

Chinese Development and PLA Enterprises: Security Prospects and Implications

Kevin F. Roth

In the past decade the erupting economic development in Asia has raised both hopes for peace through increased interdependence and fears of increased competition and conflict. The premiere focus of these hopes and fears has been the development of the People's Republic of China (PRC). Most hope that growing trade with the PRC and a policy of "constructive engagement" will encourage a liberalization of Chinese domestic policy, and eventually, democracy. But a closer look at the patterns of Chinese economic liberalization and development and those Chinese firms engaged in production and trade call into question the prospects for peaceful developments. In particular, the People's Liberation Army (PLA), China's military arm, has been a driving force behind China's burgeoning domestic markets and foreign trade. The importance of the PLA is vital to the future outlook of China's domestic situation, regional stability, international cooperation, and arms proliferation. Furthermore, the latter issues warrant careful reviews of current export control policy and procedures.

The author is a Master in Public and International Affairs candidate at the Graduate School of Public and International Affairs, University of Pittsburgh.

Recent Developments

Controversy rages over the domestic effects of economic reform in China. Since the early 1980's, drastic changes have occurred in the formulation of economic policy, and the pace of growth in the PRC has exploded. With the world's largest population and the fastest growth rate in the region, China is quickly emerging not only as a military, but also an economic juggernaut. China is now the world's fourth largest economy behind only the United States, Japan, and Germany. Since initiating economic reforms over 15 years ago, China's real GNP has achieved approximately 9 percent annual growth, an average annual growth rate 6.5 percent faster than that of the United States. The World Bank projects China to be the largest economy in the world by 2002 (Kristof 1993, 61-2). The numbers may be staggering, but the story is not as simple or optimistic as one might surmise.

Upon closer examination of Chinese development, some disturbing patterns emerge. First, PLA economic enterprises have grown as a means of offsetting shrinking central allocations of funds, technology and/or manpower. Although the end of the Cold War signified a downsizing of PLA forces, with concomitant cost savings, the impact of inflation and pensions for 'retirees' has drastically cut into centrally allocated resources. As Pollack notes, "the introduction of a retirement system has sharply increased near-term personnel and pension costs, effectively denying the PLA the surplus funds it hoped to generate by reducing the size of the armed forces" (1992, 170). Also, with such a large number of troops, most of the budget funds allocated in Beijing are set aside for personnel costs rather than for the modernization of forces. Even the monies allocated to salaries have proven inadequate. Bickford contends that "pay in the PLA has been so low that by 1989 enlisted men had no disposable income and were financially dependent upon others" (1994, 463). Thus, the Chinese Communist Party had to confront the diminished stature of the PLA, as the armed forces are no longer seen as "a promising channel for upward mobility" (Pollack 1992, 151). The PLA has also suffered reduced allocations for capital construction, medical services, and housing; furthermore, since many major arms and technology procurement decisions have been deferred, its modernization program has stalled. Cheung indicates that PLA "dissatisfaction at being squeezed grew with each year as their budgetary outlays have failed to keep up with inflation" (1994c, 89). In the face of growing dissatisfaction among officers and soldiers of

the PLA, and in the wake of the Tianenmen crisis and the questions it raised regarding PLA loyalty to the center, the leadership has made concessions to the PLA and has altered its policy on PLA economic activities.

Following the crackdown in Tianenmen Square, the PLA's budget enjoyed an increase of 15 percent in 1990 construed by many as a "down payment for services rendered" (Pollack 1992, 178) with more rewards to follow. Following the incident, much concern existed over the loyalty of the PLA forces, because they were seen as essential in putting down any future rebellion. If anything, the crisis highlighted the fact that the PLA remains a major faction "buttressing the power of the Chinese state" (Pollack 1992, 151). Given the recent PLA assumption of control over the paramilitary People's Armed Police (PAP),¹ the Beijing leadership was under heightened pressure to keep the troops loyal and content in terms of subsistence and modernization needs. The increased importance of the PLA to Beijing constituted a blessing for the armed forces. Pollack argues that "the upheavals . . . of 1989 . . . thrust the leadership of the armed forces into a pivotal position in Chinese political life. This has presented the PLA with a newfound opportunity to advance its corporate interests" (1992, 152). With a greater role in legitimizing the regime and providing domestic stability, the PLA has received only marginal budget increases, but has acquired greater autonomy and opportunities in its economic enterprises. With chronic budgetary shortfalls, the diminishing stature of the PLA and slashed allocations for the modernization program deemed essential to China's future, Beijing has emphasized a shift to PLA "extra-budgetary" income. The Chinese leadership has ordered the PLA to engage in economic activities, both civilian and military in nature, to make up for the growing differences between budgetary allocations and the military's real needs. In essence, the PLA now must "scramble" for funds by whatever means necessary. Beijing, realizing the importance of the PLA in the future, has acquiesced vis-à-vis greater autonomy and flexibility for the PLA in its activities. Beijing has granted the PLA enterprises either tax reductions or exemptions, and has increased the PLA's freedom to make management, production, and investment decisions.

Traditionally, the PLA has played a role in economic enterprises, particularly with regard to agriculture. However, a major shift has occurred in the thrust and focus of its recent activities. The PLA no longer solely focuses on subsistence and self-sufficiency, but on profit margins and market share as well. It now participates in money-making ventures

and is even establishing its own development zones. The military economic sector is the fastest growing segment of the Chinese economy. Some estimates count over 10,000 military enterprises with 750,000 employees, and other surveys double those figures (Pollack 1992, 152). Importantly, many of these enterprises have absorbed recently demobilized troops, a concern for Beijing in light of recent trends in inflation and unemployment. These enterprises are the 'formal' PLA enterprises run mainly by the General Logistics Department (GLD), the General Political Department (GPD) and the General Staff Department (GSD), and do not include "collective" or "military-associated" enterprises run by PLA family members or the growing number of joint ventures with foreign investors. Additionally, many of these enterprises have a number of subsidiaries of their own. PLA officials have complained about calculating up-to-date figures because so many open and close without notifying officials (Pollack 1992, 152).

Officially, the revenue generated by these enterprises grew by 700 percent from 1985 to 1990, with even higher estimates for current revenue growth (Cheung 1993b, 64–68). PLA enterprises include discos, hotels, hospitals, transportation, banking, food production, mining, automobile, bicycle, TV, and karaoke machine manufacturing, arms exporting and importing, CD and software piracy, and even dealing in currency futures. Additionally, although the PLA has no *direct* control over the defense industrial complex, Beijing has offered greater control to the enterprises themselves, most of which carry PLA connections. With over 50 percent of PLA enterprise revenues domestically generated, its foreign trade has grown, opening up new sources for income, foreign exchange and technology to pursue its modernization. Importantly, "given the current state of China's economic development, the government cannot supply the PLA with all the funds that it either wants or needs, so the PLA cannot give up its economic activities" (Cheung 1993b, 90). These economic activities have taken on increased importance for both Beijing and the military. "Although it is no longer business as usual for the armed forces, it is very much a time of business" (Pollack 1992, 171).

Even with recent military budget boosts, inflation has absorbed these increases. The standard of living of the PLA must remain level, if not enhanced, in the face of rising economic expectations and inflation to help maintain the stature and loyalty of the PLA. Bickford argues that "profit is now considered the most important internal goal of PLA enterprises" (1994, 471). Here is where the controversy and concern lies. Concern has

arisen both within China and regionally, over the effects of such activities on the unity of the PRC, the disposition of the PLA and, consequently, the security of the region.

An Impetus for Disintegration?

Looking back at the history of China, in particular the warlord period from 1916 to 1928, concern arises that the shift of some economic control from Beijing to its regional military groups and enterprises will prefigure a loss of centralized political and military control. These developments may lead to a situation of regional military separatism, warlordism, the disintegration of the Chinese state, and/or civil war. These concerns stem from the decentralization of economic and political power and Beijing's current trend of "playing to the provinces" (Shirk 1993). Womack describes a situation where the center eventually "... loses its dominance of military power, and geographically based, political-military forces contend among themselves" and cites China's past where "personal and resource security and their aggrandizement was the major motivating force of ... behavior" and loyalty was suspect (1994, 21-3). One can extrapolate many possible problems from this pattern of Chinese economic development. With the PLA as "the ultimate enforcer of central policies" (Joffe 1993, 45), the natural fear develops that the combination of independent PLA economic activity, a weakening of the institutions through which central control is exercised, and the fact that current leaders hold less influence and prestige with the PLA will result in a decline in loyalty to the regime, and possible outright defiance of centrally dictated policy.

Worries are already mounting over corruption, illicit activity and greater independent initiative on the part of PLA forces. The reduced lack of oversight of PLA activities has resulted in outcomes such as smuggling and unapproved business dealings, which might tarnish the image of the PLA in the eyes of the leadership and the people. Furthermore, disputes have arisen between regional military factions and provinces over preferential treatment and economic disparities. For example, provincial leaders allegedly have cooperated with local PLA forces in establishing illegal barriers to the flow of goods from other provinces. Local governments have increased their support of local military units, for example, through tax breaks, since PLA corporations can bring in income. As a result, cooperation has grown between local officials and the military units and their enterprises. Thus, the PLA may be more inclined to act on behalf

of provincial interests, thereby affecting the loyalty of the troops to the center. Cheung argues that PLA economic activities “. . . undoubtedly will have an adverse impact upon . . . the Chinese military system” and “economically, the lines of authority between military units are becoming blurred . . .” (1993c, 86). Additionally, directives regarding profits which should be submitted to the GLD for redistribution are widely being ignored or avoided.

Many in Beijing also fear that the increased amount of time devoted to economic ventures has cut into the training and readiness of PLA forces. For example, a naval officer reportedly failed to detect a foreign spy vessel in Chinese waters because, instead of being on duty, he was working at the family (collective) business (Cheung 1993b, 101). Thus, the morale, readiness, discipline, and effectiveness of the PLA have all declined, as the PLA's loyalty and focus shifts from the regime to business profits (Cheung 1994c; Bickford 1994; Li 1993). If these developments would spur the disintegration of the PRC and a return to ‘warlordism’, such a result would constitute a major threat, not only to the Chinese people, but to the region as a whole. Yet, while logical, such arguments regarding the centrifugal forces of Chinese economic development have not accounted for the internal dynamics and *centripetal* forces of the growth in the PLA's economic activity nor the actions the Beijing leadership has taken to hedge against such developments.

Arguments that China will return to a period of warlordism do not hold up to a rigorous analysis. First, the warlordism and regionalism earlier in this century was rife, and most volatile, in regions which were far less developed in terms of economies, military command and control, and infrastructure (particularly transportation). Today's China has achieved great advances in these fields. Second, “warlordism” is a national “myth”. Womack reminds us that such a national myth “can function as a ‘teacher by negative example’” and that such a negative myth “can be expected to influence Chinese politics to the extent that disunity appears to be a real threat.” Additionally, because warlordism is seen as a low point in the history of China, “it could serve as a historical icon for the dangers of chaos and the political immorality of geographical sectarianism” (1994, 36). Third, the previous era of provincial conflict was one in which economic prosperity and the standard of living were low if not declining. Again, today's China is different. The standard of living and the hope for prosperity is on the rise in the PRC. Importantly, today's PLA forces now

share a vested interest in economic development and wealth creation. Such a situation raises the risk of conflict because the PLA, and all of China, have more to lose in a reversion to provincial infighting. Indeed, the level of destruction involved with today's weaponry would inflict massive damage on both the infrastructure needed for development and the means of production.

A major precondition for realizing the aspirations of the PLA is a stable, strong and unified China which can attract investment and trade. Harlan Jencks argues that "any relapse into the instability and violence of the . . . past would constitute a major disincentive to the flow of foreign capital and technology needed to sustain and foster the economic modernization that [is] China's first priority" and in which the PLA now has a vested interest (Gregor 1991, 8). Over 50 percent of PLA enterprise income derives from the domestic market. PLA involvement in the domestic economy acts as an integrating force owing to its increasing reliance on domestic resources, markets, infrastructure and overall stability for its growth. The PLA's reach in society is broad in terms of employment, resources, housing, food production and the delivery of goods and services.

The success of PLA economic ventures has also increased the standard of living, economic opportunities, and the influence of military personnel, which have heightened the attractiveness of a military career. This development has also increased the level of Chinese nationalism and loyalty to Beijing within the PLA. One cannot discount the importance of nationalism within the PLA. Such nationalism appears, rhetorically, to be on the rise, whether because of increased interdependence and the perception of outside intrusion, or because of a perceived need for a unified China for successful economic development (Chanda 1995). Joffe also raises another reason for the importance of nationalism. He sees nationalism as the remaining core component of elite ideology. He states that

The communist view of a permanent struggle between socialism and capitalism . . . [has] been relegated to the dustbin of history. However, this has only strengthened the nationalistic component because it has shifted the emphasis entirely away from China's global revolutionary mission to an exclusive concern with China and its place in the world . . . The pursuit of [China's] aims requires a modern and formi-

dable military establishment . . . Here lies the basic rationale for China's military modernization. And here also lies the practical link between nationalism and military support for national unity (1994, 54).

Thus, the PLA maintains an interest in nationalism, rhetorical or otherwise, because its modernization effort and the economic activities needed to support such modernization depend upon this stance. Also, the modernization push acts as a purpose unto itself for the PLA and can decrease the potential of the PLA becoming involved in regionalism or warlordism. Kien-hong Yu points out that besides giving the PLA a "revived spirit", as the modernization program continues, ". . . the technological, managerial, and tactical sophistication of the [PLA] rises. In turn, its complexity increases and it tends to rely upon a greater geographic base of support to accomplish its goals" and from which it receives necessary resources (1994, 147).

The actions and policies of the Beijing leadership have also reduced the possibilities of regionalism and disintegration. Beijing has realized that it needs to "balance the military's need for autonomous . . . development against the continuing imperative of accountability and subordination . . ." (Pollack 1992, 152). For example, the government has consolidated control over PLA economic activities by merging companies into 'enterprise groups' in order to unify management and establish concrete oversight. Examples of such conglomerates are the China Xinxing Corporation, which acts as the trading arm of the GLD, with more than 100 factories and overseas trade offices under its control; the Shenzhen 999 Group, a grouping of over 35 companies ranging from real-estate and import/export firms to electronics producers and securities and stock investment firms; Changcheng Industrial Conglomerate under the 42nd Group Army; and, Poly Group Corp. (formerly Poly Technologies Ltd. under the GSD equipment sub-department), which is the PLA's main arms exporter but is also seeking to diversify into property development (Cheung 1993b and 1993c). Cheung states that "these . . . groups are part of an effort by the military authorities to try and centralize management over the proliferation of army-run enterprises" (Cheung 1993b, 98) and to make them more "efficient."

Many PLA enterprises employ or are run by the children or other relatives of central leaders. For example, Poly Group's president is the son-in-law of Deng Xiaoping, and one of its directors is the son-in-law of

former president Yang Shangkun (Cheung 1993b, 68). While such connections may lead to corrupt activities, they also help to ensure a degree of loyalty to the leadership. Another important aspect in directly promoting economic development through the PLA is that, with a larger degree of control over PLA enterprises than over other ventures, the central leadership can achieve a greater degree of control and management over the direction of development. Additionally, whereas in the past PLA control of the infrastructure was a hindrance to development, it now has the opportunity and motivation to enhance it and develop it further. This is yet another incentive for Beijing to involve the PLA in economic reforms and another disincentive for regionalism.

The central leadership has taken other steps to try to ensure against regionalist tendencies in the PLA. First, the government has continued to maintain tight surveillance through the party's political organs to keep itself informed of attitudes, trends and moods among the forces. Second, the central authorities have used their power to remove, reassign, and replace military commanders when suspicious of their activities or as preemptive actions to limit PLA-provincial ties from becoming a threat. Gregor indicates that "without the loyalty that arises from long association, dissident officers would find it difficult to establish the secure political bases from which they might launch resistance to central authorities" (Gregor 1991, 21). The turnover of regional commanders following the Tianenmen incident apparently was such an effort to "assure loyalty and responsiveness to orders from the top, and to avoid manifestations of localism"; such loyalty to Beijing is still the basis for career advancement and *carte blanche* for pursuing economic opportunity (Pollack 1992, 180). Finally, one need only remember June 1989 to understand that the leadership can always rely upon force to quell dissension whether it be civilian or military in nature.

This final point raises an important issue. Namely, the PLA has been granted a greater degree of freedom primarily because it is a powerful domestic actor and because its support is essential for regime stability and security and the success of reforms. The PLA played an important catalyzing and supporting role following Deng's highly touted 'southern tour' which promoted and set into motion the economic liberalization and explosion of the economy. One can make the case that the PLA's backing of Deng and the reform movement prompted an increase in its representation in the Central Committee, the selection of the first military representative to serve on the Politburo Standing Committee in over 15

years, and the attendance of a greater number of PLA officials in Politburo meetings following the 1992 14th Party Congress (Lin 1994, 33). Another important development regarding the increasing influence of the PLA was the return of the People's Armed Police (PAP) to PLA control and command.¹ The PLA's position of power within the leadership is enhanced both by its utility as a coercive force and by its newfound importance as an economic actor that can attract much needed income, technology and foreign exchange from abroad. Because the PLA holds such critical responsibilities, its political influence is growing. With continued economic growth necessary for regime stability and legitimacy, and with the PLA's growing role in domestic development, the armed forces are gaining greater influence in Beijing. Since the PLA has a vested interest in the state of the economy, "it has connections with economic issues and decision-making at the national level, at the local level, and at the international level through trade and joint ventures" (Bickford 1994, 472) and is becoming a major player in the policy environment. The PLA is also no longer a peasant army as military personnel are becoming more economically sophisticated and educated.

Thus, its commercial involvement has provided the PLA a wider scope of responsibilities and vested interests in stability, continued unification, economic development, and domestic politics and security, which act as centripetal forces to counter the centrifugal ones. PLA economic involvement is not inherently benign or even wise. But such activities hedge against the disintegration that may accompany economic and social change. Examining the current trends with regard to PLA domestic influence, the future may bring an increased militancy and nationalist flavor to domestic politics. As economic development brings about greater change in the future, and with it the possibility of further unrest, the PLA's increasing influence and responsibility may rear its head in the form of armed reprisals and a more militant stance as the PLA moves to preserve both the regime that has brought it prosperity and the means of this prosperity. China's neighbors have not overlooked these developments, as the growing military influence within the PRC is causing a stir without.

Regional Implications

Some analysts have criticized regional fears of an assertive China in the near future (Balikrishnan and Nagara 1994). They contend that economic development and the resultant interdependence breeds security. In-

creased economic interaction between states, and in particular between the PLA and international firms and investors, will lead to greater integration of policy and interests, and will generally promote stability. Economic development has spurred greater exports region-wide, and such intra-regional trade combined with the market mechanism have heightened economic linkages and integration. Some have argued that increased activity of regional economic fora, such as APEC and ASEAN, is increasing cooperation in the security realm and will spur the development of more formal patterns of security cooperation and coordination and an "Asianization of security" (Balakrishnan and Nagara 1994, 61). One may argue that China's, and the PLA's, increasing need for trade, foreign currency, investment and technology, and the "fear of damaging its economic relations with its neighbors constrains its use of force" (Valencia 1995, 18). These hopes, however, are insufficient to stem the tides of assertiveness, nationalism and increasing PLA interest in the region. Evidence of this aggressive temperament in China's foreign relations appears in its hardened stance with regard to Taiwanese elections. The PRC heightened its rhetoric and warnings to independent-minded factions on the island as Taiwan's presidential elections neared. The PLA also flexed its muscles in a show of force with ominous missile tests, significant troop buildups, and overt military exercises in Fujian province, which is situated directly across the strait from Taiwan (East Asia's Wobbles 1995).

PLA economic involvement and its corollaries will have an adverse impact on the stability of the region, especially the South China Sea, for a number of reasons. One effect of increased PLA involvement in economic endeavors has been the greater incidence of smuggling and piracy in the South China Sea. While Beijing has stepped up its oversight of PLA enterprises on the mainland, it has either been ineffective or has turned a blind eye to developments on the high seas and in coastal regions. There have been an increasing number of attacks on shipping in the South China Sea carried out by PLA Navy personnel. Some of the incidents have been in international waters and some have been in Hong Kong waters. For example, on March 20th, 1994, a Honduran ship reportedly loaded with a shipment of cars and anchored on Hong Kong waters was high-jacked and was observed to "disappear off the radar screen among a group of islands patrolled by the Chinese navy" (China Clippers 1994, 34). Additionally, Chinese-flagged ships have harassed and recently fired upon Taiwanese merchant vessels. In January of this year,

such incidents occurred off the coasts of the Philippines and off the southern coast of Taiwan, perhaps in an attempt to intimidate the Taiwanese government and public (Chanda 1995, 20–1). There have also been reports of PLA naval vessels aiding and abetting smugglers of both legal and illicit goods. Finally there have been reports of thefts of luxury yachts from Hong Kong ports, which subsequently turned up in Chinese ones. Ironically, so-called “anti-smuggling” units carry out much of this piracy and smuggling. Apparently, the government, in an attempt to clamp down on smuggling, has offered the PLA a share of any booty seized, and, as a result, the PLA is using its prerogative liberally. With the new incentive, “China’s gunboats have swarmed to where they can get the richest pickings (Chanda 1995, 15). Essentially, the PLA has turned the seizure and resale of cargoes and ships into a thriving business.

While these security concerns might matter deeply to China’s closest neighbors and out-of-region trading companies who do not have the capability of defending their ships, more dire consequences are looming on the horizon concerning the PLA’s increasing economic and its consequential political importance, and simmering nationalistic assertiveness over the Spratly archipelago. The expansion of China’s economy may strain national resources. In the coming years, to sustain its economy, China will be demanding greater amounts of natural resources including energy supplies such as oil and gas, and food, in the form of fishing grounds. PLA economic and political involvement is important in that the PLA’s “proprietary access to resources remains very great” and has possibly been enhanced. Additionally, Pollack points out that the PLA has remained an “emperor of a vast realm of its own”, both in terms of resources and territorial claims in the South China Sea (1992, 153). PLA influence over the developments in the South China Sea is significant because the PLA’s role as regime stabilizer has grown and its political influence has expanded. At the same time, the military economic base is increasingly dependent upon a shrinking resource base and resource allocation is still based upon much bargaining and interpersonal relationships in the decision-making hierarchy.

China’s increasing dependence upon oil imports and the corresponding growth of vulnerability, combined with the PLA’s emerging interests in the economic realm may prove to be the driving factors in the ‘resolution’ of the Spratly dispute. Although Chinese oil production has seen marginal rises, the increases in the demand for oil continue to outstrip increases in supply. Beijing’s concern over the oil crisis appar-

ently is taking on a new urgency, with PLA rhetoric on the rise concerning the regional exploitation of Chinese resources and "... militarily weaker states . . . taking advantage of China's tolerance and restraint by . . . plundering China's oil" (Valencia 1995, 16). Valencia declares that "China's military planners have used this argument—in addition to the economic importance of its coastal provinces—as one justification for the modernization of the military in general and for larger [allocations] for the navy in particular" (1995, 16). An important development in the South China Sea has been the PRC's declaration of its Law on Territorial Waters and their Contiguous Areas. This law strongly asserts China's sovereign claim over the Spratlys and claims its right to use force to settle the dispute. The PLA apparently helped push this law through the People's Congress. While the Foreign Ministry has been advocating joint development of the region "the PLA advocates taking territory now for exploitation later" (Valencia 1995, 19).

Another major development has been the discovery (apparently by accident) of a 'banned' book entitled "Can China's Armed Forces Win the Next War?" believed to have been written by PLA Navy personnel. This book highlights the PLA's expected future confrontations and the necessary types of modernization needed to win these battles. This work significantly calls upon the PLA to prepare to "start a war for total control of the South China Sea before the end of this decade" (Munro 1994, 356). The PLA must win the conflict quickly and in a limited manner to avoid U.S. or Japanese involvement. Significantly, the authors argue that "China must move by the year 2000. Otherwise the South China Sea and the Spratly Archipelago may be 'internationalized' along the lines of the Antarctica model, which freezes the sovereignty issue and provides for a sharing of natural resources (Munro 1994, 359). Because of the perceived urgency of the situation, with ASEAN states moving towards the implementation of an "Antarctic model," the PLA advocates an accelerated modernization of forces in favor of a quick strike capability, with a particular eye towards the development of an aircraft carrier. Gregor notes that "such small wars, undertaken at discrete intervals, would not only bring economic benefit in their train, providing real and potential resources, but they would gradually afford Beijing [and the PLA] potential control over the major sea lanes of communication" (Gregor 1991, 23). Just as the PLA apparently acquired economic concessions for its involvement in the Tianenmen massacre, a successful Spratlys campaign may prove economically fortuitous for the armed forces and their enterprises. Such

gains may occur in terms of petroleum production and distribution, shipping and fishing, and the emergence of very profitable piracy and smuggling in some areas. Such economic power would surely bring a greater level of PLA political power, offering the PLA greater incentive for support of such a campaign.

Not surprisingly, then, China and the PLA have more assertively expressed claims in the Spratly and Paracel Islands. For example, most recently, China took over a part of the Spratlys aptly named Mischief Reef off the coast of the Philippines and the PLA is developing staging grounds on Hainan and the Paracel Islands. Additionally, Beijing has made a declaration concerning territorial disputes in the South China Sea and has ". . . explicitly reserved the right to use military force to affirm its claims" (Shambaugh 1992, 96). As the PLA becomes more of a "player" in Beijing, especially with respect to economic development and regime stability, the leadership is more willing to offer concessions to appease the PLA to secure support. These concessions include greater leeway in making the necessary moves to modernize the armed forces for future endeavors.

The explosion in PLA economic activities has provided it with the hard currency, resources and technology to modernize its forces and develop the industrial base required for 'great power' status. Although exact figures and allocations of the funds raised by PLA enterprises are either unavailable or unreliable, funds generated for modernization are estimated in the billions of dollars (Cheung 1993b; Lin 1994; Bickford 1994). The display of effective U.S. force in the Persian Gulf and Chinese visions of a dominating role in the region and the world have spurred the modernization effort. Linking the importance of the economic development of the PRC to modernization of the PLA, Deng once said, "quadrupling [the] gross industrial and agricultural product means that by the end of this century, improving our military equipment will be an easy job (Lin 1994, 31). With the PLA itself earning the funds necessary for the upgrade of the forces, modernization is now even easier, in turn unsettling China's neighbors.

Among the PLA's focuses of future involvement in the region include small-scale conflicts in border territories and conflict over territorial islands and seas. The emphasis lies in short and intense conflict that utilizes power projection and high-technology capabilities. The PLA is transforming itself from a manpower-intensive force with outdated equipment to a more streamlined force with more advanced equipment,

combined forces and power projection capabilities in the form of mid-air refueling capabilities and the development of a carrier force. Beijing is calling for the expansion of naval capabilities through the construction of three naval bases by 1998. These bases will provide logistical support for naval operations in both the South China Sea and the Indian Ocean. In the hopes of extending its reach to the Indian Ocean, the PLA has been using its resources to develop infrastructure in Myanmar, including the construction of ports, naval bases and surveillance posts in the Bay of Bengal in return for military access to such facilities, as well as for the purpose of exporting arms (Kristof 1993; Ritcheson 1994).

A significant development in providing the opportunity for the PLA to spend some of its new-found wealth in a modernization program has been the demise of the Soviet Union. Russia desperately needs hard currency, in exchange for which the PLA has acquired a sizable and growing cache of weapons, technology, and intelligence systems. The PLA has exploited this dire economic situation in Russia by buying available arms, production capabilities, and technology at sale prices. "Among the items mentioned in recent reports of Chinese bargain hunting are MiG-31 interceptors, Tu-22 bombers, . . . A-50 airborne warning and control planes, and S-300 ground-based anti-ballistic missiles" (Klare 1993, 141). These acquisitions significantly increase the PLA's power-projection capabilities in the region, especially in the South China Sea. The MiG-31s (equipped with advanced radar and countermeasures systems) and the Tu-22 bombers (fitted with anti-ship missiles) would give PLA naval forces added firepower and defensive measures while the A-50 AWACs would expand PLA command, control, communication and intelligence support. These heightened capabilities are essential to the execution of the longer-range missions which China may wish to carry out in the South China Sea. Some analysts have argued that the PLA not only wishes to acquire weapons systems but also develop an industrial complex which is self-sufficient, dual-use in nature, and capable of producing high-technology products. "Not only technology but brainpower has been imported, with as many as 1,000 ex-Soviet research scientists reported to be on the Chinese payroll" (Oliver 1994, 230). The acquisitions cited above could help in that, given the Chinese ability of reverse-engineering, Russian technology will significantly contribute to Chinese plans for indigenous high-tech weapons production. Apparently, the PRC goal of producing an advanced fighter plane has succeeded as China recently revealed the FC-

1 fighter, jointly developed with Russia and Pakistan, at the 1995 Paris air show (China Reveals FC-1 Fighter 1995, 77).

With this large demand for technology, the PLA, through its enterprises and their front companies, has also acquired aerospace machinery and entire production lines in the United States. China National Aero-Technology Import and Export Company (CATIC) has purchased gas turbine engines which could serve non-military uses but also can improve Chinese cruise missiles. CATIC also aggressively pursued technology and production capabilities from McDonnell Douglas. CATIC officials, following visits and inspections of McDonnell Douglas sites, "submitted an eight-page, single-spaced list of equipment it wanted to buy. It included thirty-one large computerized machine-tools that the [U.S. Joint Chiefs of Staff]...consider to be 'military-critical' and that normally can only be exported to U.S. allies, if at all" (Timmerman 1995, 34). While the production of civilian airliners was cited as the end use of such technology, China does produce military aircraft and civilian aircraft at the same plants. Other companies, such as Brilliance Chinese Auto and Yuchai America, are purchasing everything from turbine engines to foundry equipment and are essentially front companies for the Commission of Science, Technology and Industry for National Defense (COSTIND), the Central Military Commission's technology research and development arm. COSTIND also oversees, coordinates, and administers everything from electronics imports to the nuclear industry to shipbuilding. COSTIND also coordinates research, development and production of new weapons (Bickford 1994; Timmerman 1995). Thus, seemingly benign technology and production transfers to civilian companies often contribute to either the production capabilities in the PLA's money-making enterprises or the direct modernization and development of PLA forces. PLA enterprises not only earn foreign currency for the purchase of off-the-shelf weapons, but their front companies also acquire the skills and technology necessary for indigenous production of more advanced products (civilian and military). Shambaugh reports that the PLA Navy has initiated the development and testing of an indigenous aircraft carrier, helicopter carriers and flight take-off and landing simulation (1994, 19). As the PLA's wish list is being fulfilled, it may only be a matter of time before the PLA puts its toys to use.

Such developments have worried the rest of the region and provoked arms buildups by China's neighbors. With the area's prosperous technology industries, Asia is concentrating on developing and producing

indigenous high-tech weaponry. Economic growth in the region and the growing tension over China's future disposition have stimulated increased military spending. Japan, Taiwan, Singapore, Malaysia, Thailand and Indonesia, all highly dependent upon maritime commerce and activity, have expanded their naval and air capabilities. For example, Japan has increased production of destroyers, frigates and submarines; Taiwan ordered six frigates from France, is building eight more, and is purchasing F-16s from the United States, and Mirage 2000 fighters from France; Singapore is building a number of operationally flexible Corvette-class warships; Malaysia has bought two missile frigates from Britain, F/A-18s from the United States and MiG-29s from Russia, and is seeking submarine capabilities; Thailand is sporting a new aircraft carrier with Harrier jump-jets and has expanded its force of frigates; Indonesia purchased 39 former East German naval vessels (including 12 guided missile corvette-class warships); and South Korea has announced a doubling of its defense spending over the next five years. As GDPs across the region grow along with mounting uncertainty vis-à-vis China, so do defense budgets and armed forces, with high-tech "F-16 or F/A-18 jets [becoming] *de rigueur* for any respectable East Asian Air Force" (Asia's Arms Racing 1996, 29). These military developments, combined with a growing insecurity and mistrust vis-à-vis China, make the future security scene ominous, especially as the PLA emerges as an economic and political force within China.

The PLA and the Arms Trade

Linked to the PLA enterprises' aggressive acquisition of technology and arms is the PLA's growing involvement in the arms trade. Although over 50 percent of the PLA's trade is domestic and civilian in nature, a significant share of funds earned by the PLA derives from its arms exporting activities. While foreign trade has accrued income and technology, it is also enhancing the PLA's ability to engage in weapons trafficking. Foreign exchange earned from the export of arms furthers the acquisition of new equipment, technology and raw materials needed for the PLA's modernization. The PLA involvement in arms trading is extensive and dozens of companies and their subsidiaries have been cited for taking part in such trade. The China Xinxing Corporation is the GLD's main arms exporting firm, the GSD's Poly Group is cited as one of the largest weapons export companies which deals in PLA stockpiled military wares, and the PLA and COSTIND have a working relationship through Xinshidai (or New Era) Group, which coordinates the import and export activities of numerous

high-tech subsidiaries, including firms in the electronics, nuclear technology and aerospace sectors (Bickford 1994). The PLA actively obscures its arms exporting activities through constantly changing the names of its multitude of corporations and subsidiaries which also manufacture and export non-military products. Also, these companies have been sly in exporting their wares. For example, China North Industries and Poly Group have a working relationship with North Korea. These companies are reportedly working with North Korean weapons scientists in the development of long-range missile technology in return for permitting PLA companies to export missiles and other arms to the Middle East via North Korean ports. Indeed, "this may also explain China's reluctance to support United Nations sanctions against North Korea for Pyongyang's unwillingness to allow inspection of its nuclear facilities" (Dreyer 1994, 266). PLA enterprises have also been increasing arms sales to Myanmar, including tanks, armored personnel carriers, attack aircraft, and multiple rocket launchers. The PLA has also established joint-venture arms factories in Myanmar. In return, it is gaining greater access to the Bay of Bengal and the Malacca Straits. The PLA has also actively participated in arms deals and technology transfers with Iran in return for oil concessions. Chinese companies have been cited for sending missile guidance systems and technology and computerized machine tools to Iran which contribute to the greater accuracy of Iran's available Scud missiles and give Tehran the capacity to build indigenous missile systems. Additionally, Chinese front companies reportedly assisted in Iran's development of chemical weapons by providing poison gas ingredients and assistance in building chemical plants. Recent reports indicate that Iran had successfully tested a sea-based cruise missile acquired from China (Sciolino 1995). China's dealings with Pakistan have also been significant. In addition to the co-development of an advanced fighter jet, Chinese companies have assisted in the development of Pakistan's nuclear capability. PLA-backed companies have sold M-11 missiles to Pakistan and have given Pakistan tested bomb designs. China has also sold Islamabad tritium, which can significantly increase the yield of nuclear weapons; most recently, China sold a shipment of magnets used for the refining of bomb-grade uranium to a state-run nuclear weapons laboratory in Pakistan (Weiner 1996).

Because many of the PLA enterprises, run by family members of the leadership, hold much personal influence in policy and power circles, the authorities may be more prone to look the other way. As Pollack points

out, "informal, personal relationships remain the glue to numerous commercial transactions within the military system" (1992, 175). For example, COSTIND which carries oversight of exporting activities, and Poly Group, the principal PLA arms exporter, employ relatives of Central Military Commission members and other aging leaders. Another factor facilitating an expanded PLA role in military-related exports has been the partial loss of oversight. While the central leadership has focused on consolidating control over domestic economic activities and corruption, it has often overlooked the foreign trade and export activities of the PLA, since these activities provide a large source of foreign currency needed for continued development and modernization. Bickford adds that "it is very difficult for the ministry and even the military leadership to keep track of all the activities of China's arms traders . . . Of course there are probably occasions in which the Chinese government finds these trading companies a convenient way of circumventing international agreements while providing deniability" (1994, 473-74) and continued foreign exchange earnings.

Conclusions and Prospects

Thus, economic development has and will continue to affect regional and international security. Most importantly, PLA economic activity, a significant factor in Chinese reforms and development, varies in effects domestically, regionally and internationally. Although many have argued that PLA economic involvement is an ingredient for disintegration or a return to warlordism, much evidence to the contrary exists. PLA involvement in the domestic economy can act as a stabilizing centripetal force. Its involvement and importance in economic development has enhanced its power and influence within the central leadership, while the leadership has essentially co-opted the PLA to maintain regime stability through economic concessions. Although this situation may lead to more militant rule, the potential disintegration of the Chinese state appears less likely for the time being.

In the post-Cold War era, the effects of greater interdependence on international security constitute perhaps the wave of the future. But, while intra regional trade has grown in Asia, PLA involvement in money-making enterprises does not bode well for regional stability. As development continues in Asia, states will increasingly compete for resources. With a more and more assertive PLA owning a vested economic interest in such

resources, the chances for conflict are higher in the South China Sea. Additionally, the PLA's growing influence within the decision-making hierarchy adds fuel to the fires of Chinese nationalism and territorial claims such as those in the South China Sea and Taiwan; indeed, the recent activity regarding these issues does not indicate a cooperative atmosphere in the near future. Importantly, as trade between the industrialized states and China (and, necessarily, the PLA) grows, technology transfers will have increasing security implications for the region. When engaging in trade with Chinese firms, it is important to make a determination of the "parents" of the companies. This point is especially true with the trade in dual-use technologies. U.S. high-tech companies, including aircraft manufacturers and communications firms, are increasing exports and are involved in a growing number of joint ventures with Chinese companies with PLA ties. The extent of PLA involvement and the nature of its intentions in these economic activities with U.S. firms are dubious. For example, an American joint venture with a PLA firm called Galaxy New Technology deals with the transfer of advanced telecommunications whose availability on the world market is questionable. A director of COSTIND conceived this venture, which will soon provide the advanced communications systems to the GLD (the PLA's General Logistics Department). This technology is significant because it includes "crucial items which the Chinese military has been seeking in order to upgrade its battlefield communications systems . . ." (Gilley 1996b, 15). Although officials from the groups involved in the venture argue that the technology is for civilian purposes only, it will probably wind up in PLA hands (Gilley 1996a; Gilley 1996b). In another case, McDonnell Douglas assisted the export of militarily sensitive machine tools to China. CATIC was the buyer of the technology, which is dual-use in nature, but had been used in the United States for the production of parts for C-17 transport planes, components for F-16 fighters, B-1 bombers, and ballistic missiles. While CATIC assured McDonnell Douglas that the machine tools would be used for the production of civilian aircraft, some of the equipment wound up in a factory that produces A-5 strike aircraft and Silkworm missiles (Holloway 1996a). These cases are not an exception. As economic pressures mount in states that are pursuing "defense conversion," and as the Chinese market grows, Western firms are rushing in headlong to take advantage of the situation. Chinese firms, particularly PLA-run enterprises, realize this opportunity and are taking full advantage of it to pursue their

modernization strategy. The world must be wary of contributing to the modernization of PLA capabilities and consequentially regional instability in the race toward profits.

Globally, PLA involvement in the arms race has had a destabilizing effect. Again, states must increase oversight of companies dealing with Chinese firms in high-tech and military wares. A policy of "constructive engagement" through trade, technical assistance, and other exchanges could turn into "destructive engagement" if states are too trusting with China and the PLA. In the commercial haste to get a piece of the action in the Chinese market, it is important to remember that the post-Cold War environment in Asia and within China could be volatile in the future; hence, governments should guard against the pressures of high-tech firms wishing to sell their goods and technology abroad. As the PLA and its enterprises continue to engage in commercial activities, one cannot conclude that a liberal evolution is taking place within the Chinese armed forces. At the moment, peace and democracy are not on the PLA's corporate agenda, while profits, influence, and power are. In light of these developments, industrialized countries must review and revise their export control policy and administration. Additionally, it is similarly important to reestablish a robust multilateral export control regime to replace the defunct Coordinating Committee for Multilateral Export Controls (COCOM). By taking careful measures now, the world can contribute to the restriction of arms proliferation and the stable and peaceful development of Asia.

Notes

¹See Military Control Points to Political Posturing and Echoes of Tiananmen 1995 for more details.

References

- Asia's Arms Race. 1993. *The Economist*, 20 February.
- Asia's Arms Racing. 1996. *The Economist*, 3 February.
- Balakrishnan, K.S. and Nagara, Bunn, eds. 1994. *The Making of a Security Community in the Asia-Pacific*. Kuala-Lumpur: Institute of Strategic and International Studies.
- Baum, Julian. 1992a. Ancient Fears. *Far Eastern Economic Review*, 3 December.
- . 1992b. A Foot in the Door. *Far Eastern Economic Review*, 17 September.

- . 1996. Strait of Uncertainty. *Far Eastern Economic Review*, 8 February.
- Bickford, Thomas J. 1994. The Chinese Military and its Business Operations. *Asian Survey*. 34 (May): 460–74.
- Chanda, Nyan. 1995. The New Nationalism. *Far Eastern Economic Review*, 9 November.
- . 1996. Nervous Neighbors. *Far Eastern Economic Review*, 8 February.
- Cheung, Tai-Ming. 1993a. Elusive Plowshares. *Far Eastern Economic Review*, 14 October.
- . 1993b. Profits over Professionalism: The PLA's Economic Activities and the Impact on Military Unity. In *Chinese Regionalism: The Security Dimension*, edited by Richard Yang, Jason C. Hu, Peter K.H. Hu, and Andrew N.D. Yang. Boulder, CO: Westview Press.
- . 1993c. Serve the People. *Far Eastern Economic Review*, 14 October.
- China Clippers. 1994. *The Economist*, 26 March.
- China Grows. 1995. *The Economist*, 2 December.
- China Helps Develop Arms Despite US Plea to End Trade. 1995. *New York Times*, 10 November.
- China Reveals FC-1 Fighter, Plans First Flight 1997. 1995. *Aviation Week and Space Technology*. 19 June.
- Country Briefing: Malaysia. 1995. *Jane's Defence Weekly*, 25 November.
- Dreyer, June Teufel. 1994. The People's Army: Serving Whose Interests? *Current History*, (September): 265–69.
- East Asia's Wobbles. 1995. *The Economist*, 23 December.
- Echoes of Tianenmen: China Still Struggles with Internal Security. 1995. *Jane's Defense Weekly*, 28 October.
- Gilley, Bruce. 1996a. Peace Dividend. *Far Eastern Economic Review*, 11 January.
- . 1996b. After the Fact. *Far Eastern Economic Review*, 1 February.
- Gregor, A. James. 1991. The People's Liberation Army and China's Crisis. *Armed Forces and Society*, 18 (Fall): 7–28.
- Holloway, Nigel. 1996a. Playing for Keeps. *Far Eastern Economic Review*, 8 February.
- . 1996b. Strategic Flaw. *Far Eastern Economic Review*, 8 February.
- Joffe, Ellis. 1993. Regionalism in China: The Role of the PLA. In *Chinese Regionalism: The Security Dimension*, edited by Richard H. Yang, Jason C. Hu, Peter K.H. Hu, and Andrew N.D. Yang. Boulder, CO: Westview Press.
- Klare, Michael T. 1993. The Next Great Arms Race. *Foreign Affairs*, 72 (November/December): 136–152.

- Kristof, Nicholas D. 1993. The Rise of China. *Foreign Affairs*, 72 (November/December): 59–74.
- Lee, Thompson. 1992. Restoring the Balance. *Free China Review*, November.
- Lewis, John W. and Robert A. Brooks. 1996. Commercial Not Military. *Far Eastern Economic Review*, 25 January.
- Li, Nan. 1993. Changing Functions of the Party and Political Work System in the PLA and Civil-Military Relations in China. *Armed Forces and Society*, 19 (Spring): 393–409.
- Lin, Chong-pin. The Stealthy Advance of China's People's Liberation Army. *The American Enterprise*, (January/February): 2–35.
- Military Control Points to Political Posturing. 1995. *Jane's Defence Weekly*, 28 October.
- Munro, Ross H. 1994. Eavesdropping on the Chinese Military: Where it Expects War—Where it Doesn't. *Orbis* (Summer): 355–72.
- Oliver, April. 1994. The Dragon's New Teeth. *The Nation*, 21 February.
- Pentagon versus Pentagon. 1996. *Far Eastern Economic Review*, 1 February.
- Pollack, Jonathon D. 1992. Structure and Process in the Chinese Military System. In *Bureaucracy, Politics, and Decision-Making in Post-Mao China*, edited by David Lampton and Kenneth Lieberthal. Berkeley: University of California Press.
- Ritcheson, Philip L. 1994. China's Impact on Southeast Asian Security. *Military Review* (May): 44–57.
- Sciolino, Elaine. 1995. CIA Report Says Chinese Sent Iran Arms Components. *New York Times*, 22 June.
- Shambaugh, David. 1992. China's Security Policy in the Post-Cold War Era. *Survival*, 34 (Summer): 88–106.
- . 1994. The Insecurity of Security: The PLA's Evolving Doctrine and Threat Perceptions Towards 2000. *Journal of Northeast Asian Studies* (Spring): 3–25.
- Shirk, Susan. 1993. *The Political Logic of Economic Reform in China*. Berkeley: University of California Press.
- Spotlight on China: A Missile Marketplace. 1995. *The Risk Report*, 1 May.
- Swaine, Michael D. 1992. *The Military and Political Succession in China: Leadership, Institutions, Beliefs*. Santa Monica, CA: RAND.
- Timmerman, Kenneth R. 1995. China Shops. *The American Spectator*, (March).
- Valencia, Mark. 1995. China and the South China Sea Disputes. *Adelphi Paper* 298. New York: Oxford University Press.

- Weiner, Tim. 1996. Atom Parts Sold to Pakistan by China, US Says. *New York Times*, 8 February.
- Womack, Brantley. 1994. Warlordism and Military Regionalism in China. In *Chinese Regionalism: The Security Dimension*, edited by Richard H. Yang, Jason C. Hu, Peter K.H. Hu, and Andrew N.D. Yang. Boulder, CO: Westview Press.
- Zhao, Suisheng. Deng Xiaoping's Southern Tour: Elite Politics in Post-Tiananmen China. *Asian Survey*. 33 (August): 739-756.