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No. 060/2012 dated 4 April 2012

## **China's New Defence Budget: What Does It Tell Us?**

By Richard A. Bitzinger

### **Synopsis**

*China's new defence budget – particularly given the sizable and growing funding it dedicates to military R&D and procurement – demonstrates Beijing's continuing resolve to gain military power commensurate with its growing soft power.*

### **Commentary**

IN EARLY March, China released its defence budget for 2012, which broke the symbolic US\$100 billion barrier for the first time. In fact, Chinese military expenditures will total US\$106.4 billion (S\$134 billion), an increase of 11.2 percent over 2011 – and this does not include possible hidden spending, which could add billions of dollars per year to the Chinese defence budget. No other country, save the United States, is in triple-digits (in billions of US dollars, that is) when it comes to defence spending.

Not only is China now the world's second largest in terms of military expenditures, it greatly outspends every other country except the US. China overtook Japan in 2007 as the largest defence spender in Asia, and then the world's number two-ranked United Kingdom in 2008. China's new defence budget is more than twice as large as the third-highest spenders (a rough tie between the UK, France, and Russia, according to data provided by the Stockholm International Peace Research Institute). It outspends all of Southeast Asia's militaries combined by a factor of better than three to one, and China's defence expenditures are nearly three times that of its rising Asian rival, India.

China is the only major country to experience double-digit real (i.e., after taking inflation into account) increases in military expenditures nearly every year since the end of the Cold War. China's defence budget has risen, on average, 13 percent annually for the past fifteen years, resulting in a 500 percent or greater real increase in military expenditures since 1997.

### **Where Does the Money Go?**

Clearly, the People's Liberation Army (PLA) has been on a spending spree for the past 15 years, but where does all this increased defence spending go? The Chinese insist that these increases in defence spending mostly go to addressing PLA quality-of-life issues: soldiers' pay and benefits, building new barracks, etc., but this is patently false. For more than a decade, Chinese defence white papers have consistently stated that

approximately one-third of all military expenditures goes to personnel, one-third to operations, and one-third to “equipment,” i.e., defence research and development (R&D) and procurement. Since these ratios have remained more or less constant since the late 1990s, this means that any increases in spending must be shared out equally among the three segments of the military budget.

Such a division of the spoils has clearly benefited defence R&D and procurement. In 1997, for example, spending on equipment totaled some 25.6 billion yuan (approximately US\$3 billion at the time), or roughly 32 percent of the overall Chinese defence budget. In 2009, the equipment budget was still around 32 percent of a total military budget of 400 billion yuan (US\$58.8 billion) – and keep in mind that most Western militaries spend on average less than 20 percent of their budgets on equipment. If this roughly one-third percentage rate remains constant for the 2012 budget, then PLA expenditures for defence R&D and procurement this year are probably somewhere in the neighbourhood of US\$35 billion.

In other words, Chinese spending on military equipment has grown more than ten-fold over the past 15 years – although with inflation the real increase is probably closer to six-fold. This growth in the equipment budget has permitted the PLA to significantly expand its acquisition of modern military equipment, including fourth-generation combat aircraft (such as the J-10 and locally built Su-27 fighters), new frigates and destroyers, and several types of nuclear - and conventionally powered submarines.

More importantly, perhaps, military R&D spending has likely increased just as dramatically. Assuming a low average of 5 percent of overall defence spending being dedicated to defence R&D (similar to what the leading West European powers spend in this category), the Chinese could be allocating approximately US\$6 billion a year to developing new weapons systems and researching new technologies – and this amount could easily be higher. In fact, the PLA already appears to be reaping the benefits of higher R&D spending, given the unveiling of its J-20 “fifth-generation” fighter, an antiship ballistic missile, and the stealthy, catamaran-hulled Houbei-class fast missile boat.

### **A Sign of Resolve**

In its continuing adherence to annual double-digit increases in military spending, as well as its allocating a large portion of its defence budget to R&D and procurement, it is clear that Beijing is seeking to gain “hard” power – that is, military strength -- commensurate with its growing economic, diplomatic, and cultural “soft” power.

Beyond this basic effort to acquire military strength for the sake of great-power status, it is obvious that China intends to use this new-found military power to advance its national interests. Key among these are its territorial claims in the South China Sea or protecting local sea lanes of communication vital to its energy supplies and trade; increasing pressure on Taiwan not to declare independence and to eventually accept some kind of reunification with the mainland; and to counter the rising American military presence in the Asia-Pacific – if not to establish itself as a credible rival to the US in this region.

Consequently, the phenomenon of large increases in Chinese defence spending, especially since they have been constant and consistent for more than a decade and a half, is a genuine cause for concern; China may be increasingly prone to using its growing military power to achieve, or underpin its efforts to achieve, its expressed national goals.

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