputation—as per the so-called one hundred years of national humiliation complex—in a way that was still short of actual violent warfare. However, this sort of assertive behavior on China’s part led to excessive violence on the streets of Japan and China against the respective national citizens or businesses in each territory.

Also, acting assertively against others is what the hyper-nationalist factions of China’s population often demand from their government. Such demands are often expressed in Internet blogs and forums, as well as in anonymous letters to the Foreign Ministry. For example, one such letter contained calcium pills to suggest that the government needed to develop ‘backbone’ against the international community and show the country’s military might. Thus, these export restrictions mostly catered to internal legitimacy and mostly diverged from China’s PD grand

⁶⁰ Pillsbury, *op.cit.*, p. 205.

strategy, especially on the outward-looking factors which relate to external legitimacy.

Detailed Course of Events of the OBOR Case

The first part of the concept for the OBOR—the land-based, traditional Silk Road for the twenty-first century—was first mentioned by President Xi while traveling to neighboring Kazakhstan in September 2013. “In a speech delivered at Nazarbayev University, Xi suggested that China and Central Asia cooperate to build a Silk Road Economic Belt. It was the first time the Chinese leadership mentioned the strategic vision.”⁶¹ This, of course, makes sense insofar as the Kazakhs are landlocked and the first country through which the Silk Road extends as seen from Beijing.

Just one month later, in October 2013, the second, sea-based part of the OBOR vision was completed while Xi Jinping was visiting Indonesia, a crucial friend for China to have to not fall prey to a sea blockade in the future:

President Xi proposed building a close-knit China-ASEAN community and offered guidance on constructing a 21st Century Maritime Silk Road to promote maritime cooperation. In his speech at the Indonesian parliament, Xi also proposed

⁶¹ Xinhua, “Chronology of China's Belt and Road Initiative,” *Xinhuanet.com*, March 28, 2015, at http://news.xinhuanet.com/english/2015-03/28/c_134105435.htm. (Accessed July 4, 2016)

*establishing the Asian Infrastructure Investment Bank (AIIB) to finance infrastructure construction and promote regional interconnectivity and economic integration.*⁶²

Again, the choice of Indonesia does not seem random but rather perfectly logical. It is an island nation and, being situated on the south side of the Strait of Malacca Indonesia, is extremely important to China in terms of its reliance on commercial trade and delivery of resources such as oil via the major sea lanes from Europe, Africa and the Middle East to Northeast Asia. Associated with the Malacca Strait in particular is China's constant fear that other countries, especially the U.S., could decide to enforce a sea blockade at this hotspot, which would have detrimental consequences for its energy security and economic performance. As such, it makes perfect sense to use an official visit to Indonesia to announce the Maritime Silk Road of the OBOR initiative, since this is also the first country passed through via the sea route when leaving Chinese sovereign (maritime) territory, which extends to the southernmost parts of the South China Sea (i.e., Indonesia's shores).⁶³

⁶² *Ibid.*

⁶³ For a more in-depth account of Chinese claims in the South China Sea and their implications, see, e.g., Gao Zhiguo, and Jia Bingbing, "The Nine-Dash Line in the South China Sea: History, Status, and Implications," *The American Journal of International Law*, Vol. 107, No. 1 (January 2013), pp. 98-124, and Robert D. Kaplan, *Asia's Cauldron: The South China Sea and the End of a Stable Pacific* (New York: Random House, 2015), respectively.

The next important date in the chronology of the OBOR was another month later in November, when, for the first time in China, and for the first time not directly through a speech of President Xi but through a CCP party organ, “[t]he Third Plenary Session of the 18th Central Committee of the Communist Party of China called for accelerating infrastructure links among neighboring countries and facilitating the Belt and Road initiative.”⁶⁴ Whereas the initial focus had been on economic cooperation, the infrastructural aspect was more highlighted now. At another domestic event, President Xi fused these two aspects (infrastructure and economic advancement), calling for the OBOR “to promote connectedness of infrastructure and build a community of common interests.”⁶⁵

The first bilateral agreement associated with the OBOR was between China and Russia and followed a few months later, in February 2014, when “Xi and his Russian counterpart, Vladimir Putin, reached a consensus on construction of the Belt and Road, as well as its connection with Russia’s Euro-Asia Railways.”⁶⁶ Interestingly, this was in the midst of the Ukraine Crisis, just a few weeks before Russia’s move to annex Crimea in March 2014 and the above-mentioned Sino-Russian agreement in May 2014. Strategically, gaining Russia’s cooperation in the OBOR was very important, as Russia has historically enjoyed a high level of

⁶⁴ Xinhua, “Chronology of China’s Belt and Road Initiative.”

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

influence over Central Asia and extended influence in the Middle East and Eastern Europe, all of which are integral parts of the OBOR.

In March 2014, in his second annual report on government work, Prime Minister Li “called for accelerating Belt and Road construction (...) and for balanced development of the Bangladesh-China-India-Myanmar Economic Corridor and the China-Pakistan Economic Corridor.”⁶⁷ In this instance the perhaps un-altruistic posture also comes to bear, especially because it is a report meant less for the outside world than for domestic legitimacy, in which Li spoke of “[u]shering in a new phase of China’s opening to the outside world and ensuring its high standard performance.”⁶⁸ In the second instance after the February bilateral agreement with Russia, China agreed to a specific project with its Kazakh neighbor state in May 2014. The

⁶⁷ *Ibid.*

⁶⁸ Xinhua, “Highlights: Chinese Premier Li Keqiang’s Government Work Report,” *CCTV America & Xinhua News Agency*, March 5, 2014, at <http://www.cctv-america.tv/2014/03/05/highlights-chinese-premier-li-keqiangs-government-work-report/>. (Accessed July 6, 2016). See also Xinhua, “China, CEE Countries Sign Memo to Promote Belt and Road Initiative,” *Xinhuanet.com*, November 27, 2015, at http://news.xinhuanet.com/english/2015-11/27/c_134859206.htm. (Accessed July 7, 2016); Xinhua, “Full Text: Report on the Work of the Government,” *Xinhuanet.com*, March 14, 2014, at http://news.xinhuanet.com/english/special/2014-03/14/c_133187027.htm. (Accessed July 3, 2016); and Nargiza Salidjanova, and Jacob Koch-Weser, “China’s 2014 Government Work Report: Taking Stock of Reforms,” *U.S.-China Economic and Security Review Commission Staff Research Backgrounder*, April 1, 2014, at http://www.uscc.gov/sites/default/files/Research/USCC%20Backgrounder_NP_C%20scorecard.pdf. (Accessed July 8, 2016)

project, a logistics terminal (which is fitting with the theme of the Silk Road as a trade route) was to be:

*jointly built by China and Kazakhstan [and] went into operation in the port of Lianyungang in east China's Jiangsu Province. The terminal, with a total investment of 606 million yuan (98 million U.S. dollars), is considered a platform for goods from central Asian countries to reach overseas markets.*⁶⁹

At around the same time, the first specific multilateral manifestation of the OBOR—the AIIB, which will be further discussed below as an economic policy case—began to come about. Whereas China's general diplomatic preference is bilateral negotiation and agreement, this multilateral aspect of the OBOR is noteworthy and likely will act as a catalyst for projects in the decades to come.

Next, at the occasion of the November 2014 APEC summit, which was hosted by China and took place in Beijing,

President Xi announced that China will contribute 40 billion U.S. dollars to set up the Silk Road Fund. (...) Xi announced that the fund will be used to provide investment and financing support for infrastructure, resources, industrial cooperation, financial

⁶⁹ Xinhua, "Chronology of China's Belt and Road Initiative."

*cooperation and other projects in countries along the Belt and Road.*⁷⁰

This marked the second multilateral instance in which the OBOR was promoted and announced, although only a minority of APEC countries— some Southeast Asian states (Indonesia, Malaysia, Vietnam, Singapore, Thailand, Philippines) and Russia—even qualify for the OBOR initiative.⁷¹ In early December 2014, “Thailand approved a draft memorandum of understanding between Thailand and China on railway cooperation,”⁷² marking the third specific bilateral agreement in the OBOR and the first with a state that does not share a direct border with China (although, if one subscribes to the Chinese understanding of the South China Sea, they do share maritime borders). Nevertheless, despite China pushing for a better sea route with the maritime Silk Road in OBOR, the improved railway connection with Thailand may be seen as a hedging strategy by China against the worst-case scenario of a U.S.-led maritime blockade of the Malacca Strait. In such a case, shipments from the Middle East could be delivered on either Burmese or Thai Indian Ocean ports and forwarded by rail to China, possibly via Laos. Later in December 2014, “[t]he Central Economic Work Conference sketched out priorities for the

⁷⁰ *Ibid.*

⁷¹ Laos, Myanmar, or Cambodia are not APEC members, as they do not boarder the Pacific.

⁷² Xinhua, “Chronology of China’s Belt and Road Initiative.”

coming year, which include[d] the implementation of [the] Belt and Road initiative.”⁷³

In early February the following year, at a special OBOR meeting, Zhang Gaoli, a high-ranking CCP official (who, among other functions, is also part of the Politburo Standing Committee), “sketched out priorities for the Belt and Road initiative, highlighting transportation infrastructure, easier investment and trade, financial cooperation and cultural exchange.”⁷⁴ As far as the implementation and coming-together of the OBOR in its entirety, Zhang

*highlighted the importance of environment protection and social responsibility in building the Belt and Road. Countries along the routes should increase communication and consultations and give full play to multilateral, bilateral, regional and sub-regional cooperation mechanisms and platforms to seek common development and prosperity, Zhang said.*⁷⁵

In his third annual government work report in March 2015, PM Li Keqiang gave assurance that “China will move more

⁷³ *Ibid.* For more information about the 2014 Central Economic Work Conference, see Shannon Tiezzi, “China Sets Economic Reform Targets for 2015,” *The Diplomat*, December 12, 2014, at <http://thediplomat.com/2014/12/china-sets-economic-reform-targets-for-2015>. (Accessed July 8, 2016); and Xinhua, “Full Text.”

⁷⁴ Xinhua, “Chronology of China’s Belt and Road Initiative.”

⁷⁵ Xinhua, “China Focus: China Sketches out Priorities of ‘Belt and Road’ Initiatives,” *Xinhuanet.com*, February 1, 2015, at http://news.xinhuanet.com/english/china/2015-02/01/c_133962709.htm. (Accessed July 8, 2016)

quickly to strengthen infrastructure with its neighbors, simplify customs clearance procedures and build international logistics gateways”⁷⁶ in the coming year.⁷⁷ Taking stock of the OBOR initiative thus far, Li found that:

*China has been participating actively in establishing multilateral mechanisms and writing international rules. We have made steady progress in developing relations with other major countries, entered a new phase in neighborhood diplomacy, and made new headway in our cooperation with other developing countries. Notable progress has been made in conducting economic diplomacy. Progress has been made in pursuing the Silk Road Economic Belt and 21st Century Maritime Silk Road initiatives; preparations have been made for establishing the Asian Infrastructure Investment Bank, and the Silk Road Fund has been set up. China is engaging in more exchanges and cooperation with other countries, and is increasingly recognized as a major responsible country on the international stage.*⁷⁸

Working against the vagueness of the OBOR thus far, Li sought to define it in further detail, stating that the government:

will work with the relevant countries in developing the Silk Road Economic Belt and the 21st Century Maritime Silk Road. We will move faster to strengthen infrastructure connectivity with

⁷⁶ Xinhua, “Chronology of China’s Belt and Road Initiative.”

⁷⁷ See also Xinhua, “Full Text.”

⁷⁸ *Ibid.*

*China's neighbors, simplify customs clearance procedures, and build international logistics gateways. We will work to build the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor. We will make China's interior and border areas more open to the outside world, promote the innovation-driven development of economic and technological development zones, and upgrade both border and cross-border economic cooperation areas. We will work actively to develop pilot free trade zones in Shanghai, Guangdong, Tianjin, and Fujian, and extend good practices developed in these zones to the rest of the country so that such zones become leading reform and opening up areas, each with its own distinctive features.*⁷⁹

Following the move from the proposal and planning stage of the OBOR to the first manifestations as described above, the western media started to report more on the initiative as well. As comparisons associated with reporting on the OBOR to the post-World War II U.S. Marshall Plan grew in number,

Chinese Foreign Minister Wang Yi dismissed [such] comparisons of the initiative to the U.S.-sponsored Marshall Plan. The initiative is "the product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with an outdated Cold War

⁷⁹ *Ibid.*

mentality”, Wang said, adding that China’s diplomacy in 2015 will focus on making progress on the Belt and Road initiative.⁸⁰

In March 2015, the OBOR was first put into a proper government programmatic document. The three government agencies working on it were:

[t]he National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce[, which] jointly released an action plan on the principles, framework, and cooperation priorities and mechanisms in the Belt and Road Initiative after President Xi Jinping highlighted the strategy the same day while addressing the opening ceremony of the 2015 annual conference of the Boao Forum for Asia (BFA)[, offering further] insight in the China-initiated program’s vision and endeavors.⁸¹

While giving the OBOR initiative more structure and detail, the document still left the necessary wiggle room for interpretation and maneuvering in the future; nevertheless, it was intended to function as a roadmap for the development of the OBOR as an umbrella diplomatic initiative. The established powers’ concern that China was suggesting to rewrite the currently liberal, U.S.-led international order by the OBOR initiative, which could turn out to be a revisionist agenda, was addressed insofar as the document mentioned that it would be:

⁸⁰ *Ibid.*

⁸¹ *Ibid.*

in line with the purposes and principles of the UN Charter. (...) [It] is harmonious and inclusive. It advocates tolerance among civilizations, respects the paths and modes of development chosen by different countries, and supports dialogues among different civilizations on the principles of seeking common ground while shelving differences and drawing on each other's strengths, so that all countries can coexist in peace for common prosperity. (...) It will abide by market rules and international norms, give play to the decisive role of the market in resource allocation and the primary role of enterprises, and let the governments perform their due functions. (...) It accommodates the interests and concerns of all parties involved, and seeks a conjunction of interests and the 'biggest common denominator' for cooperation so as to give full play to the wisdom and creativity, strengths and potentials of all parties.⁸²

While this is naturally meant to sound non-threatening to the stakeholders of the current international order, it shows the way of handling international relations that is practiced in ASEAN; that is, the finding of the 'biggest common denominator.' In line with this, the document also included the kind of rules and norms that China likes to uphold, such as "the Five Principles of Peaceful Coexistence: mutual respect for each other's sovereignty and

⁸² National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China with State Council Authorization, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, March 28, 2015, at http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html. (Accessed July 8, 2016)

territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.”⁸³

The necessary wiggle room mentioned above can be seen in statements on the geographical dimension of the OBOR initiative, in that “[i]t covers, but is not limited to, the area of the ancient Silk Road. It is open to all countries, and international and regional organizations for engagement, so that the results of the concerted efforts will benefit wider areas.”⁸⁴ Although unlikely, this technically implies that Oceania, Latin and North America could become part of the OBOR. Arguably, this statement might have been included simply to avoid making the OBOR initiative seem like an exclusive club that locks out nations with which China has friendly relations. The document still does not give a timetable of what is to be done when; instead, it focuses mainly on emphasizing the OBOR initiative's message of bringing together the European, African, and Asian continents via better infrastructural and logistical connection.

Localization of the OBOR Case in Terms of Honor and Legitimacy

The factor of honor, and by extension status, prestige, recognition and reputation, is deeply ingrained in the OBOR as it relates to both internal and external legitimacy. The OBOR calls

⁸³ *Ibid.*

⁸⁴ *Ibid.*

to mind the far-reaching influence that the Chinese Empire enjoyed for centuries in ancient, medieval and early modern times. The Silk Road—both on land and on sea—stood as a symbol of the civilizational advancement of China at the time. Much of this erstwhile splendor is related to the nature of the traded luxury products from China, such as porcelain, tea, or silk. As such, this calls into mind the prestige associated with China's advancement at the time. Thus, the function of the OBOR is twofold. On the one hand, it will ameliorate opinions of adjacent states' decision-makers away from seeing China as a threat and toward seeing China as a regional hegemon that is both interested in the benefits to its own population and interested in helping others to develop. On the other hand, it promotes the rise in status that China is seeking to achieve, as this project is essentially unprecedented in Eurasia.

The external legitimacy sought through the OBOR works not only to enhance China's reputation outside the spheres of the Middle Kingdom (especially immediate neighbors) but also to internally strengthen the foothold of the CCP with the domestic population. Overcoming the 'Hundred Years of National Humiliation' is central to the CCP's strategy to use nationalism for its rectification of home rule. In essence, if the OBOR becomes a long-term success and sustainably improves China's international reputation and prestige, this would be a return to the role imperial China enjoyed before the onset of the First Opium

War in 1839, in which it was able to actively steer international affairs, mainly with its tributary system vehicle.

Importantly, the OBOR initiative not only means that China is willing to engage the international community responsibly (in a way that is half-altruistic and half-selfish) but also that China is aiming to return to the former glory and prowess that it knew in basically eighteen out of the last twenty centuries. This would mean that it would also start dictating its own rules and norms of international relations again rather than merely having to follow them in the Westphalian international society. While to some, especially the erstwhile aggressors associated with the humiliation complex (i.e., Japan and the West), this may seem like an action of a revisionist power, to many nations of the Third World, especially those that do not necessarily have to fear the rise of China as direct neighbors, this may be seen as a good thing in terms of external legitimacy. More importantly, internally, China gains prestige with its own population in going against the world order, as it was established first by the British global hegemon and then further advanced by the U.S. global hegemon after World War II. Thus, while being mainly a case of external legitimacy, the case of OBOR also contains a layer of internal legitimacy, which is associated not only with the OBOR's promised economic stimulus for the Chinese market but also, and importantly, with its diplomatic dimension and the prestige it brings.

Determining Convergence with or Divergence from PD Grand Strategy

When looking at the perhaps most valued PD factor, i.e., the defense of territorial integrity, if China can make in-roads on the infrastructure of potentially weak developing states in China's periphery, helping them economically in general and (depending on how far the OBOR initiative will go) possibly integrating the region further, this can help to keep peace in Asia, especially around China's borders. Ultimately, this may add stability to governments of weaker states, which in turn can help China to maintain national unity and have safer border security.

Pertaining to the PD factor of increasing national power, the OBOR would put China at the center of a thriving region, which would certainly give China leverage over the participant states. What kind of power increase will be involved remains to be seen. International power is traditionally defined as making another state do what you want them to do when it is different from what they initially wanted (first and second faces of power), as well as shaping other nations' initial preferences and ideas via institutions or ideologies.⁸⁵ The OBOR would be an increase in power according to the first face of power (i.e., via buying nations off and/or threatening to take away economic inducements). Depending on the extent of the OBOR, it may also turn out to be a

⁸⁵ For a more complete account on the "three faces of power," consult, e.g., Nye, Jr., *op.cit.*, p. 12.

power increase according to the second face of power (i.e., via agenda setting). Lastly, in the event that the OBOR turns out to have the sort of subtlety of the medieval tributary system or modern day U.S.-American orthodox capitalism and democracy, China may also gain power via the third face of power (i.e., shaping other nations' initial preferences and ideas).

With regards to the PD factor of 'anti-hegemonism,' for those who see the OBOR as a twenty-first century Chinese equivalent to the U.S. Marshall Plan of the post-World War II period, the OBOR may appear to pose a potential challenge to the U.S.-led world order as it exists now and as it is institutionalized in the IMF, WB, WTO and UN, among other institutions. It is no secret that:

China's growing economic power and ongoing concerns about being marginalised by the United States as a result, have changed (...) views in Beijing. China now holds the largest reserves of foreign currency by a single actor, and has expressed interest in developing greater commercial diplomacy, meaning the ability of transforming wealth into diplomatic power.⁸⁶

The AIIB is seen as a first harbinger of institutional change, also fueling speculations about China's future intentions to challenge global governance. In their view, China will want to create a new version of its tributary system at the height of its past

⁸⁶ Marc Lanteigne, *Chinese Foreign Policy*, Third edition (Abingdon, UK: Routledge, 2016), p. 94.

power. Thus, although the OBOR seems to be beneficial to nations that will subscribe to it (just as the Marshall Plan has been to many European nations) those that consider China to be exploitative and assertive see it as selfishly motivated.

On the other side are those that see a benign China with good intentions for the region, or at least with mixed motives that may benefit others via selfish behavior. In exchange for a more stable region—possibly with military bases abroad, as well as infrastructure projects for its corporations—China achieves better security itself and possibly legitimacy to become the next global (or at least the Eurasian regional) hegemon, while others can develop economically and profit from China in one way or another.

In sum, in the event that the OBOR is meant to drive the U.S. out of Asia and place China in its former role, this motive should be seen to conform with the norm of anti-hegemonism in China's PD grand strategy. On the other hand, in the event that China's intentions are to be very far-reaching and ultimately to establish a hegemony, forcing others into quasi-subjugation (whether subtly, as in the erstwhile tributary system, or not), then this would be in contradiction to China's own anti-hegemonism norm and would therefore be seen to diverge from the PD grand strategy.

The PD factor of keeping favorable economic markets is an important one in the case of the OBOR. As Reeves writes, the OBOR:

[I]s equally reliant on economic exchange as a means of increasing stability. In its wider application, the One Belt, One Road concept includes China's provision of finance through the 2015 establishment of the Asian Infrastructure Investment Bank (AIIB) and China's trade and investment schemes toward Central and South Asia through the Silk Road Economic Belt and Maritime Silk Road, respectively.⁸⁷

Since a number of investments in the region are associated with this initiative—investments which can not only help China's neighbors but also help China's own economy as a kind of economic stimulus—this can be considered to perfectly conform to the PD grand strategy.

What concerns the PD factor of international responsibility, at first glance, trying to create more economic growth for and investing in neighboring states shows international solidarity on the part of China, and thus international responsibility as one of the preeminent powers in Asia. Ultimately, it remains to be seen how self-serving the OBOR will be to Chinese interests; nonetheless, if it becomes anything like the U.S. Marshall Plan (which is the expectation of many), then this also conforms to the PD grand strategy in terms of being a so-called 'responsible stakeholder.'

⁸⁷ Jeffrey Reeves, *China's Foreign Relations with Weak Peripheral States: Asymmetrical Economic Power and Insecurity* (Abingdon, UK: Routledge, 2015), p. 15.

Regarding the PD factor of avoidance of 'China threat' misperception, on the one hand, the extent of the OBOR does raise some eyebrows in the eyes of decision-makers, particularly in Vietnam, the Philippines, Japan, and India, and perhaps even in Russia, where Putin had his own vision of a Eurasian free trade zone that would be in competition with China's. As Chen Dingding writes, "[t]he U.S. is already very suspicious of China's long-term strategic intentions in the South China Sea and many European countries are also uneasy about China's expanding influence into the EU."⁸⁸

Those who view the OBOR critically fear that China is planning to establish a quasi-tributary system over vast parts of Asia and therefore a modern-day suzerainty over many weaker states.⁸⁹ Such an attempt to lead so many states, even reaching into the hinterland of Europe where China has no historically predated foothold (excluding the Mongol conquests of the twelfth and thirteenth centuries), would call for China to grasp hegemony and therefore be perceived as threatening. This would therefore naturally be divergent from the PD grand strategy.

⁸⁸ Chen Dingding, "One Belt, One Road, One Frenzied Debate," *The Diplomat*, June 24, 2015, at <http://thediplomat.com/2015/06/one-belt-one-road-one-frenzied-debate>. (Accessed July 8, 2016)

⁸⁹ It should be noted that within the literature on the tributary system of the Chinese empire there is major disagreement about the utility of the concept for contemporary China and even about the role it may or may not have played during imperial times. See, e.g., Peter C. Perdue, "The Tenacious Tributary System," *Journal of Contemporary China*, Vol. 24, No. 96 (2015), pp. 1002-1014.

On the other hand, rather than seeking to ‘flex its muscles’ by suggesting the OBOR initiative, China may intend to go specifically against the ‘China threat’ misperception, as outlaid in the PD grand strategy. The fact that investing so heavily in the region can be interpreted as altruistic behavior (even though China is likely to benefit more than the OBOR participant nations) may ameliorate some foreign decision-makers’ perception of China rising and should therefore be considered as conforming to the PD grand strategy.

Concerning the PD factor of increasing China’s international reputation, clearly, the OBOR does improve China’s reputation, since it is a very ambitious program aimed at unifying many nations in the pursuit of economic growth. Moreover, the OBOR hints heavily at the more glamorous times of China’s history, when the Silk Road on the land route and the Maritime Silk Road were major trading paths and the Middle Kingdom was the nation with the highest GDP globally.

Alternative Explanations

There is little doubt that honor—and by extension status, prestige, reputation and recognition—play a determining role in the development and eventual realization of the OBOR. Naturally, China has been undertaking such infrastructure and other development projects bilaterally in negotiation with individual nations, and most likely it would have continued with this practice of bilateral projects with or without OBOR. As such, OBOR can

be seen as a skillful diplomatic move in pooling projects that would have happened either way.

Since the OBOR calls on the historical memory of tributary relations and Silk Road trade, the four different deeper meanings of the tributary system suggested by scholars can be partially considered as alternative explanations. The tributary system has been described as: 1. simply an economic trading place,⁹⁰ 2. merely a symbolic diplomatic exercise without a tangible purpose besides the symbolic status-giving and -receiving gestures,⁹¹ 3. an expression of the *realpolitik* in a system in which China guaranteed security in exchange for suzerainty over adjacent kingdoms' territories,⁹² and 4. an alliance (implicitly against the constant threat of freely roaming nomads) on the basis of real equality which was interpreted and communicated domestically in different ways by every kingdom involved.⁹³

Otherwise, economic interest and security concerns certainly matter here, too. Making the periphery more secure by helping it

⁹⁰ See David C. Kang, *East Asia before the West: Five Centuries of Trade and Tribute* (New York: Columbia University Press, 2010), p. 11.

⁹¹ See *Ibid.*, p. 12.

⁹² See Peter I. Yun, *Rethinking the Tribute System: Korean States and Northeast Asian Interstate Relations, 600-1600* (Los Angeles: PhD Dissertation, University of California, L.A., 1998), p. 1.

⁹³ See Shih Chih-Yu, "From Sinic World to Multiple International Relations in East Asia: Between Outsider Japan and Insider Korea," *Tamkang Journal of International Affairs*, Vol. 15, No. 3 (January 2012), p. 26, and Chung Yong-Hwa, "Chosuneui Jogong Cheje Inshikgwa hwalyong [Chosun Dynasty's Perception and Utilization on The Tribute System]," *Hankookjeongchioegyosanonchong*, Vol. 27, No. 2 (2006), pp. 5-31.

develop economically, and therefore giving back to the respective governments of adjacent nations, will contribute to China's own domestic security and survival as a nation-state, especially because the CCP is preoccupied with the Tibetan, Uyghur and Mongolian peripheral autonomous regions.

Conclusion of the OBOR Case

The case of the OBOR shows mostly conforming behavior, with only minor doubts on the points of anti-hegemonism and the perception of China as a threat. Overall, the more outward-focused OBOR initiative met all factors of the PD grand strategy, and therefore China did not diverge from it. Since this grand strategy manifestation perfectly conforms with the PD grand strategy, and since it is mostly meant to be outward-looking and peaceful, it is not too far-fetched to say that the lion's share of the OBOR is related to honor and external legitimacy. However, as mentioned earlier, there are minor layers of internal legitimacy as well.

These layers of internal legitimacy may be divided into two types. On the one hand, there are the economic benefits China will likely gain from the OBOR in the short term, as well as those to be gained in the long term. On the other hand, there is the international diplomatic prestige to be gained, which will also have effects at the domestic level through maintaining and creating jobs and projects for Chinese construction companies for the necessary infrastructural work over the next decades of the

OBOR. This kind of altruistic-seeming economic stimulus for China's own market was typically undertaken in the past in bilateral projects that functioned as quasi-foreign aid by China to the recipient country. All the OBOR really does—albeit impressively and with much pomp and circumstance—is to harness China's diplomatic actions into a larger cross-regional initiative. Related to this short-term gain for China is the general longer-term advantage of maintaining a beneficial regional and global market for Chinese exports on which China still heavily depends. In theory, better infrastructure and more trade, especially with China, will help to develop the recipient country as well, making them wealthier and thus increasing the potential for China to export more to that neighbor.

In addition, the diplomatic international prestige that China has been and is bound to receive externally from the generous OBOR initiative also has effects at the domestic level. This engagement with the international community is a reflection of China's risen status as a great power, and the prestige and recognition associated with the positive feedback from the affected states certainly embolden the pride in the hyper-nationalists among the Chinese. The whole concept of the OBOR also is very intelligently crafted by the CCP to avoid including any of the so-called 'others' of the past decades (i.e., either the U.S. or Japan). It does include some European nations that were aggressors within the timeframe of the humiliation complex; however, from the geographical illustrations of the

OBOR, it can be seen that this is not emphasized much, since the most prominently marked European end points are Athens, Venice, Rotterdam, and Moscow. If one takes into account “‘historical memory,’ which only lasts about a hundred years,”⁹⁴ then it is reasonable to narrow down the arch-enemies of China to the U.S. and Japan. Finally, yet another connection of the international to the domestic is along the lines of the prestige and status which the tributary system helped internally legitimize China in the Middle Ages. Likewise, not only an economic boost from the OBOR to the Chinese market but also a boost in stature vis-à-vis the West and Japan is likely to be welcomed in terms of legitimacy on the home front.

Nevertheless, it is external legitimacy that is central to the OBOR, which is surely the main reason why the initiative is peaceful and perfectly conforms with the PD grand strategy while still serving some domestic purposes. On the one hand, this helps to overcome the humiliation complex, since China is aiming to restore its pre-1839 splendor. The fact that the Chinese appear overly generous with the OBOR and promise billions as rewards to both adjacent and remote nations certainly fits the definition of being (or aiming to become) a regional, if not supra-regional, hegemon. The above-mentioned fact that neither Japan nor the U.S. are (so far) part of the concept also additionally supports this objective. The recognition with which participant nations acknowledge Chinese leadership (and monetary buy-offs) is

⁹⁴ Kang, *op.cit.*, p. 167.

clearly related first and foremost to honor and external legitimacy, although the cultural drivers of fear (more peripheral security for China) and interest (economic stimulus for home economy and possibly more exports to more developed neighbors) are present here as positive side effects.

In the same vein of external legitimacy, there is a strong reference to the 'good times' in China's imperial history of tributary relations and a Silk Road trade system in which China made huge profits with luxury goods. The choice of the name for the OBOR initiative shows clearly that it is, at least partially, a project with an aim of increasing status. Other such undertakings (e.g., the geo-economic counterpart to the U.S.'s TPP, the China-led RCEP) are much more neutral and less loaded with history; as such, they are perhaps less intended than the OBOR to cater to the needs for honor and status.

In sum, there is little to be said regarding the negative or assertive side of the OBOR, apart from some hyper-sensitive doubts of neighboring states about China aiming for hegemony or being a threat. Clearly, if such goals exist, then the CCP is making a statement by wanting to secure the approval of relevant nations via buying them off with promised rewards rather than forcing them with military threats into doing what China wants. Given that all of this activity (buy-offs, infrastructure projects as foreign aid, bilateral agreements with peripheral nations to increase security, etc.) has increased in the past decade and would have

occurred with or without the OBOR initiative diplomatic umbrella project, one can argue with relative certitude that this diplomatic move is meant to increase stature and therefore mainly external legitimacy.

Conclusion

While the REE case was confirmed as assertive and, therefore, actually diverging from PD grand strategy, the OBOR case was mostly in line with PD and, thus, peaceful. Nevertheless, the analysis also confirmed the perceived contradictory behavior on China's part which is often lamented by the West and regarded by the community of states as internationally irresponsible behavior. Having taken an immaterialist approach, the analysis showed that taking into account China's sense of internal and external legitimacy can help explain these inconsistencies: While instances like the REE export restrictions diverge from PD grand strategy, this is so because they relate to China's internal legitimacy. Conversely, the OBOR case mostly relates to China's external legitimacy and was, therefore, conforming to PD grand strategy. Aspects of historical memory such as the glorious past of international relations conducted in the tributary system, as well as the victim mentality associated with the 'Century of Humiliation' play an important part in China's legitimacy-driven grand strategy manifestations.