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# CHINA'S MILITARY BUDGET THIS FISCAL

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For the second year in a row China has increased its defence spending to below the ten percent mark. Prior to this, increase in defence spending of China had been at or above the ten percent mark consistently for nearly two decades. On March 4, 2017, the seven percent hike announced in its defence spending is reported to be around 1021 billion yuan (\$147.9 billion), putting China well ahead of Russia as the second largest, globally, in terms of military spending.<sup>1</sup> The percentage increase – even though below the ten percent mark – is significant since the base of China's military expenditure over the last decade or so has increased substantially. During the 2005 Shangri-La Dialogue, the then US Secretary of Defence, Donald Rumsfeld, while questioning China's intent for its military spending – given the fact that there exists no nation that threatens China – had stated, “...*why these continuing large and expanded arms purchases and why these continued deployments...*”<sup>2</sup> The answer to the question may have been quite complicated to answer then, however, today as China's intent

becomes clearer, one is able to see the rationale for China's growing military spending. One of the reasons (possibly) for China's increased military spending is its fight for its historical claim over the islands and reefs in the East and South of China Seas. This impending conflict over the last decade or so has seen a massive Chinese military build-up in the region, also resulting in China's annual defence spending growing by nearly double digits annually over the last two decades. This military outreach that China is currently involved in has set the tone for the continuous need to develop and integrate its technological advancement into its defence capabilities.

Development and enhancement of military capabilities of a nation are aimed at improving its military posturing in order to ensure that the nation's territorial integrity and its sovereignty are safeguarded from internal as well as from external entities. This is a very legitimate need and China is no exception. However, as China began to see a continuous shift in its military doctrine due to its own experience as well as its perceived threat

perception, it began to earnestly devote much of its energy and resources towards modernising its military capabilities. The Taiwan Strait crisis in 1995-96 exposed China's fundamental weakness in its ability to deter foreign intervention in China's sovereignty disputes.<sup>3</sup> This led to a sense of urgency within the PLA on the need to revamp the PLA doctrine – and the capabilities thereof – in order to support the evolving doctrinal aspirations. Thus, since the mid-1990s, it was found that China continued to expand its military spending and with its ongoing engagement in the South of China Sea the need has further intensified.

One of the major questions that emerge is on the transparency of the actual military budget allocation, since China's official defence budget figures are likely to include costs not typically included in many defence budgets of the West. China's national Defence White Paper separates the PLA's official budget into three main categories: personnel, training, and purchase and maintenance of equipment. Each of these has reportedly been consistently allotted roughly 33 percent of the defence budget. Chinese official figures do not account for a number of military-related outlays that are often included in the budgets of other countries. For instance, expenses incurred for military procurement, government subsidies for military production, funds for strategic and nuclear forces and paramilitary organisations, military-related aspects of Beijing's space programmes, are some

of the operating costs that are absent from China's official announced numbers.<sup>4</sup> Perhaps the largest alleged exclusion from the official budget is the budget of the People's Armed Police (PAP). Distinct from the PLA, the PAP's primary focus is maintaining internal law and order; however, in the event of war, PAP's secondary mission is to support the PLA in local defence.<sup>5</sup> This underrepresentation of the actual budget is also something that needs to be taken into account while determining the amount going into actual defence capability development.

The Ministry of Finance report presented on March 5, 2017, at the start of the 12th National People's Congress, clearly indicated the support towards deepening the reform of the national defence and the armed forces, with the aim of building a solid national defence and strong armed forces. Further, the report ensured adequate funds in order to promote further military-civilian development.<sup>6</sup> This is in continuation to the new central commission for civilian-military development established earlier this year and intended for the further acceleration of China's Civil-Military Integration (CMI) process. It is important to realise that China is today one of the very few nations that has its military engaged beyond its territory. Thus, it becomes imperative for China to not only continue enhancing its military budget but more importantly it needs to enhance its capabilities. This would require a greater increase in expenditure on its scientific and technological

research and development; unfortunately, this has not happened till date since China spends only a little over two percent of its GDP on Science and Technology R&D (2.05 percent in 2014) as compared to 1.73 percent which prevailed in 2010.<sup>7</sup> However, the two percent of GDP towards its R&D in Science and Technology, along with the continued increase in its annual defence budget, would become a matter of concern. This is given the fact that China has its mind set on expanding towards the Indian Ocean as part of its One Belt One Road Initiative.

***(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])***

## NOTES

<sup>1</sup>“China to Increase Military Spending by 7 percent in 2017”, *BBC News*, March 4, 2017, <http://www.bbc.com/news/world-asia-china-39165080>, accessed on March 6, 2017.

<sup>2</sup> “What does China really spend on its military?”, *Centre for Strategic and International Studies*, <http://chinapower.csis.org/military-spending/>, accessed on March 6, 2017.

<sup>3</sup>“What does China really spend on its military?”, Centre for Strategic and International Studies, <http://chinapower.csis.org/military-spending/>, accessed on March 6, 2017.

<sup>4</sup>“What does China really spend on its military?”, Centre for Strategic and International Studies, <http://chinapower.csis.org/military-spending/>, accessed on March 6, 2017.

<sup>5</sup>Adam P.Liff and Andrew S. Erickson, “Demystifying China’s Defence Spending: Less Mysterious in the Aggregate”, *The China Quarterly*, Vol 216/December 2013, [http://www.andrewerickson.com/wp-content/uploads/2013/12/China-Quarterly\\_Demystifying-Chinas-Defence-Spending\\_Liff-Erickson\\_201312.pdf](http://www.andrewerickson.com/wp-content/uploads/2013/12/China-Quarterly_Demystifying-Chinas-Defence-Spending_Liff-Erickson_201312.pdf), accessed on March 6, 2016.

<sup>6</sup> “Report on the Execution of the Central and Local Budget for 2016 and on the Draft Central and Local Budgets for 2017”, 5th Session of the 12th National People’s Congress of the People’s Republic of China, Ministry of Finance, March 5, 2017,

[http://online.wsj.com/public/resources/documents/NPC2017\\_Finance\\_English.pdf](http://online.wsj.com/public/resources/documents/NPC2017_Finance_English.pdf), accessed on March 6, 2017.

<sup>7</sup> “Basic Statistics on Scientific and Technology Activity”, *China Statistical Yearbook 2015*, National Bureau of Statistics of China, <http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm>, accessed on March 6, 2017.