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China's Double-Digit Defense Growth

What It Means for a Peaceful Rise

by Richard A. Bitzinger

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China has done it again. In early March, it released its defense budget for 2015, and as in almost every year for over almost two decades, it increased its military expenditure by double-digit percentages. This year, the Chinese defense budget will rise by 10.1 percent, to roughly \$145 billion. And it seems likely that the trend will continue, much to the concern of Washington and regional capitals.

Already, China is the second-biggest military spender in the world, having surpassed the United Kingdom in 2008. China's new budget for the People's Liberation Army (PLA) is more than three times those of other big spenders such as France, Japan, and the United Kingdom, and nearly four times that of its rising Asian rival, India. It is also the only country besides the United States to have a triple-digit defense budget (in billions of U.S. dollars).

This level of spending is all the more remarkable given where China started. In 1997, Chinese military expenditures totaled only about \$10 billion, roughly on par with Taiwan and significantly less than that of Japan and South Korea. Beginning that year, however, China's defense budget began to rise. There were two economic factors that made this growth possible. First, the country's economy soared; in 1997, defense spending made up less than two percent of GDP, which remains roughly the same share today, at least according to Beijing. Second, low inflation rates over the past two decades have meant that real growth in defense spending has nearly matched nominal growth; even the most conservative estimate of actual growth rates (accounting for inflation) reveal a five-fold real increase in military expenditures since 1997.

What is particularly striking about the growth in defense spending over the last two decades is that it has almost always outpaced GDP growth. Between 1998 and 2007, China's economy grew at an average annual rate of 12.5 percent, while its defense spending increased at an average of 15.9 percent per annum. Given that the economy is likely to grow by only seven percent in 2015, and its defense spending is growing at double digits, the disconnect between economic performance and defense spending is becoming more pronounced.



Sources: World Bank and National Bureau of Statistics of China

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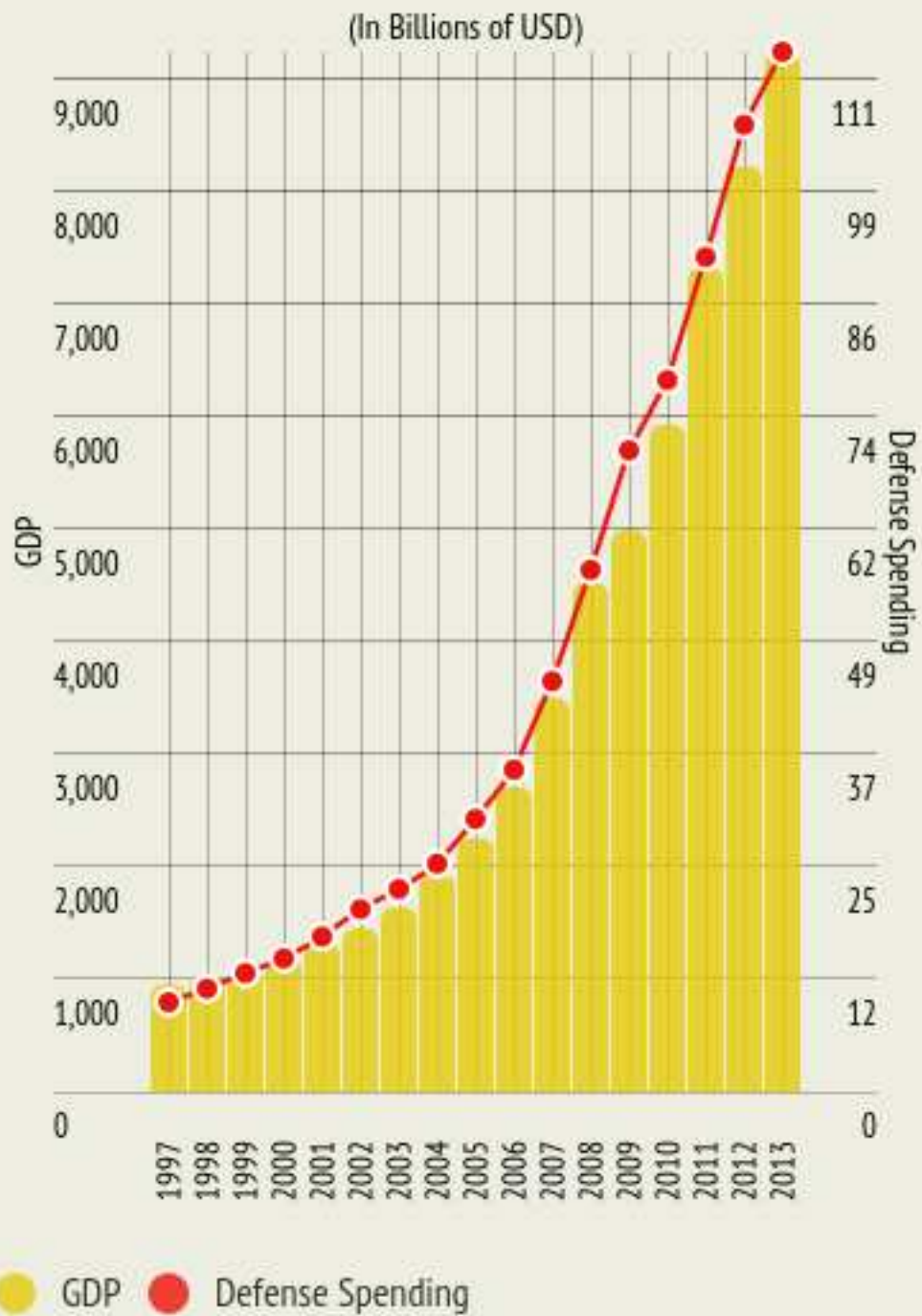
Comparing China's Military Spending and GDP Growth Rates (Foreign Affairs)

Further, it is commonly assumed by many in the West that the official defense budget does not provide a full picture of Chinese military spending and that the central government hides expenses for certain items—for example research and development, arms imports, and subsidies to defense industries—in other parts of its overall budget. Estimates of additional, off-the-books spending range from 35 percent to 50 percent of total defense expenditures, based on estimates by IHS Janes and the Stockholm International Peace Research Institute, respectively. A few years ago, the U.S. Defense Department asserted that China's true defense budget could be as much as double the official figure; in fact, it has since stopped trying to figure out off-the-books spending. Indeed, the exercise in guesstimating "actual" Chinese military expenditures has become increasingly irrelevant. With an official military budget approaching \$150 billion, the PLA has all the on-the-books money it needs to underwrite a very aggressive military modernization program, and if the military wants more, Beijing appears more than ready to provide it. There is, quite simply, no reason for Beijing to conceal actual military spending, at least the overall figure.

China is still opaque, with some reason, about how it allocates its defense budget. The country has never released separate figures for its ground forces, navy, or air force. Chinese defense white papers (released every two years, starting in 1998) once broke down spending by personnel, operations and support, and "equipment" (which presumably includes weapons procurement and defense research and development). But that stopped in 2009.

Still, a few predictions can be made about the breakdown of this year's defense spending. The white papers consistently revealed a near-even one-third split of funding between personnel, operations and support, and "equipment." Since these ratios have remained more or less constant since the late 1990s, it is reasonable to say the same breakdown applies today. That means any increases in spending are still likely to be broken down equally among these three categories.

As a result of this equal division in spending, China's expenditures on equipment are particularly large. In 1997, for example, spending on equipment totaled about \$3 billion, or roughly 32 percent of the overall Chinese defense budget. In 2009 (the last year Beijing provided categorizations of its spending data), equipment still hovered near 32 percent of the total military budget of \$58.8 billion. If this roughly one-third percentage rate holds for the 2015 budget, then PLA expenditures for equipment this year could be somewhere in the neighborhood of \$48 billion. In comparison, Japan spends about \$8.3 billion on equipment and research and development; the United Kingdom, roughly \$10 billion; and France, \$12 billion. China's spending on equipment would likely include as much as \$10 billion in military research and development



Sources: World Bank and National Bureau of Statistics of China

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spending, which is more than double the amount that all of Western Europe spends, combined.

In fact, China's budget for equipment alone is greater than the total defense budgets of Japan, India, or any other Asia-Pacific rival. Not surprisingly, from roughly the mid-1990s to the mid-2000s, China became one of the world's largest arms importers: buying advanced fighter jets, submarines, destroyers, and transport planes from Russia, missiles from Ukraine, and drones from Israel. Since the early 2000s, China has begun to phase out arms imports in favor of homegrown weapons. Fueled by an explosion in research and development spending and the injection of new funds to modernize arms factories, China's domestic defense industry has begun turning out scores of new, very advanced weapons systems. Over the past decade, the PLA has produced hundreds of locally built J-10 and J-11 fighters (copied from the Russian Su-27); dozens of modern destroyers, frigates, and submarines; several types of new missile systems (including a unique anti-ship ballistic missile); and, of course, an aircraft carrier (acquired from Ukraine but rebuilt almost entirely in China).

Meanwhile, the PLA has still had plenty of money left over to increase soldiers' salaries, construct new barracks and other facilities, and improve the rigor of military training, such as preparing for modern, integrated joint operations.

Because of this significant expansion in its military power, it is perhaps not surprising that Beijing has grown more secretive and more defensive in recent years in revealing its spending breakdowns. On the one hand, the Chinese government is presumably loath to disclose the details of its military expenditures because foreign intelligence organizations could exploit that information. Or, more likely, it simply finds it too uncomfortable to reveal its gargantuan procurement and defense research and development budget—second only to that of the United States—especially given the lengths that Beijing has gone to advance its “peaceful development” policies.

Beijing's refusal to reveal information is matched by an increasingly stiff-necked and uncompromising defense of its military spending. In a spate of editorials, the Chinese government has stood by the recent increase, arguing that it is “moderate and reasonable,” and part of the “new normal” in the PLA's ongoing modernization. An article by the state controlled *Xinhua* news agency asserted that Western countries want to keep China a “military dwarf,” and that “through tinted glasses, some Western countries and media could see nothing but threat regarding China's military budget.” In the east, China claimed that its security was being increasingly challenged by Japan, a “recidivist trouble maker” with “surging military ambition.”

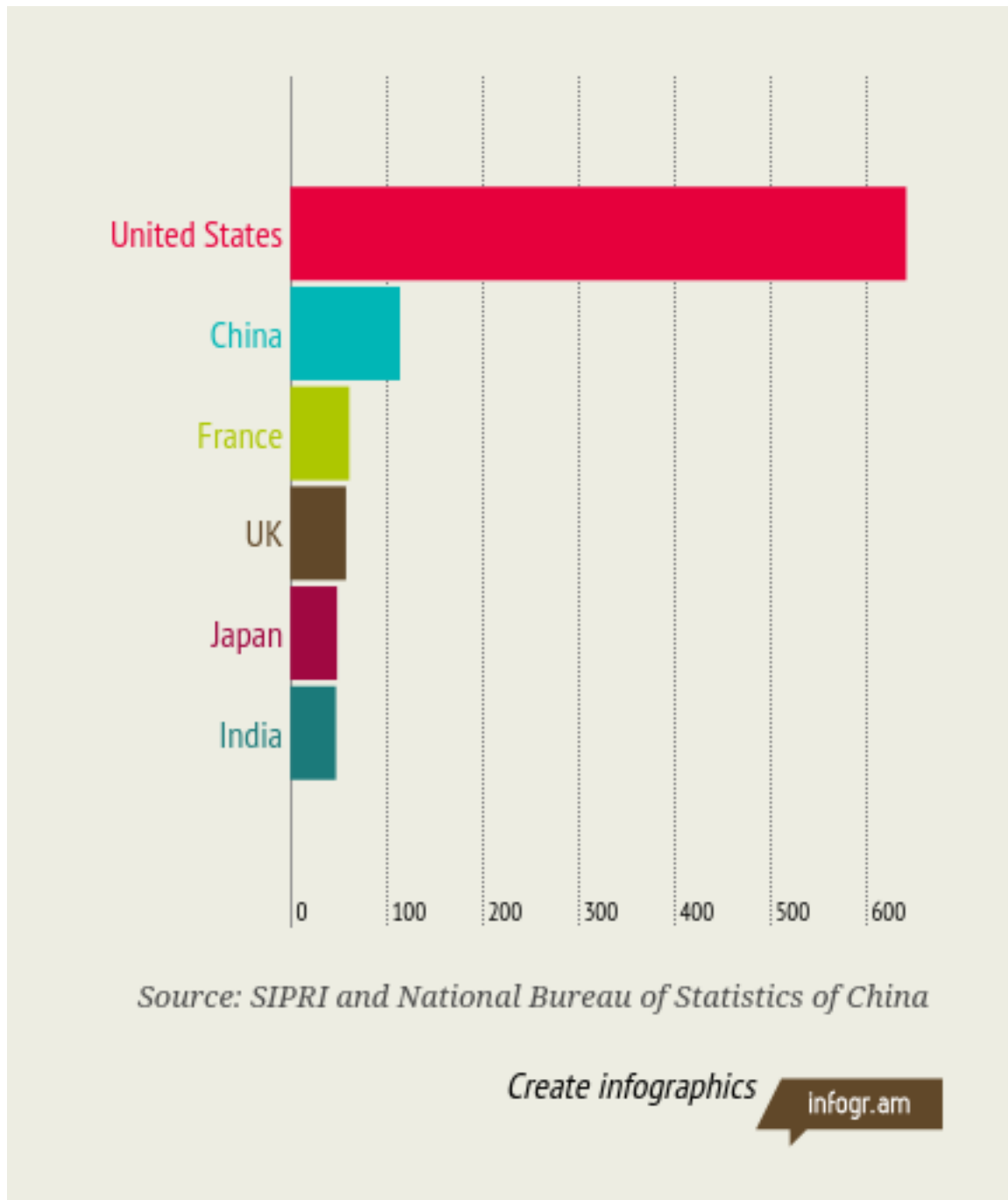
In almost the same breath, Beijing argues that its military expenditures are still relatively meager. The latest rise in defense spending is the lowest increase in five years, officials claim, and military spending still accounts for less than 1.5 percent of the country's GDP. They also assert that in terms of per capita military spending, China's defense budget is still only one-fifth of Japan's, one-ninth of the United Kingdom's, and less than one-twentieth of the United States'. "Current Chinese military spending is by no means a big one," *Xinhua* declares, "for a country that has the world's largest population and a territory of over 9 million square kilometers to defend."

Much of what China says is true but misleading. For instance, this year's 10.1 percent rise, although on the low side, is otherwise more or less in line with China's defense spending increases over the past two decades. That could mean that China is trying to use a small dip in its spending growth to downplay its military spending overall, in order to head off criticism that it has issued the largest defense budget in China's history, and to bolster Beijing's "peaceful development" approach.

The simple fact is that Beijing is committed, at least publically, to sizable defense spending increases because China's leadership, from the hardliner to the reformer, is united around the central idea that the PLA must become a modern, twenty-first century fighting force.

Moreover, this view appears to be widely shared among the general populace. A recent poll undertaken by the Australian think tank Perth USAsia Center found that the Chinese, by a solid majority, backed Beijing's claims over the disputed islands in the East and South China Seas. In addition, a sizable number (greater than 70 percent) believed that the PLA could prevail in any conflict in those regions, even if the United States were to intervene (although most felt it would not be in China's interest to pursue a military solution.)

This support is driven by two factors: growing nationalism and the government's active promotion of historical victimization and ongoing vulnerability—particularly through its 20-year-long "patriotic education" campaign, which downplays the faults of the country's leaders and emphasizes the brutality committed against China by "evil" foreign powers. As one Chinese official, when defending the most recent defense budget increase, put it, "our lesson from history—those who fall behind will get bullied—this is something we will never forget." In this regard, too, a modernized PLA dovetails well with Chinese leader Xi Jinping's "China dream," a vision of a "rejuvenated" and "revitalized" China. If China wants to be a great power, it requires a powerful military. Consequently, the "rich nation, strong army" ideal resonates with much of China's population.



Military Expenditures in Billions of U.S. Dollars (Foreign Affairs)

What does a rising Chinese defense budget mean for the United States? Certainly the United States continues to be the bigger spender, outpacing China on defense by a factor of four to one. Moreover, by nearly every metric—quantity and quality of weaponry, soldierly prowess, training, and leadership—the U.S. military outclasses the PLA. Still, a progressively modernizing Chinese military constitutes a growing challenge to U.S. supremacy in Asia. Along with its assertive and unapologetic stance on raising its

military expenditures, China is increasingly aggressive in contested areas around China, particularly the East and South China Seas. Moreover, China is committed to modernizing its military to a point where it can be supreme in the region. There likewise exists a strong national will to spend the money to make this happen.

This trajectory may not necessarily put China on a collision course with the United States, but it doesn't bode well for regional security over the long run. It does not help that Washington's emerging war strategies for dealing with China—AirSea Battle (now known as the Joint Concept for Access and Maneuver in the Global Commons)—are equally potentially confrontational. As China—powered by hubris and backed by an increasingly capable military—becomes increasingly aggressive in the region, it could possibly provoke a U.S. pushback. If the arms race escalates, security and stability in the Asia-Pacific can only grow more fragile.



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