

PLA Divestiture 2.0: We Mean It This Time

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On 27 November 2015, the Chinese Communist Party (CCP) and the People's Liberation Army (PLA) announced that the PLA's remaining sanctioned participation in the PRC economy, known in Chinese as "paid services," would be phased out over the course of three years. The soon-to-be-discontinued services included "accepting civilian patients at military hospitals, leasing military warehouses to commercial firms, hiring PLA song and dance troupes for public events, outsourcing military construction companies, and opening military academies and institutions to public students."¹ This article examines the origins and early course of this final divestiture, places it within the context of the PLA's pre-1998 commercial activity, and then assesses its possible benefits for warfighting capability, supporting the massive reorganization currently under way, and strengthening the fight against military corruption.

On 27 November 2015, the Chinese Communist Party (CCP) and the People's Liberation Army (PLA) announced that the PLA's remaining sanctioned participation in the PRC economy, known in Chinese as "paid services," would be phased out over the course of three years. The soon-to-be-discontinued services included "accepting civilian patients at military hospitals, leasing military warehouses to commercial firms, hiring PLA song and dance troupes for public events, outsourcing military construction companies, and opening military academies and institutions to public students." Official state media declared that "the termination of all paid services in the military is 'an important decision' by the CCP Central Committee, the Central Military Commission and Chairman Xi to 'purify the air' and ensure the PLA's quality."

The announcement, which was the culmination of a three-day conference chaired by party supremo Xi Jinping, was then codified in a Central Military Commission circular and distributed throughout the force. According to the terms of the document, military units after the phase-out period would no longer be allowed to launch new programs or sign new contracts of paid services, and expired contracts would not be extended. Services that fulfilled "an important social security function," especially the hospitals, would continue under a new, though under-specified, "civil-military integration" scheme. According to estimates by unnamed military officers, the current ban would lead to the stalling of around two-thirds of military-run commercial projects, while long-term projects would require the introduction of new policies and systems to regulate them. The real estate regulations and other lease-related regulations, which allow land leasing, were likely to be abolished.

After the November 2015 media burst, there was little mention of this second round of divestiture until February and March 2016, when a national scandal involving the death of a student who received quack medical care from the Second Hospital of Armed Police Beijing Corps appeared to reenergize the discussion. By 7 May 2016, "the PLA and the

Armed Police Force selected 17 units to be the first to close their commercial activities such as housing rentals, medical services and hospitality.” Thus, it appears that the PLA’s effort to divest the military from business activity, begun in August 1998 but never fully completed, might finally be coming to an end.

Backstory on PLA, Inc, and 1998 Divestiture

The PLA has been an active participant in the Chinese economy since the 1920s, maintaining a nationwide infrastructure of farms and light industry for internal military consumption.² With the economic reforms of the 1970s, however, its role in the economy was deliberately expanded by Deng Xiaoping as a quid pro quo for necessary defense budget cuts to fund non-military investment. At first, the military simply commercialized its existing economic infrastructure, allowing its farms for instance to sell their products in the newly liberalized agricultural markets. As the 1980s progressed, however, the military aggressively began to marketize its other assets, such as its massive excess real estate holdings, and to exploit its privileged access to critical economic infrastructure, like ports, rail, telecommunications spectrum, and airfields. Because of its powerful role in the Chinese political system and the increasingly attractive profit margins of these businesses, the PLA’s participation in the economy also began to metastasize into a huge, corrupt, state criminal enterprise in the 1980s, leveraging the monopoly on coercive force to facilitate an empire of smuggling, drugs, and prostitution. The political leadership recognized these problems early, but much of the party cadre was both complicit in the graft and unable to provide the PLA with the necessary budget resources to wean them off the supplemental funds provided by commercial activity.

By the mid- to late 1990s, however, the PLA as an institution could no longer afford to focus on business at the expense of its core mission, as Beijing increasingly saw the need for a credible military security solution to deal with “Taiwan independence” activities. Moreover, the military’s corrupt behavior reached a critical tipping point, as the Navy’s oil smuggling in early 1998 began to bankrupt some of the state-owned oil monopolies. The senior political leadership in August 1998 nonetheless surprised everyone by declaring that the PLA would divest itself from commercial activity. Within a couple of years, the PLA had been effectively and permanently removed from many sectors of the economy.

This first phase of the divestiture process, however, was not easy or clean. For understandable political reasons, many of the military-owned enterprises were formally removed from military control but in practice were controlled by relatives or close associates of active-duty officers. In addition, some “paid services” businesses were allowed to continue, either because they filled a particular social need or would have been too difficult to untangle, such as medical services and spare real estate property leasing.³ A 2016 *Global Times* article summarized the situation well:

Today, the military runs businesses in sectors such as telecommunications, personnel training, logistics, technology and healthcare, among others. Hospitals that belong to the military and armed police, for example, are known to outsource their medical care to private organizations, and some

personnel from PLA art and performance troupes are known to perform in commercial shows. But the most popular and potentially lucrative area of commercial dealings are in land leasing and the real estate market, many of which are actually allowed by laws and regulations despite the 1998 decree. According to the PLA Property Management Regulations, issued in 2000, for example, compensatory transfer of land use rights is allowed as long as it is approved by PLA's general logistics department. A 1995 regulation also allows PLA units to form partnerships with local governments and build real estate projects together on PLA-owned land.⁴

Many of these businesses continued to be vulnerable to military corruption, and in some cases the profit motive squeezed out their original institutional purpose. Indeed, the *Beijing Times* reported in April 2015 that 90 percent of the patients at military hospitals were paying civilians.⁵

The Benefits of Completing Divestiture: An Assessment

As in 1998, the timing of the second wave of divestiture was prompted by multiple strategic concerns for the political leadership, including the related goals of bolstering military capabilities, supporting the PLA's unprecedented reorganization, and fighting military corruption.

Bolstering Military Capabilities

In recent years, Xi Jinping has consistently exhorted the military to boost its battlefield capabilities and address its weaknesses in order to cope with the more complicated security challenges caused by the country's rising economic might. Specifically, Xi called on the PLA to "be able to fight and win, and provide strong support for realizing the Chinese dream and the strong army dream."⁶ Drawing a direct link between the distraction of economic activity and warfighting, a 28 March 2016 *Liberation Army Daily* editorial simply asserted, "the military's basic function is to fight, and deviating from that core activity will bring endless disaster." More to the point, the commentators argued that "profits will distract the military from strengthening its combat capabilities."⁷ The same editorial quoted National Defense University Professor Gong Fangbin, who argued that the divestiture "aims to improve the military's combat capability."⁸ Finally, a May 2016 *Global Times* article quoted an unnamed officer who analyzed the situation with typical Chinese bluntness: "The duty of the army is getting ready for wars. How can they battle if they are shooting on the training ground, and at the same time calculating how much money they can make from a contract they just signed?"⁹

Supporting the PLA's Unprecedented Reorganization

The PLA is currently embarked on a massive, unprecedented reorganization. The leadership has announced a cut of 300,000 troops or 13 percent of force by end of 2017, the consolidation of seven military regions into five theater warzones, the consolidation of four General Departments into a streamlined command structure under CMC, the establishment of Army and Rocket Force service branches, and the founding of Strategic Support Force, not to mention dozens of smaller but significant changes.¹⁰¹¹ The spirit of

these changes is to remove entities and structures from the military system that are outdated or impede the PLA's joint warfare development goals and fail to increase warfighting capability. By those criteria, the divestiture of "paid services" from the military is entirely simpatico with the reorganization and may in fact remove key obstacles.

Fighting Military Corruption.

Perhaps the most obvious motivation for the second phase of divestiture is to deepen the anti-corruption push within the military. NDU Professor Gong Fangbin won the award for understatement when he told *Global Times* that "paid services can sometimes encourage corruption."¹² Indeed, the same article described the change as "the toughest move against military commercialization in China's history, [which] will put an end to a practice that has existed for three decades, has long been a hotbed for corruption and has led to many top generals falling in disgrace due to dodgy real estate deals in recent years."¹³ Gong was more specific, arguing that "the corruption case of Gu Junshan and those of other senior officers were closely connected to their involvement in businesses."¹⁴ The *Global Times* author continued the thought, linking the move to other high-profile PLA corruption cases and revealing new information:

Among the nearly 50 "tigers" who were cracked down in China's fight against corruption in the military, many are from the general logistics department or in charge of the approval of real estate-related projects. The fall of Gu Junshan, the former Deputy Director of the PLA General Logistics Department from December 2009 to February 2012, and Xu Caihou, former Vice-Chairman of the Central Military Commission, are both related to real estate projects that they oversaw. Wu Fangfang, the daughter-in-law of the disgraced Guo Boxiong, former vice chairman of the CMC, for example, operated a fabric wholesale market on a small plot of military land in Xiasha in 2007, where she made 800 million yuan selling leases for market space to tenants. Although the land was only allowed to be leased for 15 years, Wu sold them as being for 30 years and many investors were conned. Officials from the Zhejiang Military Region, who turned a blind eye to Wu's illegal dealings, were also convicted after Guo's fall.¹⁵

Finally, Professor Gong broadened his comments to the macro level, linking the anti-corruption push to defense budgeting and the overall development of the PRC economy:

The military's involvement in the commercial sector has also aroused suspicion about whether it properly uses defense funds. . . . Moreover, there have been concerns that the PLA would use its advantages in a race for profits and overpower civilian competitors.¹⁶

In sum, both the political and military parts of the Chinese system saw direct benefits from completion of the divestiture process, and believed that it could help some of the most disruptive and controversial reform efforts under way within the PLA. Only time

will tell whether this latest divestiture will truly be final, or perhaps portions of it will fall prey to the same political exigencies that prevented it from completion in 1998.

Notes

¹ “China’s President Xi Jinping wants ‘PLA Inc’ to stop its song and dance, plans end for profit-making activities,” *South China Morning Post*, 27 November 2015, accessed at: <http://www.scmp.com/news/china/policies-politics/article/1884377/xi-wants-pla-inc-return-its-proper-role>. See also “China Military to end paid-for services within three years,” *Reuters*, 28 March 2016.

² For more information about the PLA’s role in the economy, see Tai Ming Cheung, *China’s Entrepreneurial Army*, Oxford: Oxford University Press, 2002; and James Mulvenon, *Soldiers of Fortune: The Rise and Fall of the Chinese Military-Business Complex, 1978-1998*, Armonk, NY: M.E. Sharpe, 2001.

³ “PLA bans commercial activities as anti-graft drive gains momentum,” *Global Times*, 5 May 2016, accessed at: <http://www.globaltimes.cn/content/981596.shtml>.

⁴ *Ibid.*

⁵ “China’s President Xi Jinping wants ‘PLA Inc’ to stop its song and dance.”

⁶ “Generating Joint Operational Command capabilities as soon as possible,” *Liberation Army Daily*, 21 April 2016, p.1.

⁷ “Anti-graft military reform begins with halt to paid public services,” *Global Times*, 28 March 2016.

⁸ “Anti-graft military reform begins with halt to paid public services.”

⁹ “PLA bans commercial activities as anti-graft drive gains momentum.”

¹⁰ “China unveils military revamp,” *Global Times*, 27 November 2015, accessed at <http://www.globaltimes.cn/content/955220.shtml>.

¹¹ “Xi urges breakthroughs in military structural reform,” Xinhua, 26 November 2015.

¹² “Anti-graft military reform begins with halt to paid public services.”

¹³ “PLA bans commercial activities as anti-graft drive gains momentum.”

¹⁴ “New rule targets military corruption,” *China Daily*, 9 May 2016, accessed at: http://usa.chinadaily.com.cn/china/2016-05/09/content_25146404.htm.

¹⁵ “PLA bans commercial activities as anti-graft drive gains momentum.”

¹⁶ “New rule targets military corruption.”