



Intrastate Dynamics in the Context of Hegemonic Decline: A Case Study of China's Arms Transfer Regime¹

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Abstract

The decline of a hegemon can create openings for lesser powers to expand their influence in the world-system. Is this what China is currently attempting to do? This paper contributes to this on-going debate by examining China's arms transfer activities from a historical perspective. Using data from the Stockholm International Peace Research Institute arms transfer database and the World Military Expenditures and Arms Transfers database, I argue that the Chinese arms transfer regime has evolved through three phases. In Phase One, China used gifts of arms to compete with the Soviet Union and to expand influence among Third World countries. In Phase Two, China used arms exports mainly to assist national developmental projects. Only evidence in Phase Three supports the emergence of a global strategy that attempts to extend China's economic, political, and possibly military outreach. This paper suggests that though China has not yet become a contender for world hegemony as Arrighi argues (2007), China has formulated a globally-focused agenda which, in the medium-term, could extend its influence in regions where U.S. domination is relatively weak.

Keywords: China, Hegemonic decline, intrastate dynamics, arms transfer, global agenda

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U.S. Decline and China

In the view of many scholars (Arrighi 1994[2010], 2007; Arrighi and Silver 1999; Gowan 2004; Go 2011; Lachmann 2014a; Roxborough and Levy 2014), the United States is in decline. Even if this decline is not terminal and the United States remains the world hegemon for the foreseeable future (Brooks and Wohlforth 2008), its relative decline opens space for lesser powers to expand their influence. In *The Long Twentieth Century*, Giovanni Arrighi argues that the decline of the Netherlands opened a struggle between Britain and France, from the outbreak of the Anglo-Dutch Wars to the end of the Napoleonic Wars; and, from the 1870s onwards, the decline of Britain triggered competition between the United States and Germany, which was finally resolved through the Second World War (1994). Along this line of thinking, the relative decline of the United States today also creates an opening for new powers to emerge and compete. This competition unfolds in forms and to extents impossible at the peak of U.S. hegemony.

Arrighi and other scholars contend that China is the country most likely to vie for hegemony under the circumstances of U.S. decline (Arrighi 1994[2010], 2007; Rapkin and Thompson 2003, 2013; Goldstein, A. 2003, 2005). The world's second largest economy since 2010, China has also been the second largest military spender since 2003. Today, China is one of the largest contributors to the United Nations peacekeeping missions (U.N. Peacekeeping Resources), assessed by some as part of Beijing's efforts to expand its global outreach (Campbell-Mohn 2015; Clover 2015). Nevertheless, even Arrighi admits that it remains debatable whether China will emerge as a challenger to the U.S.-led world order (2007). China could become an assertive great power, clash with U.S. interests, and possibly lead the world towards a catastrophic Sino-U.S. war (Kaplan 2005). However, it is also possible that the nature of China's ascent is peaceful and could be accommodated in the current international system (Kissinger 2005). Alternatively, China's growing influence could be resisted by other Asian powers, such as India or Japan. If two or more Asian countries contend for regional domination, the United States could play them off against each other so as to maintain U.S. supremacy (Pinkerton 2005).

Although not necessarily agreeing with Arrighi's argument that China is the most likely hegemon-in-waiting, this paper does view China as a lesser power that could compete for influence in an opening created by U.S. decline. But is this currently happening? If so, how is China accomplishing this? Or, if it is a future possibility, what future plans could make this a reality? Many authors have attempted to answer these questions (e.g. Swaine, Daly, and Greenwood 2000; Goldstein, A. 2003, 2005; Hung 2008, 2014). This paper contributes to this ongoing debate by examining China's arms transfer activities from a historical perspective. I argue that the way in which China uses arms transfer has evolved through three phases, reflecting changes in its grand strategy from a nationally-focused agenda to a globally-focused one. Specifically, in Phase One,

from the 1950s to the late 1970s, China used gifts of arms to compete with the Soviet Union and to expand influence among Third World countries. Limited within the periphery and semi-periphery of the world system (Wallerstein 2010), this strategy was mainly driven by the newly-born regime's concern over its relative isolation. In Phase Two, between the late 1970s and the end of the 1990s, China retreated from this strategy and used arms exports mainly to assist national developmental projects. Only in Phase Three, beginning in the 2000s, does evidence support the emergence of a global strategy that attempts to extend China's economic, political, and possibly military outreach. This strategy does not mean that, due to space opened by U.S. decline, China has fully cemented itself as a global power vying for hegemony. However, it does illustrate that China has organized itself internally to formulate a globally-focused agenda. In the medium-term, China could extend its influence in regions where U.S. domination is relatively weak. China's political institutions' growing capacities to formulate, carry out, and maintain a coherent global strategy, as shown in Phase Three, contrast with the decline in such capacities on the part of the United States, as some recent work has argued (Mizruhi and Hyman 2014; Lachmann 2014b).

Interstate and Intrastate Dynamics of World Power

Scholars have long sought to explain the changes in a state's position in the global hierarchy, and World-Systems Theory has made important contributions to this dialogue. To understand the interstate division of labor and political centralization and decentralization, world-systems analysis focuses on the international dynamics that determine a state's position in the world. It divides the world-system into two major components: a world economy based on a division of labor between the core and the periphery, and an interstate system through which the core politically dominates the periphery (Hopkins and Wallerstein 1967; Arrighi 1994; Chase-Dunn and Grimes 1995; Modelski and Thompson 1996; Wallerstein 2010). Although the core-periphery hierarchy cannot be reduced to economic relations, the logic of capitalist production and accumulation is usually viewed as the key driver for changes in a state's structural position within the world system (Arrighi 1994; Wallerstein 2010; Babones 2015). Therefore, from a world-systems perspective, signs of economic contraction (e.g., falling rates of profit, rise of unemployment) are indicators of a deteriorating structural crisis within the world economy.

This crisis could upset the preexisting order of the interstate system, cause upward or downward mobility in the world system hierarchy, or even shake the primacy of the current hegemon and lead to the transition towards a new power center (Wallerstein 1984, 2002; Arrighi 1994). Meanwhile, processes in local societies matter only when integrated into the macro-level

world system.² Actions by various social groups are seen mainly as responses to structural dynamics of the world economy and the interstate political system, rather than as being endogenously generated in the local context. Consequently, the world-systems perspective has difficulty accounting for policies and strategies that are generated by internal social and political relations, yet impact a state's position in the world economy and the interstate system.

However, later research has demonstrated that domestic economic and political dynamics are not merely reflections of and responses to international dynamics. Instead, they also matter in shaping a national actor's structural position and leading to its changes in the global system. Focusing on the decline of the United States, researchers have found that the endogenous dynamics of falling domestic productivity (Knudsen 2014), growing elite fragmentation (Mizruchi and Hyman 2014; Lachmann 2014b), and the heterogeneity of American political culture (Roxborough and Levy 2014) each have contributed to U.S. decline. These domestic social processes help remake the national balance of power among political institutions, capitalist factions, and labor, which reconstruct the U.S. state's capacity to make and carry out coherent and effective strategies to defend its supremacy. One important contribution of this strand of research is that it underscores that even a world hegemon should not be assumed to be a monolithic national actor. On the contrary, a global power, similar to Julian Go's conception of empire, should be viewed as containing "conflicting tendencies, tactics and techniques, and multiple modalities of power" (2011:240).

Therefore, even as a world hegemon, a national actor's capacity to formulate and coherently pursue a global agenda may not be taken for granted. Instead, it should be examined under the assumption that this capacity is continuously being threatened by alternative tendencies and agendas of multiple local, national, and international actors. These actors choose their next moves in response to specific local and international contexts that are only partially shaped by world power relations. Meanwhile, their actions may contribute to reconstructing the international context in which world powers are situated and to which they must respond.

Thus far, the literature emphasizes the politico-economic sphere of world power relations. But as some authors have contended, a dimension of global militarism is also important to the dynamics. For example, global wars are usually generated by structural changes in the world system, or "civilization" in David Wilkinson's terminology (Modelski and Thompson 1988; Hardt and Negri 2005; Wilkinson 1987, 1995). Furthermore, from a world-systems perspective, power transitions are always punctuated by global war. Triumph over the competitor gives the winner a chance to shape (and benefit from) a new world order, until the economic cycle of growth is

² Christopher Chase-Dunn and his coauthor do strive to modify this tendency or add a societal dimension into the formation and transition of modern world systems (Chase-Dunn and Hall 1993; Chase-Dunn 1998).

exhausted again, and a new round of global military competition is triggered (Goldstein, J. 1985; Boswell and Sweat 1991; Nakajima and Thompson 1988, 1996; Thompson 1999; Chase-Dunn and Podobnik 1995). Additionally, it is argued that military power is in play in the formation and arguable disintegration of U.S. hegemony. As the iron curtain descended at the end of World War II, military aid was wielded by the United States to construct a global capitalist order, so as to advance U.S. supremacy in Western Europe and East Asia (Block 1977). However, the legitimacy of this order diminished with the end of the Cold War, especially given the extensive presence of U.S. military forces around the world. From this perspective, the assertive use of force by the George W. Bush administration was the neoconservative political elites' strategy to rebuild U.S. supremacy under new circumstances (Gowan 2003, 2004). However, the rise in U.S. militarism itself may have signaled a decline in U.S. influence in the economic, political, and ideological spheres.

By comparing imperialistic activities of the United Kingdom and the United States, Julian Go argues that the reliance on military actions as a "last resort" is a desperate move to compensate for a superpower's declining economic and political control in the world-system. This can only destabilize world order and undermine the current hegemon (2011). This body of literature helps address the roles played by global militarism in the historical conjuncture of hegemonic decline, which is usually overlooked. Meanwhile, an empirical gap remains in explaining how the military sphere matters, especially in regards to the intrastate dimension of how military policies and strategies are formulated and how military resources are mobilized. In this respect, examining more data will help researchers to better understand the military dimension in the current global context of U.S. decline.

In this paper, I argue that changes in a state's position in the world power structure is a product of interactions between the interstate dynamics of power relations and the intrastate dynamics of policy-making. In so doing, I contribute to the literature by filling an empirical gap in our understanding of China's arms transfer activities, which has rarely been examined. These data provide a window into the changes in China's internal organization to boost its position in the world-system.

The Chinese Arms Transfer Regime: Why is it Relevant and How Can it be Analyzed?

Conventionally, scholars view arms transfer as determined by the international hierarchy of power relations and technological innovation. Keith Krause contends that a state's arms transfers are primarily determined by its structural position within the global hierarchical system of arms production and transfer (1992). Furthermore, major powers have routinely used transfer in the form of arms sales and aid to forge and strengthen subordination on the part of a client country and to shape the world order to advance one's national interests (Sorley 1983; Krause 1991, 1992).

However, this paper argues that arms transfer is also a sphere impacted by and reflecting a national actor's internal decision-making and resource mobilization. In this regard, the arms transfer regime provides a lens to see how China organizes itself internally and how it may attempt to extend its outreach and become a world power.

I use two databases to reveal the patterns of Chinese arms transfer: the Stockholm International Peace Research Institute (SIPRI) arms transfer database and the World Military Expenditures and Arms Transfers (WMEAT) database.³ SIPRI is an independent, international institute dedicated to research on conflict, armaments, arms control and disarmament. It records data about international transfers of conventional arms from 1950 onwards, and is updated every spring. SIPRI uses published sources to gather information and to produce statistics on the volume of international transfers of major conventional weapons. SIPRI arms transfer data use a common unit, the trend-indicator value (TIV), which represents the known unit production costs of a core set of weapons, rather than actual sales prices for arms transfers. There are two major strengths of using SIPRI. First, it provides one of the most systematic databases of arms transfer in the post-World War II era. It records the flows of major conventional weapons around the world from 1950, making it possible to analyze the trend in international arms transfers over a period of time. Second, SIPRI records the value of arms transfer by supplier and recipient country. Therefore, it can be used to calculate the share of the global market by supplier and recipient countries, and to analyze the evolution of specific arms-transfer regimes. Despite the strengths, SIPRI has one major limitation. The comment unit (TIV) that SIPRI uses only presents the transfer of military resources, instead of the monetary value of the transfer. Therefore, it cannot be directly compared to gross domestic product (GDP), military expenditure, and the monetary value of exports.⁴

The WMEAT reports are generated by the U.S. Arms Control and Disarmament Agency (US-ACDA). WMEAT records estimates of the value of conventional weapons delivered annually within reference years from 1964 to the present. The major strength of WMEAT measures is that they present the monetary value of arms transfers, which is missing in SIPRI. Also, WMEAT data provide statistics on the value of arms transfer by recipient economic, political, and geographic groups, which can be used to analyze the patterns of a major supplier. However, WMEAT has two limitations. First, the time period of its records is restricted. It only goes back to the year 1963, and the annual WMEAT reports have not been published for 2001-2004 and 2006-2011. Therefore,

³ In both databases, arms transfer from the People's Republic of China and from the Republic of China based in Taiwan are treated separately. This article only deals with arms transfer from the People's Republic, because transfer from Taiwan is likely to follow a distinctive logic and needs a separate article to address.

⁴ For more information about the SIPRI arms-transfers database, visit the official website: www.sipri.org/databases/armstransfers

analysis of arms transfers in these periods has to use the SIPRI statistics. Second, WMEAT reports only provide cumulative statistics on arms transfer by major supplier and recipient country within a specific time period (e.g., in 2007-2009 and 2009-2011), which makes it difficult to systematically analyze the relationships between a supplier and a major recipient over a period of time.⁵

Given these unique features of SIPRI and WMEAT data, I utilize SIPRI to analyze the trend of arms transfer from China between 1950 and 1962, dates for which WMEAT statistics are unavailable. I also use the SIPRI data to identify major recipient countries to which Chinese arms are supplied and to analyze the evolution of the recipient-China relationships. Meanwhile, I rely on WMEAT to present the patterns in Chinese arms supply by geographic and economic groups. Also, the WMEAT statistics are utilized for comparison to other coefficients such as GNP and monetary values of exports.

For other trade and investment statistics used in this paper, I obtained China's annual imports and exports from the official source: the Ministry of Commerce (MOFCOM) of the PRC. The statistics of Chinese outbound foreign direct investment (OFDI) are available from the United Nations Conference on Trade and Development (UNCTAD). This paper also relies on secondhand literature that collects information about the transformation of China's foreign policy, defense industry, and practices of trade and arms transfer.

The Three Phases of the Chinese Arms Transfer Regime

Phase One: "China will never be an arms dealer": Arms transfer in the Mao era

In the early decades of the People's Republic of China, the regime was isolated not only by the ideological divide in the Cold War, but also within the communist bloc. With U.S. support, the Republic of China, based in Taipei, was recognized in the United Nations (UN) as the only lawful representative of China. Within the communist bloc, China claimed to have discovered a unique road for underdeveloped Asian countries to achieve communism in the 1950s. This was regarded by Moscow as a challenge to its traditional position "as the undisputed leader and arbiter of doctrine within the Communist bloc" (Bradbury 1961:16; see also Zagoria 1960). The Sino-Soviet split fermented throughout the 1950s, and finally erupted into the open at the June 1960 Bucharest Conference (Chǒng 1978). The split with the Soviet Union marginalized China in the communist bloc, leaving it with only a few communist regimes on its side (for example, Albania and North Korea⁶). To break out of the diplomatic blockade, China sought to establish itself as the new leader

⁵ For more information about the WMEAT reports, visit the official website: www.state.gov/t/avc/rls/rpt/wmeat/

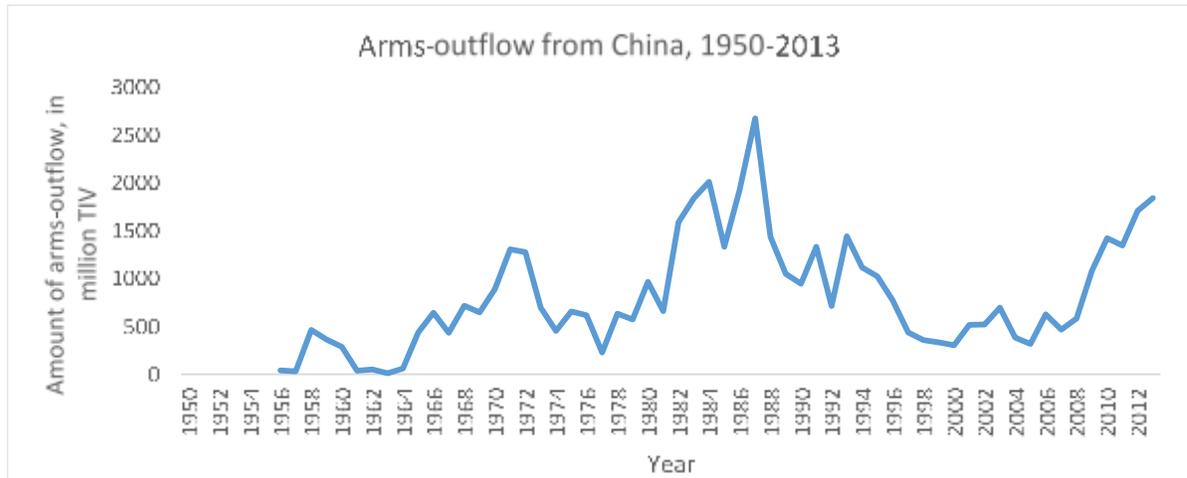
⁶ To understand North Korea's stance and strategy in the Sino-Soviet rift, refer to Chin-wi Chin Chǒng's book, *P'yǒngyang Between Peking and Moscow: North Korea's Involvement in the Sino-Soviet Dispute, 1958-1975*.

and “thought center” in a “world communist revolution” against not only the old enemy, American imperialism, but also the new rival, Soviet “modern revisionism.”

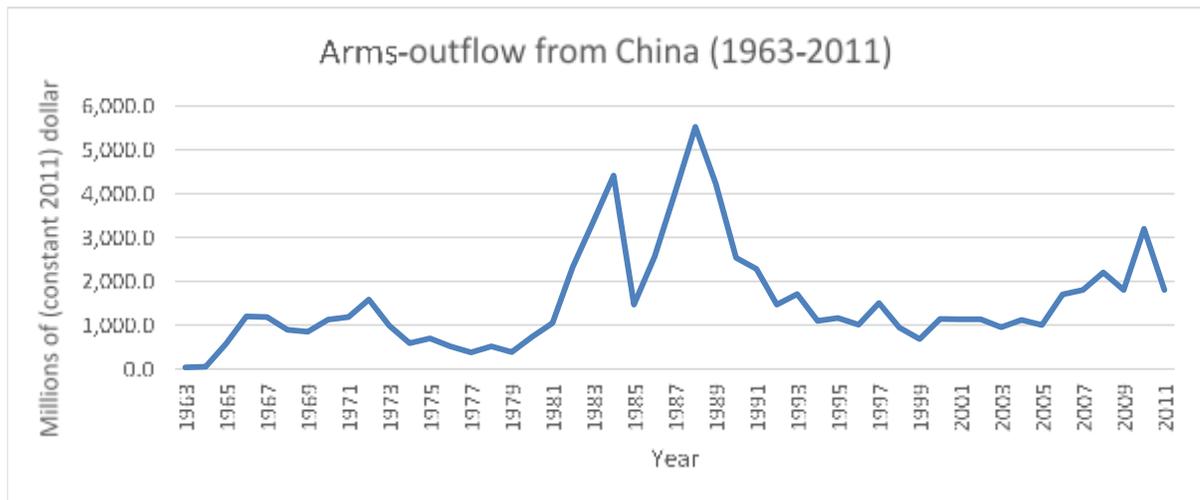
In a paper published in 1965, Lin Biao, who at that time was designated by Mao as his “revolutionary successor,” called for Third World countries to unite and committed China’s support for a world revolution against the West (Chen 2005). The arms transfer regime was crucial in China’s support of a “world communist revolution.” Instead of selling weapons, China chose to send weapons as gifts to these Third World countries. The principle that “China will never be an arms dealer” was articulated by Mao in the 1950s (Yu 2003). Qiao Guanhua, China’s U.N. delegate and Foreign Minister, elaborated this principle in his speech at the Plenary Meeting of the twenty-sixth Session of the U.N. General Assembly in 1971. In the speech, Qiao said, “It is our bounded duty to support the just struggles of the people of various countries... We provide free military aid to countries and peoples who are fighting against aggression. We will never become munition merchants, nor attach any conditions or ask for any privileges” (from Barnouin and Yu 2011:169). According to the official record, China did not engage in arms sales until 1979 (Yu 2013).

Mao’s strategy of not selling weapons but offering military aid served the strategic goal of defending and securing China’s position in the international system shadowed by the Cold War. In this strategy, the arms transfer regime was given priority in Chinese domestic and foreign policies. Before the Sino-Soviet split broadened around 1958, annual arms transfers from China never exceeded 9 million TIV, and China was only the world’s fourteenth largest supplier (SIPRI). However, after 1958, China became a major arms supplier to North Korea. For instance, between 1958 and 1960 China provided aircrafts worth 1.1 billion TIV to North Korea, which was the first significant case of the Chinese arms transfer regime (SIPRI). Both SIPRI and WMEAT show that arms transfers from China rose notably after the mid-1960s, and peaked around 1972 and 1973 (Figure 1.1 and 1.2). China was reported as the fifth largest arms supplier by SIPRI in 1973 and by WMEAT in 1972. However, arms transfer is not merely about “how much,” but also “to whom.” From 1950 to 1977, the top four recipients of Chinese conventional weapons were North Korea, Pakistan, Albania, and Vietnam, constituting 87 percent of the total transfers from China (SIPRI). Three out of the four regimes were governed by a left-wing party at that time,⁷ and all except Albania shared a border with China. In Table 2, 66 reflects the percent of arms transferred from China that went to other communist regimes from 1950 to 1977. Here, we can see an ideological and geographical preference for Chinese arms transfers in the first phase, which favored nearby regimes that were politically and ideologically sympathetic to China’s position.

⁷ North Korea has been governed by the Workers' Party of Korea from 1949 to the present. Albania was governed by the Party of Labour of Albania from 1945 to 1991. Vietnam (North Vietnam before 1975) has been governed by the Communist Party of Vietnam from 1945 to the present.

Figure 1.1. Arms-outflow from China, 1950-2013 (SIPRI)

Source: SIPRI.

Figure 1.2. Arms-outflow from China, 1963-2011 (WMEAT)

Source: WMEAT, US-ACDA.

To some extent, Mao's strategy succeeded in expanding China's diplomatic space. Albania, the third largest recipient of Chinese weapons in this period, initiated a motion, supported by Algeria and fifteen other countries (most of whom were recipients of China's weapons), finally leading to

the United Nations General Assembly Resolution 2758 in October 1971. In this Resolution, Beijing replaced Taipei as the only legitimate representative of China to the UN (United Nations 1971).

However, this was also a costly strategy. First and foremost, it placed a heavy financial burden on China's national treasury, especially through foreign aid programs (Zhang 2006; Yang 2009; Yang and Chen 2010; Che 2012). As shown in Figure 2, the weight of foreign aid on the Chinese government's public expenditure rose drastically in 1960, the year of the Sino-Soviet split, in spite of China's own struggling economy. In the heyday between 1971 and 1975, expenditure of foreign aid accounted for more than 5 percent of China's public expenditure, and more than 1.5 percent of its gross national product (GNP). In comparison, during the Marshall Plan period, expenditure on foreign aid never exceeded 0.2 percent of U.S. GNP.⁸ Mao's pledge to "never be an arms dealer" was kept even when the Chinese economy was under stress. From 1959 to 1961, the failure of the "Great Leap Forward" developmental programs led to the three-year Great Famine in China, causing around 40 million deaths (Lardy 1987).

Table 2. Ideological and geographical distribution of arms outflows from China (1950-2014)

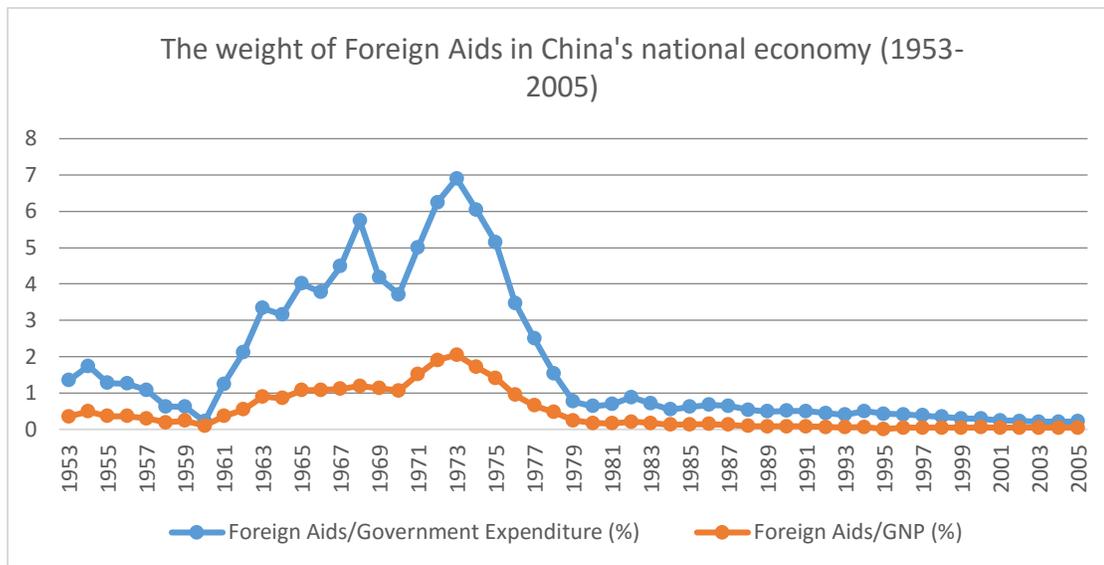
	Phase	Phase 1 (1950-1977)	Phase 2 (1978-2000)	Phase 3 (2001-2014)
Ideological distribution	Communist regimes	66%	21%	27%
	Non-communist regimes	34%	79%	73%
Geographical distribution	Asia	66%	84%	75%
	Europe	25%	1%	0%
	Africa	9%	15%	21%
	Latin America	0%	0%	4%

Source: SIPRI

Meanwhile, between 1958 and 1964, China transferred 67,000 submachine guns, 920 cannons, over 700 broadcasting stations, and 1,223 military vehicles to North Korea, without asking for payment (Hao, Song, and Luo 2013). At the peak in 1973, China signed foreign aid agreements worth 4 billion RMB and spent more than 5.7 billion RMB on foreign aid, which even exceeded the amount of U.S. foreign aid that same year (Yang 2009).⁹

⁸ Source: Economic Report of the President 1980, United States Agency for International Development.

⁹ Using foreign aid programmes to boost one's political allies is not a Chinese invention, but mainly a Cold War creation. Since the Marshall Plan, both the United States and the USSR had held large foreign aid programmes to

Figure 2. The weight of foreign aids in China's national economy (1953-1980)

Source: Zhang, Y. 2006. Research on China's foreign aids

Second, the high level of arms transfers was maintained in a way that was sometimes detrimental to China's own defense forces. During the Mao era, the Chinese defense industrial base was too underdeveloped to sustain arms supplies at a high level. To ensure guaranteed delivery, some military equipment initially manufactured or purchased for the active forces of Chinese troops was instead given to China's "Third World brothers." For example, among the weapons that China gave Vietnam in support of its anti-French Resistance War from 1950 to 1953, some were taken directly from the active forces of the People's Liberation Army (PLA) of China, and others were purchased from the USSR and other foreign suppliers when China itself ran short of foreign reserves (Zhang, Y. 2006). Also, after the Korean War, Chinese troops left the North Korean army with enough weapons to equip ten divisions before departing for home (Hao, Song, and Luo 2013).

Lastly, as the Chinese leadership later found out, arms transfers were not always an effective and efficient way to strengthen connections and political loyalty. North Korea and Vietnam together received 40 percent of Chinese arms transfers from 1950 to 1976, but neither country firmly sided with China in the Sino-Soviet split. Skillfully, Pyongyang kept a delicate balance

serve political purposes. However, due to the heavy fiscal burdens, both regimes had begun to cut foreign aid programmes beginning in the late 1950s, while China's foreign relations remained largely dependent on foreign aid (Krause 1995).

between the two communist powers, leaning towards one when its interests fit (Chōng 1978). Vietnam, with Soviet support, even became a regional competitor to China in Southeast Asia in the 1970s, and tensions between the two countries finally gave rise to a border war in 1978 (Ross 1988).

After the mid-1970s, it became clear that it was unsustainable to finance a high level of arms transfers by the public budget. Indeed, the weight of foreign aid had already seen a sharp decline in the years before Mao's death in 1976 and Deng Xiaoping's return to power in 1977 (Figure 2). Meanwhile, easing of tension in the international sphere also made it possible for China to enter the global society. In 1971, the People's Republic of China was recognized by the UN. In 1972, U.S. President Richard Nixon visited China, and the two countries officially established diplomatic relations in 1979. However, China's warming up to the United States upset and alienated it from its traditional allies such as North Korea and Albania. This further dissolved the previous mode of China's arms transfer. From the mid-1970s, the amount of arms transfers receded dramatically and had fallen to pre-1966 levels by the end of the decade (Figures 1.1 and 1.2).

In summary, from the early 1950s to the late 1970s, under Mao's principle that "China will never be an arms dealer," the Chinese arms transfer regime was strategically employed by the top leaders to exchange for diplomatic space and to secure China's position in the world. Political institutions in this period showed a strong capacity to mobilize a considerable proportion of domestic resources to finance this strategy. However, they also generated a heavy financial burden on China's public budget, which became severe towards the end of the Mao era. Finally, this phase ended around the late-1970s as arms transfer declined, along with China's outgoing foreign aid.

Phase Two. "China has no choice but to become an arms dealer": The rise and fall of a profit-driven regime

While the weight of foreign aid in China's public expenditure had been in decline before Mao's death, fundamental redirections and new policies were introduced a few years later. In 1978, the Chinese Communist Party's Third Plenary Session of the Eleventh Central Committee took place in Beijing. At the conference, the new CCP leadership signaled an embrace of economic reform. In the following year, Deng reframed the idea of the "Four Modernizations." According to Deng's reframe, the defense sector was relegated to the last priority, after the agriculture, industry, and science and technology sectors (Frankenstein 1999). In other words, the defense sector lost its privileged status in the national economy, and most importantly, its priority access to national resources. Between 1979 and 1981, defense expenditures were cut by one-fourth, declining from 22 billion RMB to 17 billion RMB (Mulvenon 2001). From 1980 to 1990, China's gross national product (GNP) swelled forty-fold, from 447 billion RMB to more than 17,686 billion RMB, while its defense expenditure merely doubled (China Statistical Yearbook 1991).

Under these new policies, how did the political authority make up for the military's reduced access to national resources? While the defense sector was not left all alone, it was called on to engage in commercial activities, so that it would not completely rely on the state's budget.¹⁰ In spite of the shortage of capital, know-how, and technology, military enterprises utilized their politically-privileged status in society and access to cheap natural resources, raw materials, and the national transportation network to generate notable financial rewards for themselves (Mulvenon 2001; Mulvenon and Tyroler-Cooper 2009). Between 1985 and 1990, the profits of PLA factories grew by 700 percent. At its height in the late-1980s, the military controlled nearly 20,000 ventures, whose business ranged from large farms to world-class hotels and multinational corporations (Karmel 1997). While producing for the domestic civilian market was one way to earn revenue, China had already proven its capacity as an effective arms supplier. Yet, the defense sector had not been allowed to profit from arms sales, as doing such was forbidden in the Mao era.

Mao's pledge had to be overturned, and the call could only come from the top. It finally came in 1978, when Deng announced to the defense sector, "China has little choice but to become an arms dealer." One year later, arms sales were introduced for the first time via the directive, the *Instructions on Foreign Military Aid in the Future*, issued by the State Council and the Central Military Commission. On the 30th anniversary of the regime, China finally became an arms dealer. Correspondingly, the quantity and value of arms transfer from China climbed from the late-1970s. Following a period of growth marked by mild fluctuation, China's arms sales hit a peak in 1988 (Figure 1.1 and 1.2). Both SIPRI and WMEAT databases report China as the world's fifth largest arms supplier between 1985 and 1989. In geographical terms, based on WMEAT statistics, over 70 percent of these conventional arms were delivered to OPEC (Organization of the Petroleum Exporting Countries) member states between 1981 and 1985, and this proportion rose to 83 percent between 1985 and 1989. This pattern indicates several fundamental changes in China's arms transfer activities that result from the changes in China's grand strategy. An examination of the major recipient countries in this phase can further clarify this connection. In the 1980s, Iraq, Pakistan, Iran, Egypt, and North Korea were the top five recipients of conventional arms from China, with Iraq and Iran accounting for a 42 percent share.

Both countries, plus Egypt, only increased arms imports from China after the Mao era. Moreover, none of the three countries fit China's previous geopolitical and ideological preferences. In the Mao era, China's clients were mainly countries with limited access to advanced

¹⁰ For instance, at the All-Army Sideline Agricultural Production Conference held in Beijing in 1983, the military headquarters urged the military sector to further relieve the burden on national finance (Mulvenon 2001). Also, in a report by the China News Agency in 1992, the PLA's pharmaceutical conglomerate was urged to "play a positive role in developing the army's production and in making up for the inadequacies in military spending" (Frankenstein 1997:194).

military technology. However, as the largest arms importer in Africa in the 1980s, Egypt had well-established access to major Western suppliers, and its market was dominated by the United States, which had a 70 percent share (SIPRI). In the cases of Iraq and Iran, both turned to China for arms supplies after the start of the Iran-Iraq War in 1980. From 1980 to 1988, China's arms transfers accounted for 64 percent of arms that Tehran obtained from Asia, and was Baghdad's only Asian supplier during the war (SIPRI). By trading with both belligerents, China directly profited from the conflict, which was a sharp contrast to the image of a benevolent "big brother" to all of the Third World countries that it had tried to present during the Mao era. Furthermore, from 1978 to 2000, only 21 percent of Chinese arms transfers were supplied to communist regimes, in comparison to over 60 percent during the first phase (Table 2).

The strategy to ease the financial burden facing the defense sector through commercial activities, including arms exports, worked to some extent. A proportion of foreign currency obtained through the selling of arms was used to fund defense development projects such as the reform of the aviation industry (Cheng 2011; Yu 2013). On the flip side, this mode of defense production and transfer generated problems in resource distribution, defense innovation, and military discipline. In spite of a lack of know-how and advanced technologies, the defense sector was in a position to reap profits through its extensive political connections in the domestic market (Mulvenon 2001). By the end of the 1980s, more than two-thirds of the workforce employed by the defense industry had worked for the civilian market, instead of defense production, and by 1994, civilian products accounted for 80 percent of military-owned production (Karmel 1997). This focus distracted the military from professional duties and the defense producers from genuine defense production and innovation. The development of weapons slowed in the late 1980s, and many defense products in this period failed to meet the quality requirements of military end users (Karmel 1997; Medeiros et al. 2005). It also generated disciplinary issues. One anti-corruption campaign in the early 1990s led to the closure of hundreds of military enterprises (Mulvenon 2001). Even frequent political campaigns failed to stop rampant corruption and the other illegal economic activities¹¹ that continued to trouble the defense sector throughout the 1990s (Karmel 1997). The problem eventually penetrated into the national economy as a whole. By the early 1990s, the defense industry had become "one of the worst laggards in the economy" (Cheung 2009:111).

As recorded in both databases, the quantity and value of China's arms exports dropped drastically in the late 1980s. From 1990 to 1991, arms sales shrank 36 percent (WMEAT 1992)¹²

¹¹ These illegal economic activities include but are not limited to speculative ventures such as speculation in foreign currency and real estate, smuggling, and misappropriation (Mulvenon 2001).

¹² The SIPRI data does not accord with the US-ACDA data for the year 1991. However, both data sources support the general pattern of decline in the 1990s.

and continued to decline throughout the 1990s. By 1999, China's share of world arms exports had shrunk to less than 1 percent, from 4 percent in 1990 (WMEAT 1999-2000). The end of the First Persian Gulf War and the UN arms embargo of Iraq may have been one factor causing this shift. However, domestic dynamics mattered as well. Since the 1970s, China had been Pakistan's major supplier, and its share of annual arms delivery to Pakistan had never been below 40 percent for a five year period, with only one exception: 1996-2000 (SIPRI). During the same period, China lost the Egyptian market to the United States (SIPRI).

To sum up, in the Deng era, China changed the focus of national policy from security to economic reform and development. Consequently, the defense sector lost its priority in accessing national resources and was urged to be partially self-financed. This policy shift opened the door for the defense sector to sell arms and to provide civilian goods and services. This strategy generated short-lived momentum for the Chinese arms transfer regime in the mid-1980s. After that, problems inside this profit-driven regime became obvious and dragged down not only the defense sector, but also the economy as a whole. As a result, the quantity and value of arms sales dropped sharply in the late-1980s, with the depression in the arms transfer regime lasting through the 1990s.

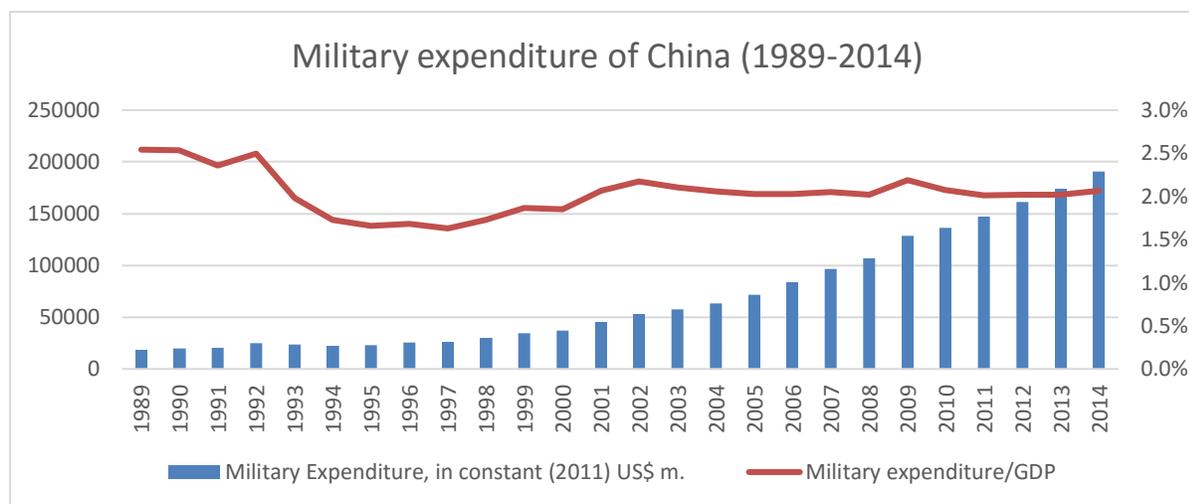
Phase Three: The “Chinese Marshall Plan”? Arms Transfer in the New Century

On 22 July 1998, an enlarged session of the Central Military Commission was held in Beijing. At the session, Jiang Zemin, the head of the CCP in the post-Deng era, announced that the military sector would be prohibited from commercial activities. Jiang also urged the PLA to refocus on its professional tasks and military modernization (Mulvenon 2001). After that session, a series of reforms was introduced to the defense sector to clear organizational obstacles to technological innovation and to bolster defense research (Cheung 2009; Mulvenon and Tyroler-Cooper 2009). Although researchers have different opinions about the extent of the military's resistance to the reforms, they generally agree that this wave of reform set the stage for the later development of China's defense industry (Scobell 2000; Mulvenon 2001; Cheung 2009). Also, the government increased the share of the defense sector in the public budget after 1998. From 1994 to 1998, military expenditure accounted for 1.7 percent of China's gross national product (GNP). That proportion rose to 2.1 percent for the period between 2001 and 2005 (Figure 3). This increase generated immediate consequences. In 1998, China was still the world's 7th largest military spender; five years later, China was second only to the U.S., though its military spending was only one-tenth of the latter's. However, this massive gap is also narrowing. In 2015, China's military spending was approximately one third that of the United States (SIPRI).

With its strengthened economic and military capacities, what is the main goal of China's grand strategy in the twenty-first century? How does the new leadership plan to fulfill this goal?

In a 2013 trip to the Association of Southeast Asian Nations (ASEAN) countries, Xi Jinping, the present head of the CCP, announced China's "21st-Century Maritime Silk Road" initiative, a development framework to boost trade, shipping, tourism, and maritime infrastructure in South Asia and Africa. Based on the blueprint, the Maritime Silk Road starts at the South China Sea, travels through the Strait of Malacca into the Bay of Bengal, crosses the Indian Ocean and reaches the African continent in Nairobi. From Kenya, the proposed Maritime Silk Road then turns north, traverses the Suez Canal, and finally arrives at its European destination, Venice. This initiative is one half of China's "One Belt, One Road" development strategy. The other part, the "Silk Road Economic Belt" initiative, starts in Northwest China, travels across Central Asian countries to reach the Middle East, then turns to Eastern Europe, and finally meets the Maritime Silk Road in Italy.¹³ This "belt" aims to link China economically and culturally to Europe through Central and Western Asia and to strengthen China's influence in these regions.

Figure 3. China's Military expenditure, 1988-2012



Source: SIPRI

Why is China promoting the "One Belt, One Road" initiative? As some scholars have pointed out, despite China's drastic economic development over the last three decades, its capital accumulation regime has recently experienced several structural problems in terms of its sustainability. China's export-dependent economy has internalized the global crisis of over-accumulation and falling profits (Hung 2008). Without a robust domestic market, Chinese investors have to look abroad for

¹³ The official roadmap and information of the "One Belt, One Road" project is available at <http://en.xinfinance.com/html/OBAOR/>

more trade and investment opportunities. According to the Ministry of Commerce, China's outbound foreign direct investment has maintained steady growth for a decade. However, the need for foreign markets is only one reason. Indeed, the "One Belt, One Road" initiative also offers a roadmap for further extension of China's influence, which, as *The Diplomat* commentator William Yale argues, is "intended to serve diplomatic, economic, and strategic purposes" (2015). This is the reason why several analysts have already called this strategy the "Chinese Marshall Plan" (Stokes 2015; Pitlo III 2015).

This "plan" has been well supported by the arms transfer regime of the new century. After 2000, the quantity and value of Chinese arms transfers climbed, though with fluctuation (Figure 1.1 and 1.2). Growth became more stable after 2006. According to SIPRI, China replaced the United Kingdom as the world's fifth largest arms supplier between 2008 and 2012, accounting for 5 percent of world arms transfers. According to WMEAT, China was the sixth largest supplier between 2008 and 2011.¹⁴ While the growth rate and ranking may exaggerate the actual size of China's arms exports, what is more relevant is the distribution. According to WMEAT, between 2001 and 2011, 38 percent of arms exports from China were delivered to South Asia, 19 percent to the Middle East, 12 percent each to North Africa and Sub-Saharan Africa, and 6 percent each to East Asia and South America. Specifically, between 2007 and 2011, the five largest Asian recipient countries of China's weapons were Pakistan, Myanmar, Saudi Arabia, Syria, and Sri Lanka. In Africa, they were Algeria, Egypt, Nigeria, Sudan, and Chad. SIPRI statistics show a similar geographic pattern. According to SIPRI, between 2001 and 2014, three fourths of Chinese arms exports were delivered to other Asian countries, with Africa receiving another fifth. The remaining arms exports were delivered to Latin America. Indeed, while Asia was the largest outlet for Chinese weapons, Africa had most of China's clients.

A closer examination of the recipients exposes the deeper connection between China's arms exports and its strategic interests in trade, energy, and raw materials, as well as geopolitics in Asia and Africa. As mentioned above, one goal of the "One Belt, One Road" initiative is to extend foreign markets for Chinese products. The major recipient countries and regions of Chinese weapons appear also to be important trade partners for China. For example, in 2012, South Asia took a 13 percent share of China's exports; this number grew to 17 percent in the first two months of 2015 (MOFCOM). In 2009, China became Africa's largest trade partner, and China's exports to Africa grew by 16.7 percent over the following two years. According to SIPRI, Egypt is the largest African recipient of Chinese arms and one of the largest African importers of Chinese goods in general. In 2011, Egypt accounted for 12 percent of Chinese exports to Africa, second only to the Republic of South Africa (Rahal 2014). In Southeast Asia, Myanmar is the largest importer of

¹⁴ WMEAT statistics on global arms transfers for 2012 had not been released at the time of writing.

Chinese weapons. In 2011, China also became Myanmar's largest trade partner and its largest source of foreign investment (MOFCOM). Indonesia (second largest arms importer in Southeast Asia), Bangladesh (second in South Asia), and Pakistan (first in South Asia) are also important foreign markets for China's civilian goods and investment (SIPRI).

Several major recipient countries of Chinese weapons are also the main suppliers of energy and raw materials for China. Observers in Western societies have always been interested in Chinese national oil companies (NOCs) in Africa, which have been expanding since the mid-1990s. Today, crude oil is China's top imported product from Africa (MOFCOM). In 2009, for example, 70 percent of African exports to China were crude oil (Lin 2013). Sudan is China's largest oil supplier and the third largest importer of Chinese weapons in Africa (SIPRI; Downs 2010). In 2006, Chinese NOCs' oil production in Sudan accounted for over 80 percent of its total in Africa (Downs 2007). Indeed, China's entrenched interests in Sudan have caught much criticism from Western observers. Some have criticized Beijing for selling arms to Sudan in spite of its ongoing civil war, and news was released that Khartoum had used Chinese fighter planes and military trucks for ethnic cleansing in the Sudanese rebel South (Taylor 2006). Indonesia and Tanzania are two other cases in which China's interests in natural resources are intertwined with weapon sales. Indonesia is the second largest recipient of Chinese weapons in Southeast Asia (SIPRI) and a major exporter of minerals to China. In 2014, 33 percent of China's imports from Indonesia were minerals (MOFCOM). According to SIPRI, Tanzania is China's second largest arms importer in Africa and one of China's major trade partners on the continent. Since 2004, ores have dominated the Chinese import profile from Tanzania (Jansson, Burke, and Hon 2009).

China combines arms sales with participation in UN peacekeeping missions and diplomatic initiatives to strengthen its geopolitical position. Until 2009, more than half of China's peacekeeping forces were deployed in Africa (Zhao 2009). One example of this synergy, mentioned above, is the Sino-Sudan connection. Several times in the 2000s, Beijing helped Khartoum obstruct United Nations Security Council (UNSC) intervention (Taylor 2006; Tull 2008). Sudan was confirmed as China's "all-weather friend" in 2007 (Large 2008). Pakistan, the biggest importer of China's weapons in the world, has kept close ties with China since the 1970s. During the 1989 Tiananmen protests, Pakistan was one of the only two countries (the other being Cuba) that supported the CCP's actions. In 2015, the two parties brought Sino-Pakistani relations to a new height. During President Xi's visit to Pakistan in April, China proposed an infrastructure project that would connect a major land route in the Xinjiang Autonomous Region to the Chinese-developed Pakistani port at Gwadar. According to *Washington Post* commentator Ishaan Tharoor, this project served as a key cog in China's vision of a new land and maritime "Silk Road" (2015). Also during Xi's visit, an announcement was made elevating the Sino-Pakistan relationship to an "all-weather strategic partnership," the highest level in China's diplomatic relations.

In short, with strengthened support from political institutions and the burgeoning economy, the military sector was prohibited from commercial ventures and was reoriented towards its professional tasks in the late-1990s and early-2000s. Unlike in the previous phase, GDP growth was quickly transformed into growth in military spending after 2000. A grand strategy aimed at extending China's global outreach mainly based in Asia and Africa gradually took shape and was finally formulated as the "One Belt, One Road" initiative, in the twenty-first century. During this phase, arms exports bolster this grand strategy. Specifically, arms exports are connected to China's interests in trade, energy, and raw materials, as well as geopolitics. This new pattern of arms transfer has both similarities and differences from that of the Mao era. Both regimes are globally-focused, unlike the nationally-oriented regime in the second phase. Each has served one of China's grand strategies and strengthened its connections to the outside world, though to a degree more limited than in the Mao era. Also, both regimes are led and fueled by political institutions, which are willing and able to mobilize national resources to plan and support outbound arms transfers. However, arms transfer in the third phase differs from that in the Mao era in important respects. In the Mao era, China's support, in various ways including military aids to "communist brothers" and other Third World countries was framed and declared as a moral obligation. It had the goal of securing China's position in a world shadowed by the Cold War. On the contrary, in the current regime, the narrative of "benevolent brotherhood" has been replaced by one of mutual benefits and articulation of China's interests. In the third phase, rather than a financial burden on the state, the arms transfer regime has become an organic component of China's globally-focused grand strategy.

Towards a World Order after U.S. Decline

I argue that from the 1950s to the present, changes in China's arms transfer activities have primarily resulted from its evolving grand strategies. In Phase One, Mao's regime used gifts of weapons to compete with the Soviet Union in the communist bloc and to extend its influence among Third World countries. This strategy, though putting a heavy burden on the state, helped to expand the diplomatic space of the new regime, which was isolated at the time. Nevertheless, after the late-1970s, China retreated from this strategy so that it could concentrate resources on national developmental projects. Arms sales, therefore, were introduced in Phase Two to generate revenues that compensated for the reduction in monetary support from political institutions. This profit-driven arms transfer regime was put to an end in the late 1990s, when China restored its monetary support for its military and used arms transfer to extend its regional ties, mainly in Asia and Africa. Only in this phase, a globally-focused agenda to boost China's presence and connections with local agencies in terms of trade, natural resources, and geopolitics began to emerge. Such a strategy has been the result of constant interaction between the evolving global context and the domestic

dynamics that have framed the way China today deploys, mobilizes, and promotes its power and influence in the global system.

These findings only partially support Arrighi's perception that U.S. decline could lead to China's ascent (1994[2010]). The decline of the current hegemon has not yet created an opening for the most likely aspirant to world hegemony. Until now, China has only been able to expand its networks in regions that are marginal in the U.S.-led world order. Furthermore, Chinese arms sales have been disproportionately concentrated on the low-end market. However, evidence supports the emergence of a globally-focused agenda on the part of China as the United States declines. Such an agenda was absent when U.S. supremacy was at its peak during the Cold War and when the United States became the single superpower after 1989. It suggests that U.S. decline has created an opening for China to engage in world politics in ways it could not before, and China has organized itself internally and formulated a grand strategy to contend for more power and influence in the world.

Whether or not China's current strategy will lead to world hegemony remains unknown. However, one implication of this paper is that, while the absolute size and capacity of the U.S. economy and military enjoys a notable edge over any other potential competitors, the United States may find itself at a disadvantage when it comes to the capacity to formulate, carry out, and maintain a coherent global strategy. Admittedly, this paper does not deliver a comparison of state capacity between the United States, China, and other potential contenders for world hegemony. Further empirical research is needed in this regard.

About the Author

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Any conflicts of interest are reported in the acknowledge section of the article's text. Otherwise, author has indicated that she has no conflict of interests upon submission of the article to the journal.

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