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## **Assertive Pragmatism: China's Economic Rise and its Impact on Chinese Foreign Policy**

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*In collaboration with the Atomic Energy Commission (CEA)*

**Minxin Pei**

*Fall 2006*



**Security Studies  
Department**

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## *Proliferation Papers*

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Though it has long been a concern for security experts, proliferation has truly become an important political issue over the last decade, marked simultaneously by the nuclearization of South Asia, the strengthening of international regimes (TNP, CW, MTCR) and the discovery of fraud and trafficking, the number and gravity of which have surprised observers and analysts alike (Iraq in 1991, North Korea, Libyan and Iranian programs or the A. Q. Khan networks today).

To further the debate on complex issues that involve technical, regional, and strategic aspects, Ifri's Security Studies Department organizes each year, in collaboration with the Atomic Energy Commission (*Commissariat à l'énergie atomique*, CEA), a series of closed seminars dealing with WMD proliferation, disarmament, and non-proliferation. Generally held in English these seminars take the form of a presentation by an international expert. The *Proliferation Papers* is a collection, in the original version, of selected texts from these presentations. The following text is based on a presentation given by Minxin Pei at Ifri on November, 14<sup>th</sup>, 2006.

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# Introduction

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China's rapid gains in its economic growth in the last three decades have not only transformed the Middle Kingdom's trading relations with the international community, but have also reshaped the regional security landscape in Asia and begun to influence the geopolitical dynamics of the world.<sup>1</sup> With increasing access to financial resources, technology, and foreign supplies, China has been engaged in a steady, though gradual, military modernization program. China's growing economic influence has greatly augmented Beijing's diplomatic clout, enabling it to reach out to resource-rich developing countries in Latin America, the Middle East, and Africa. As China continues its economic ascendance, it is only a matter of time before Beijing assumes a more visible global role in security affairs.

If the West finds it difficult to adjust to the economic consequences of China's rise, such as the outsourcing of jobs, trade imbalances, deflationary pressures on manufactured goods, and competition for commodities and energy resources, the *strategic* consequences of China's ascendance may be even harder for the West to manage for three reasons. First and foremost, despite its enormous progress in terms of economic reform and modernization, China has maintained a distinctly authoritarian political system, and its leaders who have vowed never to adopt "Western-style" democracy. The differences in ideological values and political systems are a serious hurdle to the formation of genuine strategic partnerships between China and the West, which consists exclusively of democracies. Although China has jettisoned its orthodox communist ideology, it has retained one-party rule and, in the course of defending the political monopoly of the Chinese Communist Party (CCP), still relies on repressive measures that violate internationally recognized norms of human rights. This reality impedes the conducting of genuine dialogue and the establishment of political trust with the West. For Western democracies, which view the conduct of other countries' governments as one of the qualifications for strategic cooperation and partnership, the domestic policies of the Chinese government have thus become a major cause for concern and friction. Such policies, ranging from the repression of ethnic minorities, religious groups, and independent labor movement to placing limits on many civil liberties, undermine the confidence of the West in China's suitability as a strategic partner. Of course, the same differences in ideological values and political systems also powerfully inform how the Chinese view their relations with the West. Fearful that the West is merely using economic engagement and globalization to undermine the rule of the CCP and engineer a "peaceful evolution," the Chinese government has been very suspicious about the West's intentions and approaches toward

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<sup>1</sup> David Shambaugh, ed., *Power Shift: China and Asia's New Dynamics* (Berkeley, Calif.: University of California Press, 2006).

China. Beijing may welcome Western capital and technology, but it decidedly rejects its political values. In its interaction with the West on security issues, such deeply imbedded suspicions inevitably color Beijing's interpretation of the West's motives and limit the degree to which China can cooperate with the West. Thus, as long as China remains under authoritarian rule, the country will maintain an unstable relationship with the West. Such a relationship need not be hostile, but it can never be that of a genuine strategic partnership.

The second reason that an economically powerful China will present a difficult challenge for the West in the strategic realm is that Beijing's worldview is unalterably ingrained in realism, which sees the world as an anarchical place where states compete for power and influence and their security can only be enhanced through acquisition of power and influence. Beijing's realist tradition, in and by itself, should not be an obstacle to genuine strategic partnership with the West. However, informed by their suspicions of the West's intentions, the Chinese ruling elites tend to see the outside world from a Manichean perspective and with an unusual degree of wariness and insecurity. This realist-authoritarian perspective is incompatible with the liberal-internationalist perspective that dominates the thinking of the Europeans and the Democrats of the United States.<sup>2</sup> In practical terms, China's realist tradition in foreign policy is expressed in its government's approach to international institutions, which it views either as ineffective in solving the world's real problems or as mere instruments of the powerful Western states in their pursuit of power and influence. This realist view thus limits the degree to which China can contribute to the solution of post-Cold War global challenges, such as terrorism, global warming, proliferation of weapons of mass destruction, and the spread of deadly diseases. Recently, there have been some tentative signs that China may be trying to embrace some limited form of internationalism without abandoning its realist tradition. To Beijing's credit, it has recently begun to play a more pro-active role on the global stage.<sup>3</sup> For example, China gave a US\$63 million donation to the victims of the Southeast Asian Tsunami in 2005 (the largest ever foreign grant for humanitarian relief since 1979) and recently contributed 1,000 peace-keeping troops to the United Nations mission in Lebanon (altogether, China has sent 5,600 personnel on 15 UN peacekeeping missions around the world since 1990; of the five permanent members of the United Nations Security Council, China has contributed the largest number of troops to peacekeeping missions under the UN authority). But these gestures do not signify a fundamental change in Beijing's perspective on international affairs. A truly liberal-international worldview is inconceivable for a ruling elite steeped in realism and authoritarianism. To date, democracies may practice both realism and liberal-internationalism, but only democracies – and no autocracies – have adopted liberal-internationalism as their fundamental approach to global affairs. Autocracies simply are incapable of practicing liberalism abroad while maintaining authoritarianism at home. As long as this is the case, China and the democratic West will constantly find themselves at odds, not just over specific interests, but also over the underlying philosophical approaches to international relations.

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<sup>2</sup> The Republicans in the U.S. are mostly realists, although a small number of them are also internationalists.

<sup>3</sup> See Philip Saunders, "China's Global Activism: Strategy, Drivers, and Tools," (Institute for National Strategic Studies, National Defense University, Washington DC 2006).



The third reason that a resurgent China will present a difficult challenge to the West is Chinese nationalism. A victim of Western imperialism, China has powerful memories of its recent humiliation at the hands of foreign powers. The rise of the CCP was also inseparably associated with Chinese nationalism. Indeed, the CCP has successfully created a mythology of China's recent national history in which it has portrayed itself as the true champion of Chinese nationalism and defender of Chinese national dignity and interests. Though defensive in nature, resurgent Chinese nationalism, fueled both by spontaneous public sentiments and manipulation by the CCP-controlled state, can impede strategic cooperation with the West.<sup>4</sup> Like realism, nationalism projects fear and suspicion onto the outside world; it simultaneously fosters xenophobia and chauvinism. Nationalism damages China's economic relations with the West because it legitimizes protectionism, limits liberalization, and justifies illegal business practices, such as the abuse of intellectual property rights owned by foreigners. In the security realm, nationalism lends credibility to exaggerated foreign threats and provides support for the CCP's position that it must maintain maximum vigilance against new Western plots to weaken and divide China. In regional affairs, Chinese nationalism certainly has played a very negative role in Beijing's dealings with Japan. Nationalism has even threatened, on numerous occasions, to unravel the all-important Sino-U.S. relations and dramatically increased tensions between the two countries.<sup>5</sup> Because the ruling CCP has grown increasingly dependent on using Chinese nationalism as a source of political legitimacy (despite the obvious risks to its pragmatic foreign policy), nationalism will remain a key – and negative -- factor in China's relations with the West, limiting the potential for cooperation while magnifying frictions.

Thus, China must constantly struggle with and contain the three “demons” – authoritarianism, realism, and nationalism – if it wants to become a genuinely responsible internationalist world power and a dependable partner of the West. As shall be discussed in the following pages, despite frequent missteps, Beijing has so far not allowed nationalism to get out of control or needlessly antagonized the world's leading industrialized nations that provide China with capital, technology, and market access. The CCP, though practicing repressive authoritarianism at home to prevent any organized challenge to its policy monopoly, nevertheless refuses to view Western democracies as irreconcilable ideological foes that must be confronted. Instead, Beijing has implemented a diplomatic strategy that aims to court European countries (which it views as less ideological and hostile than the United States); it even labels its relations with key European states, such as Germany, France, and the United Kingdom, as “strategic partnerships.” The objective of befriending Western European democracies is apparently to play Europe off against the United States. Of course, Beijing's authoritarianism does have a substantive effect on its foreign policy: in recent years, China has shown a special fondness for repressive regimes that are widely viewed as

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<sup>4</sup> See Suisheng Zhao, *A Nation-State by Construction: The dynamics of modern Chinese nationalism* (Stanford: Stanford University Press, 2004); Peter Hays Gries, *China's New Nationalism: Pride, Politics, and Diplomacy*, (Berkeley, Calif.: University of California Press 2004).

<sup>5</sup> The most striking example was violent anti-American demonstrations outside the U.S. Embassy in Beijing after the NATO's mistaken bombing of the Chinese embassy in Belgrade in May 1999. Another example was Beijing's clumsy handling of the EP-3 incident in April 2001.

rogue states, such as Zimbabwe, Sudan, and Myanmar. Additionally, China's authoritarian rule at home is directly responsible for unacceptable human rights practices that have frequently caused conflict even with the European countries it is trying to befriend. In the case of Beijing's failed attempt to have the European Union lift its arms embargo in 2005, China's poor human rights record (and its ill-timed passage of a law aimed at deterring Taiwan from seeking *de jure* independence) played a crucial role in the EU's decision not to revoke the embargo.

How has China, unlike the former Soviet Union, avoided making catastrophic strategic mistakes during its rapid ascent?<sup>6</sup> Instead of pursuing an imperialist agenda or relying on communist ideology to guide its foreign policy, China has skillfully leveraged its growing economic influence in furthering its national security objectives. It has done so mainly by adopting *assertive pragmatism* as the guiding principle of its foreign policy. China's assertive pragmatism has multiple objectives. While it strives to avoid conflict with the United States (and to a lesser extent, Japan), assertive pragmatism nevertheless seeks to leverage China's growing influence to help create a favorable international environment conducive to economic development at home, exploit the global trading system in maximizing the benefits of free trade, and strengthen Chinese national security. To be sure, assertive pragmatism is necessitated by Chinese weakness relative to the West and is constantly challenged by the three "demons" that try to hijack Chinese foreign policy. Occasionally, assertive pragmatism motivates Beijing to behave like an internationalist power, but that is the only exception proving the rules. Assertive pragmatism is frequently compromised by the inherent tensions of the principle itself: although pragmatism occasionally demands that China abide by certain internationalist principles and subject its national interests to the collective good of the international community, the assertive nature of the three "demons" dictate that China must defend its national prerogatives whenever in can. The result is that China, on such occasions, behaves opportunistically, raising doubts in the West about its reliability as a partner, and even undermining its own long-term security. The most relevant example, as we shall see later, is its behavior in the nonproliferation field in general, and in its handling of the nuclear standoff in North Korea and Iran.

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<sup>6</sup> Robert Ross gives Chinese leaders credit for taking a cautious approach to foreign policy. Ross, "Assessing the China Threat," *The National Interest*, (Fall 2005), pp. 81-87.

# The Economic Context of Assertive Pragmatism

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As is commonly observed, the overriding objective of Chinese foreign policy is to serve the CCP's goal of sustaining rapid economic growth (a critical pillar of its political survival). Conversely, the resources generated by rapid economic growth provide the tools and means for the Chinese state to implement its strategy of assertive pragmatism in the international arena more effectively. In this section, we briefly describe the economic context of assertive pragmatism.

Among the world's large economies, China is notable for having achieved an average of 9-10% growth per annum for almost three decades. According to the OECD, China's economic growth has averaged 9.5% between 1984 and 2004.<sup>7</sup> Wealth generation has similarly expanded in the same period; GDP per capita in China has increased from US\$363 in 1988 to US\$1,465 in 2005, an annual increase of 8.5%.<sup>8</sup> Such stellar growth performance is mainly driven by high investment, which is made possible by China's high savings rate (the gross saving rate in China is close to 50% of GDP).<sup>9</sup> In turn, high rates of capital accumulation contribute to increases in productivity. For example, in 2003, investment had boosted annual growth of labor productivity to 8.5%<sup>10</sup> and average output per person in China has increased three-fold over the past two decades.<sup>11</sup> Another engine of growth has been the emergence of a dynamic private sector, which has thrived in spite of a myriad of discriminations by the state. In 1998-2003, output of domestically owned private companies increased five-fold. Foreign firms, which the Chinese government has wooed with open arms, provide an additional source of growth. For example, the output of non-mainland owned companies increased threefold during 1998-2003 period (by comparison, state owned companies' output only increased by 70% in the same period).<sup>12</sup>

Thanks to such a rapid rate of growth, the size of the Chinese economy, when measured at market prices, has already exceeded a number of major European economies and is now ranked as the world's fourth largest economy, behind the United States, Japan, and Germany. If

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<sup>7</sup> OECD, "Economic Survey of China, 2005," September 2005, 1.

<sup>8</sup> US\$ at market exchange rates. Erik Britton and Christopher T. Mark, Sr. *The China Effect: Assessing the Impact on the US Economy of trade and Investment with China*, January 2006, 3.

<sup>9</sup> OECD, "Economic Survey of China, 2005," September 2005, 3.

<sup>10</sup> Ibid.

<sup>11</sup> Erik Britton and Christopher T. Mark, Sr. *The China Effect*, 3.

<sup>12</sup> OECD, "Economic Survey of China, 2005," September 2005, 3.

China continues to grow at the moderate rate of 7-9%, it will surpass Japan as the world's second-largest economy in 2020.<sup>13</sup> Of course, it is by no means certain that China will continue to grow at such a pace. There are huge imbalances in the Chinese economy. For example, the rate of investment is too high and that of consumption is too low. Investment returns also seem to be relatively low. Capital markets are underdeveloped, and a banking system saddled with non-performing loans could also pose a serious risk to future growth. Additionally, there is huge gap in growth between the coastal areas and the rest of China because the coastal provinces receive the majority of foreign direct investment (FDI) and house the majority of export-oriented industries, (in 2005, average per capita GDP in coastal provinces was RMB 21,905).<sup>14</sup> China's growth also seems to be of low quality, achieved at the expense of massive environmental degradation, rising income inequality, and underinvestment in public goods. Unless China acts quickly and decisively to correct these imbalances, its growth performance will likely deteriorate in the coming decade.

For the rest of the world, China's economic rise is most directly felt through foreign trade. From 1990 to 2004, the volume of Chinese exports increased by a stunning 850%. As a percentage of world trade, China's export rose from 1% in 1990 to more than 10% in 2004, making it the world's third-largest trading power (behind the United States and Germany). China's export boom is driven by inflows of FDI (on average US\$40-60 billion a year, with a stock of US\$600 billion in 2005) because foreign-invested firms account for about half of China's total exports.<sup>15</sup>

As a critical link in the global supply chain, China has quickly become one of the world's largest importers, making China a key customer of both industrialized and developing countries alike. In the future, China's role as a major importer will certainly become increasingly important since its purchasing translates into geopolitical influence. Yet, China's arrival on the global trading scene is a mixed blessing. While its high-quality low-priced consumer goods have contributed to low levels of inflation and higher purchasing power in the West, China's growing trade surplus with the world is a major cause of global financial imbalances. Its trade surplus is estimated to reach a record US\$150 billion in 2006 and China's foreign reserves have already exceeded US\$1 trillion in November 2006.<sup>16</sup> China is the United States' third largest trade partner and second largest export destination.<sup>17</sup> The impact of China's growing exports is felt in major industrialized countries as well. The European Union and Japan both run very large trade deficits with China. These trade imbalances are caused by multiple factors, such as China's undervalued exchange rate, outsourcing, and rising Chinese productivity gains.

However, it would be inaccurate to conclude, from aggregate trade data, that China has become a super-competitive trading power. The truth is more complex. For all its export prowess, China remains a low-cost

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<sup>13</sup> Ibid, 2.

<sup>14</sup> Friedrich Wu, "What Could Brake China's Rapid Ascent in the World Economy?" *World Economics*, Vol 7 No 3 July-Sept 2006, 68.

<sup>15</sup> Erik Britton and Christopher T. Mark, Sr. *The China Effect*, 3.

<sup>16</sup> "Trade surplus likely to top US\$150bn," *China Economic Review*, October 31, 2006.

<sup>17</sup> "Trials of trade," *China Economic Review*, July 2006.

producer that competes on price, not on brand name or technology – meaning that its chief competitive advantage is low-cost labor. Moreover, China's current economic model is resource and energy intensive; unless China succeeds in creating its own intellectual property, it will not reap the full benefits of globalization. Even though research and development spending has increased by 133% from 2001 to 2005 (which is still only 1.3% of GDP<sup>18</sup>), China remains largely a “processing trader” that assembles parts made in more advanced economies, instead of an innovator that can capture the high end of the value chain. China will remain so if it does not change its weak educational system and loosen state control of financial markets and research and development institutes.<sup>19</sup> Poor corporate governance also keeps Chinese companies from building strong Chinese brands.<sup>20</sup>

In general, most countries stand to gain from the emerging market economy of China. Advanced economies benefit from cheaper labor-intensive imports and greater demand for skill-intensive exports, while developing countries will gain from the increase of their exports to China, both of primary commodities and of manufactures for re-processing and re-export. The problem is for those countries that compete closely with China in world markets; these will have to make major changes in order to avoid significant economic losses.<sup>21</sup>

On the whole, China's economic rise is beneficial for the global economy, though certain sectors and certain countries may suffer.<sup>22</sup> In particular, China's economic gains provide special benefits to the United States. According to a US-China Business Council Forum, “the long-term benefits to the United States of trade with China are substantial and likely to endure.”<sup>23</sup> For example, as a result of increased trade and investment with China since 2001, by 2010 US GDP will be 0.7% higher and US prices will be about 0.8% lower; this equates to an average increase in US household disposable income of US\$1,000. Even though trade with China will result in the loss of approximately 500,000 manufacturing jobs in the United States by 2010, those jobs will be replaced by 500,000 service sector jobs. China's impact on the US economy decreases GDP and employment in the short term, but in the long term GDP is higher and employment bounces back, (for an economic explanation, see source).<sup>24</sup>

Aside from its impact on employment in the West, China's super-charged industrialization has posed an indirect security challenge to the world because of the country's insatiable appetite for critical raw materials. Explosive demand from China has caused rapid increases in the prices of raw materials and commodities such as oil, steel, iron, ore and other base metals. China accounted for a fifth of total global increase in oil demand from 2002-2005 and consequently is part of the reason for the increase in

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<sup>18</sup> Friedrich Wu, “What Could Brake China's Rapid Ascent in the World Economy?”<sup>83</sup>.

<sup>19</sup> “Mother of Innovation,” *China Economic Review*, November 2006, 2.

<sup>20</sup> “Stuck in the Bargain Basement,” *China Economic Review*, November 2006.

<sup>21</sup> IMF Staff, *World Economic Outlook: Advancing Structural Reforms*, April 2004, 63.

<sup>22</sup> IMF Staff, *World Economic Outlook: Advancing Structural Reforms*, April 2004, 93.

<sup>23</sup> Erik Britton and Christopher T. Mark, Sr., *The China Effect*, i.

<sup>24</sup> *Ibid*, 15.

oil prices.<sup>25</sup> China has displaced the US to become the world's greatest consumer of copper, nickel, iron ore, lead and other base metals. It has also displaced Japan to become the world's second largest oil consumer.<sup>26</sup> This places China in an unenviable position of vying for access to these strategic resources with the West, with the potential for intense or even hostile competition in developing countries.

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<sup>25</sup> Ibid, 4.

<sup>26</sup> David D. Hale, "Commodities, China, and American Foreign Policy," *The International Economy*, Summer 2006, Vol 20, Issue 3, 16.

# Converting Assertive Pragmatism into National Security and Geopolitical Influence

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Like all other rapidly ascending powers in history, China has used its growing economic resources to expand its military capabilities and geopolitical influence. It is worth noting that Chinese strategic thinkers, especially the late paramount leader Deng Xiaoping, explicitly warned against such expansion in the early 1980s because it could prematurely attract the strategic attention of the West and trigger major power rivalry that might distract China from its economic modernization and even endanger its strategy of taking advantage of a relatively peaceful international environment to focus on economic development. Thus, under the slogan “Biding time to build up our strength” (*tiaoguang yanhui*), China purposefully curtailed and even cut off commitments to its old Cold-War allies in the developing world and eschewed new external entanglements during the 1980s.

However, since the mid-1990s, several developments at home and abroad forced China to significantly alter its strategy of maintaining a low international profile. Sensing new opportunities and responding to new pressures, Chinese policy-makers have begun to practice a more complex – if not cosmopolitan – form of assertive pragmatism that aims to achieve substantive gains in Chinese national security and economic well-being. Consequently, China has assumed a more visible geopolitical profile, pursued a systematic but measured program of military modernization, and gradually extended its influence through several regional and global trade and strategic initiatives. In retrospect, we can trace the evolution of Chinese assertive pragmatism to these critical post-Cold War developments. First, the Tiananmen crackdown in June 1989 caused a severe deterioration in China’s relations with the West and, for a short period of time, leading to China’s isolation from the West. Subsequent to the post-Tiananmen isolation and thwarting the sanctions imposed by the West, Beijing adopted a more proactive foreign policy that reached out to the developing world, where it could easily find allies that would help China in its diplomatic maneuver against the West on human rights issues. The response of the West to Beijing’s crackdown further reinforced the Chinese government’s suspicion that the United States and its allies are intent upon subverting the rule of the CCP and its belief that to counteract such efforts, China must build and maintain dependable allies in the developing world.

Second, the end of the Cold War created both strategic challenges and new opportunities for China. As a negative development, China lost its strategic value to the United States, which began to reassess its relations with China and view Beijing’s rise with growing anxiety. Consequently, the

United States adopted a strategy of hedging against China: engaging it economically and politically, but containing it militarily. China immediately felt Washington's pressures on the security front. In the area of nonproliferation, the United States launched a systematic effort to compel China, with sanctions and threats of sanctions, to abide by international arms control norms and Washington's more stringent rules on the transfer of weapons of mass destruction and associated technologies. The United States also strengthened its traditional security relations with Japan, which was identified as the "strategic hub" for Washington in the Western Pacific. But the most disconcerting development was Taiwan's attempt to achieve *de jure* independence and Washington's new policy of strengthening Taiwan's defense against possible Chinese coercion. In the 1990s, the United States dramatically increased the quality and quantity of its arms sales to Taiwan. Politically, Washington also began to give Taiwan more official recognition, systematically hollowing out its "one-China" policy. The combination of the push for independence within Taiwan and Washington's ambiguous response culminated in the 1995-1996 Taiwan Strait Crisis, when China launched missile tests to warn Taiwan against seeking independence. The United States responded by dispatching carrier battle groups to the Taiwan Straits to deter China. Humiliated by its inability to address the United States' intervention with any meaningful military measures, China subsequently decided to embark on an accelerated program of military modernization designed specifically to provide China with a military option to deter Taiwan from seeking juridical independence and the United States from intervening on Taiwan's side in a potential crisis. Eventually, this program became the center of contention between the United States and China regarding China's pace and scope of military modernization.

Third, the first Gulf War, which the United States won triumphantly and almost effortlessly with its high-tech weapon systems, impressed upon Beijing the urgent need for military modernization. In the 1980s, Deng significantly reduced military spending so as to free up money for economic development. But following the first Gulf War, the Chinese leadership realized that they must re-build their military capabilities and try to close the yawning technological gap with the United States. Fortuitously, China's efforts of military modernization received two external sources of support. The Russian government under Boris Yeltsin, both for financial reasons and geopolitical considerations, agreed to transfer advanced weapon systems to China, such as jet fighters, destroyers, missiles, and submarines. Dual-use technologies also became more available in the era of globalization. These two sources of high technology significantly contributed to the pace of Chinese military modernization. Responding to Washington's efforts to expand its technological gap with potential rivals is a key driver in the Chinese military modernization program. Beijing tends to view Washington's plans to further upgrade its already awesome military capabilities with anxiety, as in the cases of President George W. Bush's plan for a national missile defense (NMD) system that would neutralize China's small nuclear arsenals and former Defense Secretary Donald Rumsfeld's ambitious plan of military transformation.<sup>27</sup>

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<sup>27</sup> The Rand Corp., *Chinese Responses to U.S. Military Transformation and Implications for the Department of Defense*. (Santa Monica, 2006).



Fourth, and perhaps most important is that China's growing economic resources allow Beijing to finance its military modernization. In contrast to the 1980s, when the Chinese central government experienced the dramatic erosion of its fiscal capacity, Beijing began to collect more fiscal revenues after it implemented recentralizing tax reforms in 1994. Buoyed by a growing economy, rising tax receipts, and increasing foreign currency earnings from trade, the Chinese government was able to maintain double-digit increases in military spending in the last decade without experiencing real fiscal difficulties. Of course, rising economic resources also "push" China toward the outside world because Chinese national security today is closely connected with China's access to critical raw materials, overseas markets, and sea-lanes.<sup>28</sup> Even though China has so far refrained from developing a blue-water navy to enhance its secure access to energy, raw materials, and sea-lanes (largely because the U.S. navy is protecting the access free-of-charge for China), China appears to be seriously engaged in securing alternatives or insurance policies.<sup>29</sup>

More than a decade after China started its military modernization, the country has achieved visible progress in transforming its military capabilities and reorienting its forces to "fight and win short-duration, high-intensity conflicts along its periphery<sup>30</sup>." Sustained by increasing defense spending, estimated in the range of US\$30-100 billion (in 2005 dollars) per annum, China is able to acquire technically advanced weapon systems abroad (chiefly from Russia), invest in domestic research and development, and increase training and exercises.<sup>31</sup> The most notable progress has been made in air, naval, and missile forces.<sup>32</sup> Less significant progress has been achieved in joint operations, C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance), precision strikes, and combat support.<sup>33</sup> In the same period, China has also made notable strides toward modernizing its small nuclear capability. Without increasing its size, Beijing has managed to achieve progress in the precision, mobility, and survivability of its nuclear strike capabilities.<sup>34</sup> However, despite the additional billions of dollars invested in its military modernization program, China has not closed the vast technological gap with the United States or the militaries of Western industrialized countries. In many critical areas, China remains at least a decade or two behind the United States and is unlikely to catch-up at the current rate of progress.<sup>35</sup> If China has made less progress in improving the

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<sup>28</sup> See Aaron L. Friedberg, *Going Out: China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy*, (Seattle: The National Bureau of Asian Research 2006); John Douglas, Matthew Nelson, and Kevin Schwartz, "Fueling the Dragon's Flame: How China's Energy Demands Affect its Relationships in the Middle East," (Statement to the U.S.-China Economic and Security Review Commission, Sept. 14, 2006).

<sup>29</sup> For example, China is trying to develop overland oil pipes through Myanmar and Pakistan so that it can reduce the risks of a disruption of oil supplies should the Malacca Straits be blocked.

<sup>30</sup> Peter Rodman, *The Military Power of the People's Republic of China*, (Testimony before the House Armed Services Committee, 22 June 2006)

<sup>31</sup> The Department of Defense, *Military Power of the People's Republic of China 2006* (Washington DC 2006), p. 19. Calculating Chinese defense expenditures is a contentious political issue. Various estimates have been offered. See IISS, "Calculating China's Defence Expenditure," *Military Balance 2006* (London 2006), pp. 249-253. See The Council on Foreign Relations, *Chinese Military Power* (2003); Congressional Research Services, "China Naval Modernization: Implications for U.S. Navy Capabilities," (Washington DC 2005); The Rand Corp., *Modernizing China's Military: Opportunities and Constraints* (Santa Monica, CA: 2005).

<sup>33</sup> Ibid.

<sup>34</sup> The Rand Corp., *Chinese Responses to U.S. Military Transformation and Implications for the Department of Defense*, pp. 95-129; The Department of Defense, *Military Power of the People's Republic of China 2006*, pp. 26-29.

<sup>35</sup> The Council on Foreign Relations, *Chinese Military Power*

hard capabilities of its military force, it appears to have scored more impressive victories in improving its regional security environment and cementing its role as a preeminent Asian power. By and large, China achieved these important security objectives not by exercising its hard power, but by exploiting both the U.S. strategic neglect and its growing soft power (economic influence and diplomatic skills).

### **Southeast Asia**

This region, which until recently has remained wary of Chinese influence and viewed the Asian colossus as a threat to its security and prosperity, has become undeniably a part of China's sphere of influence in the last decade. The most important factor in China's success in wooing Southeast Asian nations is its rising economic gravitational pull. As China's trade with the region has increased several folds since the mid-1990s, Southeast Asian nations have directly benefited from China's economic growth, instead of suffering from its consequences. Riding on its own strong economic momentum, China also capitalized on the Asian financial crisis in 1997 by offering large loans to Thailand and Indonesia, the two countries hit hardest by the economic crisis. In contrast, the United States provided no aid, greatly disappointing its traditional allies. To further cement its advantages in the region, China led the efforts to develop a free-trade zone with Southeast Asia in 1998, forcing Japan, India, and South Korea to play catch up and earning itself the goodwill of the countries in the region.<sup>36</sup> In the meantime, China has also managed to sideline the most contentious security issue facing Southeast Asia – the territorial dispute over the Spratly Islands between China and several Southeast Asian nations. Judging by the degree of its newly found influence in the region, China appears to have successfully achieved its goal of strategic denial – preventing the United States or Japan from recruiting key states in Southeast Asia, such as Vietnam, Indonesia, and Thailand, into a potential anti-China alliance.

### **Central Asia**

This region has been traditionally part of the Soviet/Russian sphere of influence, and China used to have little economic and security influence there. But following the collapse of the Soviet Union, China identified Central Asia as a critical part in its grand strategy of maintaining a peaceful periphery and securing access to commodities and energy supplies. Three Central Asian countries, Kazakhstan, Kyrgyzstan, Tajikistan, share borders with China's Xinjiang Uighur Autonomous Region, a restive area with long-running ethnic separatist movements. It is imperative that China gains the cooperation from these states in fighting ethnic separatism. In addition, Central Asian countries have vast undeveloped natural resources, particularly oil and gas, which could greatly enhance China's energy security. Thus, starting in the early 1990s, China launched a systematic effort to develop a regional security organization, the Shanghai Cooperation

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<sup>36</sup> See Joshua Kurlantzick, *China's Charm: Implications of Chinese Soft Power*, (Carnegie Policy Brief, No. 47, June 2006); Elizabeth Economy, "China's Rise in Southeast Asia: implications for the United States," *Journal of Contemporary China* (14 (44) (2005), pp. 409-425.

Organization (SCO), which would allow it to exert greater influence in the region's economic and security affairs.<sup>37</sup> To be sure, China's efforts did not pay off initially. The SCO remained without a clear mission and lacked momentum. But following the U.S. deployment of military forces in Central Asia after the start of the war in Afghanistan in 2001, and especially following the "Color Revolutions" in 2003-2004, China and Russia found themselves in strategic agreement regarding the mission of the SCO and both injected more energy into turning the fledgling regional group into an instrument to compete against American influence.<sup>38</sup>

## **Russia**

For China, post-Soviet Russia represents a huge strategic prize. Although Chinese leaders are realistic enough to understand that Russia will never be a junior partner, Beijing understands the strategic value of building a new relationship with Russia. To be sure, Chinese efforts have been only partially successful until very recently. Fearful of growing Chinese power, Russia was cautious in reacting to Chinese overtures and maintained strict limits on arms transfers to China. At the United Nations Security Council, Russia was often an unpredictable and unreliable partner.<sup>39</sup> Moscow also refused to commit to building a key oil pipeline to China, trying to play Beijing off against Tokyo. However, in the past two years, the relationship between China and Russia has undergone a qualitative change – the two countries have become quasi-strategic partners. Across a wide-range of issues, from Iran to North Korea, China and Russia are working closely at the United Nations Security Council and have skillfully used their cooperation to force the West to moderate their approaches to Tehran and Pyongyang. As mentioned earlier, Russia and China have found common cause in Central Asia in trying to push out American influence. Even in the security area, Russia has become more willing to advance its ties with China, as can be seen in the first large-scale joint military exercise conducted on Chinese territory in 2005. The rapid improvement in ties and growing cooperation between China and Russia owes, to a great extent, not to any Chinese new initiative, but to Russia's changing relationship with the West under Vladimir Putin's rule. As President Putin became increasingly authoritarian, he needed China as an ally in counter-balancing the West. The net strategic effect of Russia's reorientation of its policy toward the West has been tremendously positive for China.<sup>40</sup>

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<sup>37</sup> Martha Brill Olcott, "The Shanghai Cooperation Organization: Changing the "Playing Field" in Central Asia" (Testimony before the Helsinki Commission, Sept. 26, 2006); Niklas Swanstrom, "China and Central Asia: a new Great Game or traditional vassal relations," *Journal of Contemporary China* (14 (45) (2005), pp. 569-584.

<sup>38</sup> Subodh Atal, "The New Great Game," *The National Interest* (Fall 2005), pp. 101-105.

<sup>39</sup> From the Chinese point of view, the best example of Russian duplicity was its handling of the Kosovo crisis in 1999. China supported Russia's position all along and opposed the NATO's intervention. But at the last minute, Russia changed its position without consulting the Chinese. Beijing felt betrayed.

<sup>40</sup> Alexander Shlyndov, "Certain Aspects of Russian-Chinese Collaboration in the International Arena," *Far Eastern Affairs*, No. 2, 2006, pp. 33-46.

## **Taiwan**

The self-governing island, split from the mainland in 1949 following the Communist victory, poses a fatal threat to China's ambition of maintaining a peaceful environment and continuing its modernization drive. This is not because Taiwan is a serious military threat, which it is not. The reason that Taiwan is so central to Chinese security is because the pro-independence movement, which was voted into office in 2000, has been calling Beijing's bluff through a piece-meal strategy of seeking de jure independence. Because the United States has granted Taiwan a conditional security guarantee, China has been placed in a difficult position: it finds itself either reacting excessively to Taipei's political provocations (such in 1995-96) and forcing Washington to respond militarily as a gesture of deterrence, or reacting ineffectively to the same measures and only encouraging Taipei to move forward even more aggressively. Thus, in the 1990s, Beijing was also put on the defensive in dealing with Taipei. But in the last few years, the combination of China's economic rise, the changing global security environment after 9/11, and new political dynamics in Taiwan has allowed Beijing to seize the initiative. The mainland has skillfully leveraged its economic clout and adopted more flexible policies to woo Taiwan's business elite and opposition parties, thus isolating the pro-independence government. It has worked more closely with Washington, which does not want to get involved in a military conflict with China over Taiwan, to contain Taipei's new provocative moves toward de jure independence. Through the accelerated pace of military modernization, Beijing has developed a credible deterrent against Taipei. Today, Beijing's efforts have borne fruit in Taiwan: the champion of the pro-independence movement, President Chen Shui-bian, is all but politically neutralized by his own incompetence and corruption. The pro-independence movement has lost momentum. And the risks of a military conflict between the mainland and Taiwan have greatly receded.<sup>41</sup>

To sum up, this section illustrates that, under the principle of assertive pragmatism, China has scored important strategic gains in the post-Cold War era. These gains have enabled the CCP to solidify its credentials at home as the true defender of Chinese nationalism. They have also greatly contributed to the CCP's ability to strengthen its authoritarian rule. Without doubt, assertive pragmatism has been a major factor in China's diplomatic successes in the aftermath of the Tiananmen crackdown and in Beijing's efforts to navigate the uncertain geopolitical landscape following the end of the Cold War. Assertive pragmatism, it must be noted, also means taking calculated risks to exploit strategic opportunities. In fact, China has maximized its limited strategic assets in the post-1989 era in strengthening its national security and global influence. Such strategic opportunism is especially striking in the post-9/11 environment. Taking advantage of the strategic distraction and blunders of the United States, China has made unprecedented gains in solidifying its security ties, expanding its reach in resource-rich developing countries, and burnishing its image as a global power.

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<sup>41</sup> Robert Ross, "Taiwan's Fading Independence Movement," *Foreign Affairs*, March/April 2006.

# Assertive Pragmatism and Changes in China's Nonproliferation Practice

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The best example that illustrates both the promise and limits of assertive pragmatism as a foreign policy paradigm adopted by China is its evolving policy and practice in the realm of nonproliferation.<sup>42</sup> As a nuclear weapon state, China remained outside most international nonproliferation regimes until the 1990s (it joined the International Atomic Energy Agency in 1984). Its policy on nonproliferation, if one has ever existed at all, was not to abide by the restrictions of these regimes. Indeed, China viewed these regimes as discriminatory against non-nuclear states and placed burdensome restrictions on its own sovereign right to supply military aid to its key allies (such as Pakistan, which received critical Chinese support in the development of its nuclear weapons program). However, in the 1990s, China's policy on nonproliferation took a decisive internationalist turn. It joined the most important international nonproliferation regimes and signed the key nonproliferation treaties.<sup>43</sup> According to the Nuclear Threat Initiative, China is a member/signatory of, or a party to, 16 of the world's 22 international organizations, export control regimes, treaties, and agreements on nonproliferation. The only agreements, regimes, or treaties China is not a signatory or member of are: the Joint Spent Fuel Management Convention, International Code of Conduct against Ballistic Missile, the Proliferation Security Initiative, the Australia Group, the Missile Technology Control Regimes, and the Wassenaar Arrangement.<sup>44</sup> In addition to joining these international regimes, Beijing has also signed a series of bilateral agreements with the United States that subject China to strict nonproliferation obligations.

At home, the Chinese government has also passed a series of laws on export control to implement its new policy on nonproliferation. The official position on nonproliferation, as announced in its 2003 Nonproliferation White Paper, has moved very close to that of the West.<sup>45</sup>

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<sup>42</sup> The most authoritative analysis on China's record on nonproliferation is Shirley A. Kan, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues* (Washington DC: Congressional Research Service, Oct. 2006).

<sup>43</sup> China acceded to the Nuclear Non-proliferation Treaty (NPT) in 1992, signed the chemical Weapons Convention in 1993, pledged to abide by the guidelines of the Missile Technology Control Regime (MTCR) in 1992, signed the Comprehensive Test Ban Treaty in 1996, joined the Zangger Committee in 1997, and joined the Nuclear Suppliers Group in 2004. China has begun to participate in the Wassenaar Arrangement, although it is not formally a member of the arrangement. China applied to join the MTCR recently, but was turned down. [www.nti.org](http://www.nti.org).

<sup>44</sup> China applied for membership in the MTCR, but was turned down; China, like several other countries, have a skeptical view toward the legality of the Proliferation Security Initiative.

<sup>45</sup> Stephanie Lieggi, "China's White Paper on Nonproliferation: Export Control Hit the Big Time," (Washington DC: The Nuclear Threat Initiative, 2003), [www.nti.org](http://www.nti.org).

Although China's performance in terms of its nonproliferation treaty obligations and enforcement of its own laws is a subject of dispute (for example, many critics in the United States, including American lawmakers and government officials, believe that China has performed poorly in this area), most analysts believe that China has made significant progress in nonproliferation.<sup>46</sup>

There are complex reasons for the evolution of China in its nonproliferation policy and behavior. As a stakeholder in the current global security order, China has begun developing deeper appreciation for the dangers posed by proliferation and to link its own national security to nonproliferation. Increasingly conscious of its growing global status, Beijing is also eager to improve its image as a responsible world power. Of course, China's improved behavior has been motivated by practical concerns as well. A better record on nonproliferation makes it easier for China to persuade its Western trading partners to remove or reduce restrictions on technological transfers to China. Finally, because the United States has played the most important role in pressuring China to adopt and enforce stringent nonproliferation policies, China places special value on its nonproliferation record as a way of stabilizing Sino-American relations.<sup>47</sup> In short, pragmatic realism perfectly explains China's evolving policy on nonproliferation. As dictated by assertive pragmatism, Chinese perception of its own national interests has changed almost fundamentally since the days when Beijing itself was a pariah state isolated from the international community. Today, China is a global trader with interests spanning all continents; the country's security, as well as the CCP's regime security, is threatened by the spread of the weapons of mass destruction.

However, China's assertive pragmatism has its limits in both advancing its national security agenda and in demonstrating the country's emerging global leadership role. The best examples to illustrate the promise and limits of Chinese assertive pragmatism are the North Korean and Iranian nuclear crises.

In the case of North Korea, China finds itself caught in a strategic dilemma. On the one hand, North Korea is a valuable strategic buffer that China can ill afford to lose. On the other hand, a nuclear-armed North Korea will do considerable harm to Chinese national security (such as triggering a nuclear race in Northeast Asia, increasing risks of military conflict with the United States, creating another source of proliferation, and giving Pyongyang a nuclear deterrent against China). Because of this dilemma, China has not been willing to cooperate with the United States fully. Despite Pyongyang's repeated provocations, Beijing has not cut off its aid, which forms the lifeline of the North Korean regime, because Chinese leaders fear that a complete cut-off of aid would precipitate a total collapse of North Korea. While the short-term consequences of a collapse, such as

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<sup>46</sup> The U.S.-China Economic and Security Review Commission, a group with a reputation of championing the "China threat," published a very critical report on China's nonproliferation record as part of its report to the U.S. Congress. See the U.S.-China Economic and Security Review Commission Report to the Congress 2005 (Washington DC 2005); however, Denny Roy, a researcher affiliated with the Defense Department of the U.S. gave a more balanced assessment of China's record, see "Going Straight, but Somewhat Late: China and Nuclear Nonproliferation," (Asia-Pacific Center for Security Studies, Feb. 2006); leading researchers at the Carnegie Endowment for International Peace also concluded that China has made major progress. See Joseph Cirincione, et. al., eds., *Deadly Arsenals: Nuclear, biological, and chemical threats* (Washington DC: Carnegie Endowment for International Peace, 2003).

<sup>47</sup> See Jing-dong Yuan, "Assessing Chinese Nonproliferation Policy," (Statement to the U.S.-China Economic and Security Review Commission, Oct. 2001).

massive refugees, chaos, and armed conflict, would be extremely destabilizing for China, the long-term strategic impact would be even direr. Fundamentally distrustful of American intentions, China fears that the United States would extend its forward-deployed forces north of the 38<sup>th</sup> parallel in a reunified Korea. Obviously, Beijing remembers well what Washington did in the case of the NATO expansion following the collapse of the former Soviet Union. Should this happen, China would find itself in a less secure position. China's solution to its strategic dilemma is to sponsor a meaningless and endless talk shop – the so-called Six-Party Talks – which China has been hosting in Beijing. Chinese leaders apparently hoped that these talks would serve to constrain both North Korea and the United States; neither party would likely take dangerous and provocative steps while the talks continue. But China was wrong.

China's strategic vulnerability has allowed the Kim Jung-Il regime to dictate the pace and specifics of crisis escalation and ignore Beijing's entreaties for restraint. Thus, China has not only failed to pressure Pyongyang into nuclear disarmament, but was unable to force North Korea to cancel its long-ranged missile test in July and nuclear test in October 2006. Both tests, one unsuccessful and the other partially successful, have exposed China's inability to exert its growing influence where it is most needed. Only after North Korea humiliated China did Beijing decide to take a hard line to force Pyongyang to return to the talks. For the first time, China supported meaningful UN sanctions against North Korea (although it voted for symbolic sanctions against Pyongyang in July 2006 following the missile tests); Beijing also cut off oil shipments and access to its banking system. For the moment, Beijing's tactics appear to have produced some results: North Korea has announced that it would return to the Six-Party Talks, without making a firm commitment on nuclear disarmament. However, it remains to be seen whether China has fundamentally altered its strategy of delaying the inevitable, rather than confronting the North Korean nuclear challenge head-on. As long as China harbors deeply imbedded strategic distrust of the United States (and as long as Washington refuses to pre-commit itself to a policy of non-expansion in the event of a North Korean collapse), China is unlikely to completely cut off its support for North Korea. The prospects for the resumed Six-Party Talks look unpromising.

China's behavior in preventing Iran from gaining nuclear weapons through an ostensibly civilian program similarly reflects the fact that China does not share the interests of the West. As in the case of North Korea, China, working closely with Russia, has played the role of a skillful obstructionist. Russia and China rhetorically oppose Iranian moves toward developing nuclear weapons, but they have consistently rejected the West's threats of sanctions, thus greatly reducing the pressures on Tehran. To be sure, while Beijing played (along with the U.S.) a dominant role in managing the North Korean nuclear challenge, it allowed Russia to take the initiative of thwarting the West's efforts to force Iran to abandon uranium enrichment. Therefore, Russia's assertiveness has been the principal contributing factor in the lack of progress on the issue of uranium enrichment in Iran. The underlying rationale for China to take a position that is almost identical to Russia's and very different from that of the West is very similar to its approach to the North Korean nuclear crisis. China perceives its stakes differently from those of the West in this case. For China, a nuclear-armed Iran does not pose a deadly threat (even though

that may set off a nuclear arms race that ultimately will destabilize the Gulf region and the Middle East). China also has extensive economic interests in Iran (chiefly, access to its oil supplies). Beijing may even believe that a prolonged stand-off between the West and Iran, as long as it does not lead to armed conflict, will serve China's short-term interests because it will further tie down American strategically and give China more space to pursue its objectives. That is why China and Russia (which sees Iran almost in the same light as China) continue to stall the process of imposing sanctions against Iran despite their rhetorical support for the West's position.

Chinese approaches to the nuclear crises in North Korea and Iran demonstrate the difficulty Western democracies will continue to experience in trying to incorporate China into the ranks of the world's responsible great powers. In each case, China is pragmatic enough to provide limited cooperation with the West (hosting the Six-Party Talks and rhetorically supporting the West in dealing with Iran), but keeps asserting its influence and clout to protect its own parochial stakes (the security buffer in the Korean peninsula and economic interests in Iran). Apparently, China would like to have it both ways: appearing to be acting responsibly and earning credit from the West, while ensuring it emerges better-off from these two crises. Obviously, Chinese behavior has, if anything, shown that it is a long way from being a reliable partner for the West in confronting the danger of the proliferation of weapons of mass destruction, even though China may have made enormous progress in the nonproliferation arena. Yet, China's behavior may, in the end, not even protect its own interests. As shown by the North Korean nuclear test, assertive pragmatism has failed miserably in protecting Chinese national security because in this case, as likely also in the case of Iran, China is asserting a set of prerogatives that are out of line with global collective security interests. Its actions have sent the wrong signal to the perpetrators of nuclear proliferation and emboldened them into thinking that the world's great powers, so divided, will not act.



## Concluding Thoughts on Assertive Pragmatism

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As a strategy, assertive pragmatism seems to have yielded rich dividends for China since the end of the Cold War. It has leveraged its growing economic influence in strengthening its national security (both through military modernization and consolidation of key security relations), steadily expanding its global influence, and increasingly acting as a key power broker in the management of the world's most critical security challenges. It has also avoided making costly strategic mistakes, especially in precipitating a pre-emptive cold war with the United States. However, while assertive pragmatism may have served China's short-term interests, this strategy is beginning to frustrate the West, both in regards of international economics and global security. Increasingly, the West is finding that China is not a reliable partner in the management of critical global security, economic, and environmental challenges. Chinese pragmatism has not made Beijing more willing to make greater sacrifices of its narrow interests while Chinese assertiveness has rendered the West's efforts to confront these challenges less effective.

If we correctly understand the origins of Chinese assertive pragmatism – authoritarianism, realism, and nationalism – we ought not to be surprised by its disillusioning effects on the West, especially liberal-internationalist (or post-modern) European democracies. Assertive pragmatism is the compromise that can find common ground among these three powerful strains of Chinese statecraft and political ideologies. As long as authoritarianism, realism, and nationalism remain the most powerful political forces in Chinese society, the country will behave, though pragmatically out of necessity, assertively in global affairs. The international community will not necessarily feel insecure because of Chinese assertiveness and growing economic strength. Rather, the world will unlikely see the benefits, at least in the security realm, of a rising China.