



## **Is What You See Really What You Get? A Different Take on China's Defence Budget**

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EVERY March, as part of its release of its annual budget for central government expenditures for the coming year, Beijing makes public a single overall figure for national defence spending. This year, if recent history is any guide, that figure will be approximately US\$40.3 billion to US\$42.1 billion – an increase of at least ten percent over last year's budget of US\$36.65 billion. This pronouncement will likely touch off a flurry of reporting in the world press as to the incredulity of China's official defence budget, and fanning speculation that, in reality, Chinese military expenditures are much higher than is declared. Furthermore, its critics will argue, the lack of transparency on the part of the Chinese when it comes to defence spending is only another sign of Beijing's aggressive intent and perhaps even a warning of a covert military buildup.

But before we once again go off on another bout of conjecture as to what the Chinese are *really* spending on their military and what it all means, it might be advisable to stop a moment and ask ourselves, what if the official defence budget increasingly *does* reflect actual spending? If not more transparent, is the declared budget at least more credible, and, if so, what does that mean for Chinese intentions and capabilities?

### **China's Exploding Defence Budget**

That the Chinese People's Liberation Army (PLA) has been the beneficiary of a long-term expansion in defence spending is *not* in question. Since 1997, Beijing has increased defence spending by double-digit doses *every year* – 13.7 percent per annum, in *real*, i.e., after inflation, terms, according to the PRC's own statistics. China's official 2006 defence budget of 281 billion yuan (US\$35 billion), for example, constituted a 14.7 percent rise over the previous year – while the 2005 budget was itself a 12.5 percent increase over 2004.

Consequently, Chinese military expenditures have nearly quadrupled in real terms (i.e., after taking inflation into account) since 1997, thus permitting Beijing to put considerable additional resources into the hardware and software of military modernization. All areas of the Chinese defence budget have benefited from these increases, such as personnel, training, and operations. Nowhere, however, has Beijing's munificence been more strongly felt than in the PLA's equipment budget – that is, expenditures for procurement and (supposedly) research and development (R&D). PLA annual spending on equipment has increased from US\$3.1 billion in 1997 to an estimated US\$12.3 billion in 2006 – again, a four-fold increase in real spending. If anything has supported China's recent expansion in military power, it is this explosion in defence spending which has permitted the PLA to acquire, over the past decade, new surface combatants and submarines, modern fighter jets, air-to-air refueling aircraft, satellites, unmanned aerial vehicles, and a host of ballistic, cruise, and tactical missile systems.

This upward trend is likely to continue for some time. In May 2006, Beijing approved a new 15-year national development plan for defence science and technology that would boost military R&D spending and focus on developing high-technology weapons and “IT solutions” for the PLA, support advanced manufacturing technologies, and cultivate more collaborative international defence R&D efforts, with the goal of “transforming the PLA into a modernised, mechanised, IT-based force”.

### **Still Off the Books? Extra-budgetary Defence Expenditures**

At the same time, it has been widely accepted in the West that the official budget released by the Chinese every year accounts for only a fraction of actual defence spending. In particular, whole categories of military expenditure are believed to be missing from official figures, including (1) military R&D, (2) arms imports, (3) China’s nuclear forces, (4) the People’s Armed Police (PAP) and PLA reserves and militia forces, and (5) state subsidies to China’s military-industrial complex.

How much all this extra-budgetary spending actually is has been the subject of considerable debate and opinion in the West, and, as a result, a veritable cottage industry has sprung up dedicated to estimating likely Chinese defence expenditures. These unofficial estimates of “real” Chinese defence expenditures employ many different approaches and methodologies, and not surprisingly, have varied widely in their results – from anywhere between 1.5 to ten times greater than the official budget. The U.S. Defence Department, for example, has stated that China’s actual defence budget is two to three times its official figure, which would make it the world’s second-highest military spender.

But is it fair to continue to make such arguments about “hidden” Chinese defence spending? In the first place, the evidence to support statements that certain elements of military spending – in particular, spending on R&D and arms imports – were not in the official budget has always been spotty and usually uncorroborated. In addition, such arguments were too often based more on inference than fact, such as in “how could an armed force of 2.3 million men have a procurement budget of only a few billion dollars?” After all, India maintains a force roughly half the size of and of around the same quality as China, on a budget of approximately US\$20 billion. Why, therefore, is a US\$35 billion PLA budget so incredible?

In fact, it is just possible that China’s declared defence budget is actually becoming a more accurate indicator of what the Chinese actually spend on their defence. Especially as military expenditures have grown, it is increasingly probable that more and more of what it costs to truly run the PLA is being reflected in the official budget.

There is some precedent to believe that this might be so. In the late 1990s, when the PLA was told to get rid of its outside business operations, such as factories, hotels, and real estate companies, at least part of the plus-up in the official budget was to compensate the Army for these divestitures. Therefore, is it increasingly likely that the official budget now *does* include spending that may have once before been covered in extra-budgetary supplementals.

### **So What Does It All Mean?**

If the official Chinese budget does, more or less, account for all actual military expenditures, what does it mean? In the first place, in just looking at the decade-long rise in official defence spending, we may deduce that Beijing is seriously committed to putting sufficient resources into modernising the PLA and to overcoming current personnel, equipment, and operations-related impediments to fielding an advanced military force. We may also infer that

the Chinese are using these budget increases to signal their intentions to potential adversaries – especially Taiwan and the United States – that it is serious about using military force, if necessary, in order to gain certain political-military objectives, such as the “return” of Taiwan.

It is also evident that ten-plus years of double-digit increases in defence spending have begun to pay dividends. The PLA today is much more modern and more capable than it was only a few years ago, with new fourth-generation-plus jets (such as the recently unveiled J-10 fighter), surface combatants equivalent to the U.S. Aegis-class destroyer, and modern Albacore-hulled submarines. Moreover, China has been able to make large-scale purchases of Russian weaponry, including fighters, missiles, and naval combatants – items that make up the sharpest edges of the pointy end of the PLA spear.

It may be that the Chinese still significantly under-report their military spending. Even so, it may hardly matter. One does not need to count *all* the beans to know that China is an emerging military (as well as economic and political) power in the Asia-Pacific to be reckoned with.

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