

The Prospect and Trend of Military Spending and Strategy in Rising China

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Overview of China's Military Spending

China's military budget is becoming a controversial issue in Xi Jinping's government because China's military spending has risen in parallel with China's steep rise. China's defense spending has continued to grow at a double-digit rate since 1989, with the exception of 2010 (7.5 percent increase), according to the official figures provided by the Chinese government. China's military spending in 2011 increased 12.7 percent from 2010, with a growth of 11.2 percent in 2012, 10.7 percent in 2013, 12.2 percent in 2014 and 10.1 percent in 2015.¹

On March 5th, 2018, the Ministry of Finance announced a budget increase of 8.1 percent from the previous year, pegging China's 2018 budget at 1.107 trillion yuan (\$174.6 billion USD).² Indeed, China military budget has increased to become the world's second-largest since 2008, although it still lags far behind that of the United States. The 2018 figure is in line with a recent trend that has seen yearly increases in China's military spending fall to single digits. Nonetheless, the 8.1 percent increase in 2018 does represent a small bump over the last two years, when the military budget grew by 7.6 percent in 2016 and 7 percent in 2017.

This paper tries to assess a trend in China's military buildup, with a particular focus on the aspects of military spending and strategy in response to China's economic growth. There is no universally accepted standard for reporting China's military spending. Although China provides official estimates of defense spending each year, outside estimates of China's defense budget are often significantly higher than Beijing's official numbers.

The actual amount China spends on its military is widely debated.³ Official figures released by the Chinese government peg the country's 2017 defense budget at 1.044 trillion yuan (\$151.4 billion USD) and its 2016 defense budget at 955 billion yuan (\$143.7 billion USD). The Stockholm International Peace Research Institute (SIPRI) estimates the overall 2017 figure at \$228 billion (USD) and the 2016 budget at \$216 billion (USD).⁴ Estimates from other organizations vary. The U.S. Department of Defense (DOD), for instance, places the 2016 defense budget at more than \$180 billion (USD), and the International Institute for Strategic Studies (IISS) puts

¹ 总理报告的巨大信息量,” (2014年3月6日) <http://finance.sina.com.cn/zl/bank/20140306/140918426451.shtml>. (accessed Oct. 15, 2018).

² 2018年国防预算拟安排11069.51亿元, 增长8.1% 中国军网 2018-03-05. http://www.mod.gov.cn/topnews/2018-03/05/content_4805966.htm. (accessed Dec. 10, 2018).

³ China Power Team, "What does China really spend on its military?" *China Power*. October 9, 2018. <https://chinapower.csis.org/military-spending/> (accessed Dec. 15, 2018).

⁴ Military expenditure by country, in constant (2016) US\$ m., 1998-2017. https://www.sipri.org/sites/default/files/1_Data%20for%20all%20countries%20from%201988%E2%80%932017%20in%20constant%20%282016%29%20USD.pdf (accessed Oct 15, 2017).

the number at \$197 billion (USD).

Overseas think tanks argue that Chinese official figures do not account for several military-related outlays that are often included in the military budgets of other countries. As shown in Figure 1, IISS and SIPRI estimate China's defense spending including overseas weapons acquisition costs, military research and development expenses, paramilitary organization costs, and government subsidies for military production, which is about 1.5-1.8 times the defense budget announced by the Chinese government. The background of this view is that the transparency of China's military spending is low. These institutes suspect that the Chinese government intentionally does not include certain items or sets them as separate items to reduce the appearance of its official defense budget.

Nevertheless, the gap between the official figures of the Chinese government and the estimates of Western think tanks is sharply decreasing. For example, the Pentagon's estimate of China's defense budget in 2002 was four times higher than that of the Chinese government, but was reported to be approximately 1.2 times higher in 2015. As shown in Figure 1, the IISS data also showed a 72 percent gap in 2006, but the estimates for 2010 and 2012 were significantly reduced to 39 percent and 41 percent respectively. A recent study by Western scholars also revealed that China's transparency in defense spending has gradually improved since 1998 (Kiselycznyk and Saunders June 1, 2010, 4).

However, the suspicion remains that the Chinese government is actively focusing on strengthening its military power by utilizing expenses that are not captured by the official defense budget. Greater controversy is mounting over defense spending despite the fact that the Xi government is actively managing its defense spending within the scope of the economic growth rate.

The growth in Chinese military spending is tied to its rising GDP. China's estimated defense budget was \$50 billion (USD) in 2001 and \$228 billion (USD) in 2017 (2016 base year USD). Although this number represents over a 356 percent increase, these figures run generally parallel with Chinese economic growth. Over the same period, the Chinese economy grew by approximately 950 percent, resulting in a rate of Chinese military expenditure as a percentage of GDP that remained steady at around 2 percent as shown in Figure 2.⁵

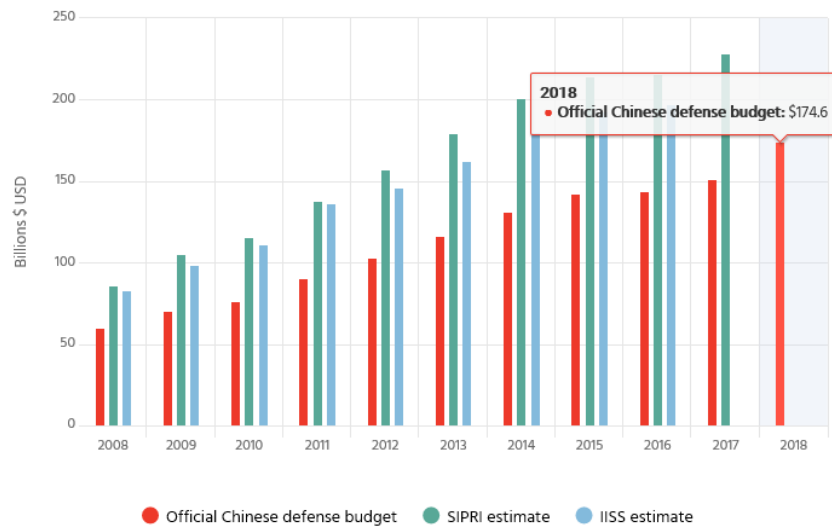
China's defense spending has certainly increased in absolute terms, but in the long term, the growth rate is tending towards decline. From 1990 to 2013, the average annual defense budget growth rate for the 24-year period was 15.1 percent. Throughout Xi Jinping's administration (2013-2016), the average growth rate declined to 10.15 percent. In fact, China's defense spending has been rising sharply in recent years, but it still appears to be managed within acceptable limits of the country's economic capacity.

When Chinese military spending is considered as a percentage of total government expenditures, it drops noticeably—from 11.98 percent in 2001 to 6.1 percent in 2017.⁶ As shown in Figure 3, China's defense spending as a percentage of total fiscal expenditure is lower than that of South Korea (12.1 percent), Russia (12 percent), the United States (8.8 percent), and the Philippines (6.9 percent). Therefore, it seems hard to argue that the Chinese government is making a military buildup its top priority, at least in terms of national finance allocation.

⁵ China Power Team, "What does China really spend on its military?" China Power. October 9, 2018. <https://chinapower.csis.org/military-spending/> (accessed Dec. 15, 2018).

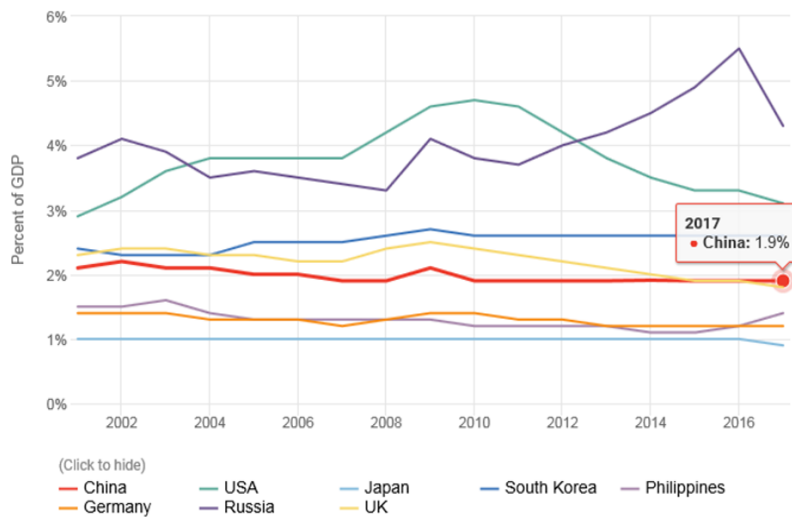
⁶ Ibid.

Figure 1 China's Defense Spending



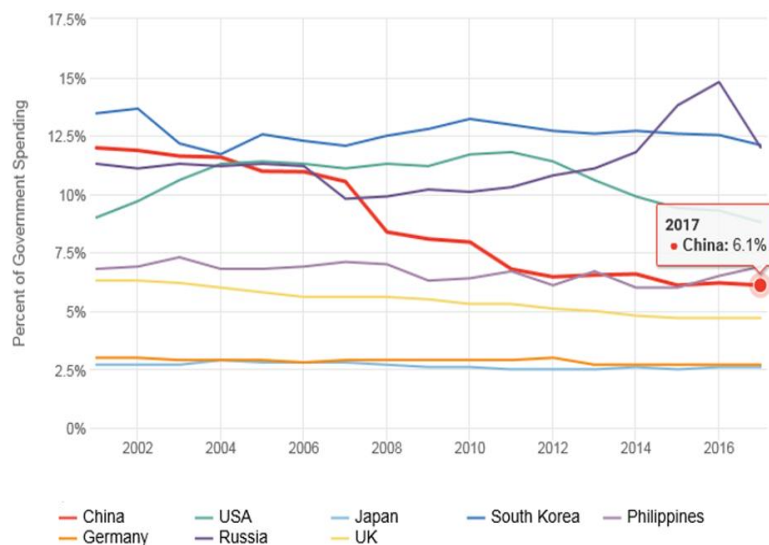
Source: CSIS China Power Project (Data from: Various sources)

Figure 2 Military Spending as Percent of GDP



Source: CSIS China Power Project (Data from: SIPRI Milex Database)

Figure 3 Military Spending as Percent of Government Spending



Source: CSIS China Power Project (Data from: SIPRI Milex Database)

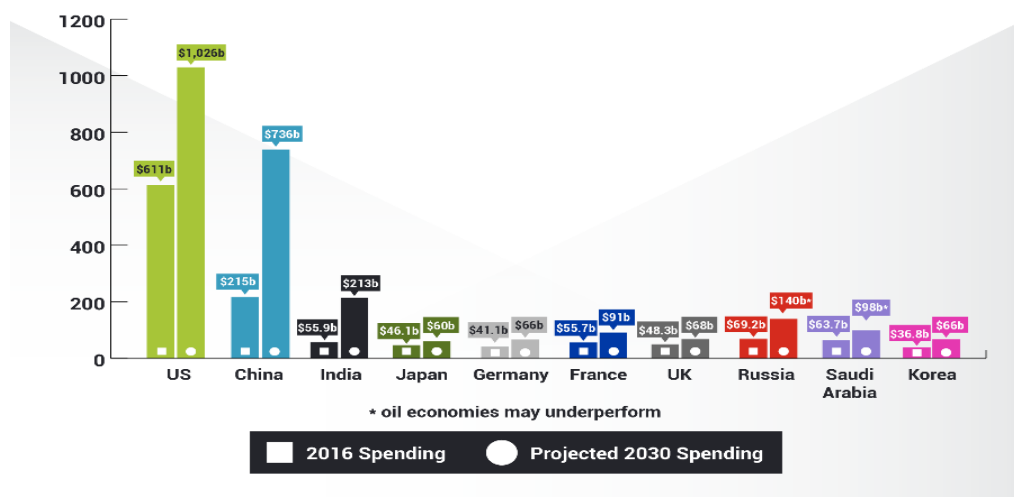
Forecasting China's Defense Spending and R&D Expenditure

China's military spending is about 2 percent of its overall GDP. SIPRI calculated that China's actual military spending is some 55 percent greater than what is officially stated. China's defense spending is expected to come in around \$300 billion (USD) in 2020 and \$450 billion (USD) in 2025 according to the report from SIPRI.

China is expected to grow its military spending by about 5 percent annually, while the US anticipates increasing its military outlay by about 1-2 percent per year. As shown in Figure 4, Nextbigfuture estimates that Chinese military spending will be \$736 billion (USD) in 2030. This will equal about 71 percent of anticipated US spending (\$1.026 trillion USD).⁷ It is expected that China's military spending will gradually catch up to that of the United States at this time. As a result, the range of Chinese military forces will begin to spread beyond Asia to the rest of the world, including Africa and the Middle East.

If China's per capita GDP reaches \$30,000 (USD), there is a possibility that it will come close or surpass the US in terms of military spending and military technology development. At this stage of GDP per capita, it is expected that the PLA will have reached the third stage of China's plan to build a strong military, meaning that it will have the ability to carry out information warfare at a level comparable to that of the West.

Figure 4 Top 10 Countries: Military Spending



Source: Netbigfuture

What is most noteworthy about China's military buildup is the issue of R&D spending and advanced weapons acquisition from abroad. It is important to figure out how much China is spending on R&D, but R&D expenditures are not included as a line item in the official military budget, and thus figures can only be estimated.

While this is unlikely to change, Chinese spending on R&D and the acquisition of advanced defense science and technology from overseas is likely to increase as long as China is actively pursuing military reform, informationization, and modernization. China is investing heavily in mechanization and informatization to upgrade its military. Technologies such as aircraft carriers, nuclear-powered submarines, stealth fighters, ballistic

⁷ Brian Wang. "China defense budget increases by 8.1% but police state budget is still 20% more," <https://www.nextbigfuture.com/2018/03/china-defense-budget-increases-by-8-1-but-police-state-budget-is-still-20-more.html> (accessed Oct. 10, 2018).

missiles, quantum communications and artificial intelligence are all being heavily funded.⁸

According to the China's military Whitepapers in 2015, the PLA Second Artillery Force (PLASAF) will strive to transform itself in the direction of informationization and press forward with independent innovations in weaponry and equipment by reliance on science and technology. China may have a nuclear-powered aircraft carrier in the water by 2025 to bolster its maritime defenses according to the country's main supplier of warships.

As China spills its technology buildup strategy in the Fourth Industrial Revolution over to the military sector, the government will promote military investment in space, cyber technology, and artificial intelligence. The gap in overall military capabilities between the United States and China, including in advanced military technology, is expected to decline significantly.

Variables in Forecasting China's Defense Spending

In general, defense spending is mainly affected by three variables: policy wills, capacity, and the presence of external threats. Therefore, predictions of Chinese defense spending consider the following variables which have the potential to affect China's future defense spending. First, in terms of policy will, there is the question of how highly the Xi Jinping administration will prioritize "building a strong military (强军梦)" in order to realize the so-called Chinese dream (中国梦). Second, in terms of capacity, it is necessary to examine the economic and social variables of China that will affect the country's future defense budget, because the Chinese government has increased its military spending in line with the economic growth rate thus far.

Finally, as China has quickly emerged as a powerful country since it launched its reform and opening, it has significantly weakened its perception of direct military threats from outside. Therefore, the manner in which the Xi Jinping administration will recognize and respond to any checks posed by the US against China will become an important factor in determining defense spending.

Policy Will and Military Strategy

How highly will the Xi Jinping administration prioritize "building a strong military?"

In China, due to the nature of the authoritarian regime, the will of policy makers is in fact the most important variable in defense spending. Does China have ambitions to become a military superpower? How will China's leaders balance the need to provide social services and provisions to its aging population with the costs of its ongoing military modernization?

Xi's administration stresses the need for China's armed forces to incorporate building a strong military into the notion of the Chinese Dream. According to China's military Whitepapers in 2015, the nation's armed forces must center themselves around the CPC's goal of building a strong military, respond to the state's core security needs, work to build an informationized military and win informationized wars, deepen the overall reform of national defense and the armed forces, and build a modern system of military forces with Chinese characteristics.

⁸ ANI "China boosts defense budget to achieve 'peaceful development'" Mar 6, 2018. <https://www.aninews.in/news/world/asia/china-boosts-defence-budget-to-achieve-peaceful-development-20180306080950002/> (accessed Oct. 15, 2018).

In short, the goal of building a strong military promoted by the Xi Jinping government is to promote the modernization and informatization of the People's Liberation Army.

Xi's speeches at the 19th Party Congress and the PLA's 90th anniversary highlighted recent progress "accelerating toward informatization" that will provide the PLA with a "great rise in strategic capability." China's military leaders want to achieve mechanization and make "major progress" toward informatization by 2020, reach the goal of "basic modernization" by 2035, and become a world-class military by the middle of this century.⁹

China is expected to focus on strengthening the military's ability to respond to the four major security areas of the sea, space, cyberspace, and nuclear capabilities. The Xi Jinping administration has revealed that its national interests are expanding abroad, making it clear that China needs to strengthen its overseas operations and military power. For China to emerge as a superpower, it is inevitable that it will advance into the seas, and in order to do this, it needs to strength its naval forces.

For example, China's leadership has vowed to make China into a "maritime power." The PLA Navy (PLAN) will gradually shift its focus from "offshore waters defense" to the combination of "offshore waters defense" and "open seas protection," according to the military Whitepapers of 2015. China established its first overseas military base in the East African country of Djibouti in August 2017.

In short, building a strong national defense and powerful armed forces is a strategic task of China's modernization drive and a security guarantee for China's peaceful development. The building of a strong military pursued by the Xi Jinping administration encompasses modernizing the military and focusing on the qualitative growth of military power. The key to China's military buildup is its ability to acquire advanced defense technology.

As long as China continues to actively pursue its military modernization, especially if it pursues the development of civil-military integration, the actual defense spending that the government does not include in its official figures will continue to grow in the future.

Capacity: GDP Growth Rate

Will Chinese military spending continue to grow if GDP growth slows?

China's economy growth is a critical underlying factor in assessing its military power. The first priority of the CCP will remain economic growth and regime stability, at least until the visions of 2035 and 2050 are realized. At this time, China will seek to strengthen its military power even as it works to sustain economic growth in order to preserve the stability of the communist regime. It will maintain a level of military spending that is not a burden on economic growth.

It is expected that China's military spending may not be able to keep up with GDP growth if economic growth slows down. China's economic growth is the underlying factor that will support the changes to its strategy and force structure, as well as its rapid rate of military modernization.

China has not faced any serious fiscal challenges in shaping its strategy and military modernization thus far,

⁹ "实录：习近平总书记在党的十九大报告," (2017-10-18) 新华网

http://news.youth.cn/sz/201710/t20171018_10888424_6.htm (accessed Oct. 15, 2018); "中國共產黨第十九次全國代表大會關於十八屆中央委員會報告的決議 (2017年10月24日 中國共產黨第十九次全國代表大會通過)."
http://www.ccdi.gov.cn/yw/201710/t20171024_110146.html (accessed Oct. 15, 2018).

although there are some indications that economic growth is slowing. Despite the economic slowdown, China still has the capacity to maintain its current level of defense spending. China's official military spending is about 1.3 percent of its GDP, and 5.3 percent of total government expenditure according to Chinese official reports in 2017. China's defense spending has consistently increased within a certain range of China's economic growth and fiscal spending. In other words, the Chinese government has stably maintained and controlled the defense budget. Should a situation that demands an increase in actual military strength arise, the country has sufficient economic and financial capacity to mobilize greater defense spending than the current level, depending on the will of policy makers.

However, as social diversity expands due to income growth, there is the potential for increased challenges to the legitimacy and stability of the Communist Party system. Even if China can sustain a medium level of growth, it will face financial limits on the development of its military power if it is to meet the growing needs and expectations of its people. Military spending may be constrained by a growing demand for domestic welfare, an aging population, and a decrease in the working population.

Threat: The United States Variable

How will the Xi Jinping administration recognize and respond to any checks posed by the US against China?

China is trying to avoid entering into geopolitical conflicts with the US, and gradually seeks a path to a geoeconomic rise (Lee 2017, 329-364). Currently, China seeks to focus on economic development, such as the "Belt and Road Initiative (BRI)," while avoiding direct military conflicts with the United States to the greatest extent possible. China is not currently capable of directly challenging the US militarily, so the situation is likely to be one of long-term competition, not war.

There are new aspects in the power competition between the US and China. The geopolitical situation has shifted such that it has become difficult for any single powerful nation to have a dominant presence and influence in international politics. The US and China are both currently facing daunting internal challenges that are much greater and more urgent than geostrategic competitions abroad.

At the same time, the two countries are engaging in both competition and cooperation according to region and issues. The two great powers have shown a tendency to compete for strategic partners or allies. There is a possibility that the US will form an international coalition to counter China. The US and China will be tempted to engage in "geo-strategic competition" through alliances and partnerships while avoiding direct conflict as both countries still face many domestic tasks and challenges.

Any rising power needs to develop its soft power resources to lead the region, inventing better soft power vision for the region than that of existing hegemon. This results in soft power competition between competing states, which in turn further complicate the regional identity and normative politics. China is working to strengthen its soft power strategy, both to advance a better regional framework than that of the US, and to search for a space within which to engage in soft balancing against the US with possible soft power alliances (Chun 2016, 20).

The Chinese leadership endeavors to present an alternative institutional framework. For example, President Xi has advanced the idea of building a "new type of international relations (新型国际关系)" which posits that

win-win cooperation and peaceful development is crucial and that people of all nations should combine their efforts to safeguard world peace and promote common development.¹⁰ China has also put forth the idea to “Build a Community of Shared Future for Mankind (人类命运共同体).” The concept emphasizes that China’s rise will benefit, not threaten, its neighboring countries by highlighting the fact that they are bound by close, mutually dependent economic and social relationships.

China’s rise is driving its increasingly active participation in global governance, and the government’s actions go beyond the reactive attitude of maintaining its “core interests” and evolving into advancing new institutions and norms to challenge the existing US-led world order. China is pushing a Regional Comprehensive Economic Partnership (RCEP), asserting that “the security of Asia should be upheld by Asians” at the Conference on Interaction and Confidence Building Measures in Asia (CICA), and leading the establishment of the AIIB—all aimed at promoting China’s leadership throughout Asia. China is also using BRI to develop strong ties with other countries in a bid to shape their interests to align with China’s and deter confrontation or criticism of China’s approach to sensitive issues. As a global power, whether China presents new civilizations and standards that the international community can accept has the potential to become an issue (Office of the Secretary of Defense 2018).

However, regardless of China’s claims and intentions, the US recognizes such proposals and actions from China as challenges and even threats to American hegemony and the US-led international order due to the nature of international power politics. It is very possible that the “Building Community of a Shared Future for Mankind” concept proposed by China will further exacerbate its power competition with the US, bringing about a backlash from the United States regardless of China’s actual intentions, because China made this proposal at a time when it is rapidly emerging.

The US will gradually take preemptive steps to hedge China’s expansion. The 2018 US National Defense Strategy (NDS) deemed China to be a strategic competitor using predatory economics to intimidate its neighbors while militarizing features in the South China Sea.

Therefore, Washington is directing its energy toward off-shore balancing, meaning balancing China using its major East Asian allies such as Japan, Australia, South Korea and others, to contain China’s rise. In order for China’s norms and proposals to be accepted by the international community, it must attract the support and participation of many countries in East Asia. The reality, however, is that most East Asian countries are faced with the dilemma of having to choose sides as competition between the US and China intensifies.

In short, as China continues its unexpectedly rapid rise and the United States further implements Indo-Pacific strategy in Asia, many countries in the Asia-Pacific region will face a harsh dilemma between US and China.

The United States will push strongly to contain China’s expansion in the South China Sea, the East China Sea, and the Korean Peninsula, where China’s influence can prevail. Competition for influence between the US and China will gradually increase in the region. If the Trump government pressures China on territorial and sovereignty issues that the Xi Jinping government sees as its “core interests,” such as Taiwan or South China Sea, then the Xi government may encounter difficulties in that its active use of nationalism to secure the legitimacy of the communist regime leave it too rigid to address the issue adequately. ■

¹⁰ The Ministry of Foreign Affairs of the People’s Republic of China. “Xi Jinping Calls for the Building of New Type of International Relations with Win-Win Cooperation at the Core in a Speech at the Moscow State Institute of International Relations.” http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpcf1_665694/t1024781.shtml (accessed Oct. 10, 2018).

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