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The Dragon's Dilemma: A Closer Look at China's Defense Budget and Priorities

by Michael S. Chase

This is the first installment in a three-part series investigating the state of China's military. The other articles in this series will look at China's missile capabilities and naval modernization.

This week, China's National People's Congress will convene its annual meeting in Beijing. Among the developments that are expected from the gathering is one we should all pay close attention to: the announcement of China's 2010 defense budget. Beijing has given the military double-digit budget increases for well over a decade, and some Chinese security analysts are calling for a larger-than-usual boost this year in a bid to signal China's anger over the latest U.S. arms sales to Taiwan. Whatever the exact amount of China's official defense budget, the announcement will once again highlight China's growing military power — and the potential challenge it poses to the U.S.

Widely dismissed as a "junkyard army" for many years, the Chinese military is now

raising quite a few eyebrows with its growing capability. In recent years, China has deployed increasingly potent anti-access capabilities, including modern surface ships, advanced submarines, fourth-generation fighter aircraft, and conventional cruise and ballistic missiles. China is also enhancing its C4ISR*, space and cyber warfare capabilities; developing an anti-ship ballistic missile designed to target U.S. aircraft carriers; and modernizing its nuclear forces.

The People's Liberation Army's (PLA's) growing capabilities in these areas, along with other recent notable events — including Beijing's controversial anti-satellite missile test in January 2007; its January 2009 missile defense intercept test; and the Chinese Navy's unprecedented and continuing participation in counter-piracy operations off the coast of Somalia since December 2008 — are raising questions about whether an increasingly

* Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance

About the author

Michael S. Chase is an associate professor in the Strategy and Policy Department at the U.S. Naval War College and a fellow with the Truman National Security Project.

powerful China represents a looming military threat to the U.S. and its allies. In an article published last month, the Center for Security Policy's Frank Gaffney argued, "China is responding to what it perceives to be our declining power by becoming ever more well-armed, assertive and contemptuous — a formula for serious, and possibly 'major,' conflict ahead."¹

Fueling China's accelerating modernization — and the concerns of many observers who see it as an emerging military competitor — is the rapid growth of the country's defense budget since the late 1990s. In recent years, China's civilian leadership has been increasing the PLA's resources in an attempt to develop more credible options for engaging Taiwan and countering U.S. military intervention.

With the warming of the China-Taiwan relationship over the past 18 months, the PLA's rationale for further hikes in defense spending is now increasingly tied to China's growing political, economic and security interests on the global stage. These expanding interests, however, may eventually have to be balanced with the need to address pressing domestic problems, especially if China is unable to maintain current economic growth rates. How China juggles these competing priorities will shape its global role and could have major implications for U.S. foreign policy and national security interests. It could, as critics fear, lead to a confrontation down the road. Or it could do just the opposite, by creating opportunities for Chinese global engagement and a new security partnership with the U.S.

China's Defense by the Numbers

At the outset of the economic reform era in the 1970s, China's leaders stated that military modernization would take a backseat

to domestic economic development. Leader Deng Xiaoping argued that it would be necessary to delay major increases in defense expenditure until China achieved a higher level of economic development. By the end of the 20th century, Deng predicted that China would be much more powerful economically and would then be able to spend more on military modernization without shortchanging other national priorities.

In line with this guidance, the PLA's share of the budget declined throughout the '80s. While it saw nominal increases in the late '80s and early '90s, much of that gain was devoured by inflation. It was not until the late '90s — when rapid economic growth began and Beijing became determined to develop more credible military options against Taiwan and the U.S. in a cross-Strait conflict — that the PLA finally started to enjoy major increases in the defense budget.

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This trend has continued even as the cross-Strait relationship has improved dramatically following Taiwan's 2008 election of President Ma Ying-jeou, who favors a closer and more constructive relationship with China. But while Beijing clearly welcomes warming ties with Taiwan, China still increased its defense

budget by 14.9 percent in 2009, bringing the official budget to approximately 481 billion RMB, or about \$70 billion. This increase was a bit lower than in recent years — the PLA received a 17.6 percent increase in 2008 and a 17.8 percent increase the previous year — but it reflected a determination to continue modernizing the military even as cross-Strait relations have become more cooperative. Chinese officials assert that the increases are mainly for raising salaries and improving benefits for servicemen, purchasing modern equipment and building new facilities.

China's official figures put defense spending at about 1.4 percent of the country's rapidly growing GDP in 2008. The official numbers tell only part of the story, however. The true level of China's current defense budget is difficult to calculate, largely because some items are not reflected in the announced defense budget. Among these are expenditures on foreign weapons procurement, paramilitary expenses, state subsidies for the defense-industrial complex and some defense-related R&D programs. Moreover, the number of funding sources and the involvement of multiple levels of government further complicate attempts to estimate China's defense spending.

Consequently, outside estimates range from about one-and-a-half to three times the official budget figure. The 2009 edition of the U.S. Department of Defense's annual report on Chinese military power places total Chinese defense spending in 2008 somewhere between about 1.75 and 2.5 times the PRC's official number. Some other outside estimates, however, are lower. For example, the Stockholm International Peace Research Institute (SIPRI), which maintains the highly regarded SIPRI Military Expenditure Database, estimates that China's defense budget in

2008 was about 1.4 times the figure that was officially released by China.

Attempting to project future trends in Beijing's military spending is even more complex. Forecasts of Chinese military spending over the next 10 to 20 years vary widely, depending on the methods employed and the underlying assumptions about China's future economic performance.

For example, in 2005, the U.S. Department of Defense predicted a possible threefold or greater increase in China's defense spending over the next 20 years, which would place its military budget at \$210 billion to \$315 billion (in constant 2005 U.S. dollars) or more in 2025.² In contrast, a RAND Corporation report released at about the same time projected that in 2025 Chinese defense spending would reach about \$185 billion (in constant 2005 U.S. dollars). That's still an impressive sum, but considerably lower than the Pentagon forecast.³ These divergent estimates reflect uncertainty not only about future economic performance, but also about how China's leaders will choose to allocate budgetary resources when faced with a variety of new security challenges on the one hand and competing domestic priorities on the other.

New Missions for the PLA

As China's political, economic and security interests become more global and complex, the PLA's roles and missions are evolving to contend with an increasingly diverse set of security challenges. In December 2004, President Hu Jintao assigned the "New Historic Missions" to the PLA, which encompass four key roles:

- (1) help the Communist Party maintain and consolidate its ruling position

- (2) provide a strong security guarantee for national development
- (3) safeguard national interests
- (4) safeguard world peace and promote common development

To fulfill these expanded missions, Chinese leadership has tasked the PLA with enhancing its capabilities to successfully conduct combat operations and participate in military operations other than war. Specifically, President Hu's concept of "multiple military tasks" provides a conceptual framework for the PLA to properly balance the development of the capabilities required to fulfill its evolving combat duties along and with other military missions.

Even as the PLA's involvement in nontraditional security missions grows, it seems likely that demand for greater defense spending may increasingly come into conflict with the rising costs of China's domestic priorities.

As Chinese Central Military Commission Vice Chairman General Xu Caihou has indicated, military operations other than war are emerging as "routine and constant missions for the military," adding:

We believe that in the current era when the tides for peace, development and cooperation are ever more keenly felt, to conduct military operations other than war is becoming an increasingly important form of applying military forces.⁴

Chinese strategists indicate that Beijing's conception of such operations covers

a wide variety of activities, including counterterrorism operations, participation in UN Peacekeeping Operations, noncombatant evacuation operations, emergency disaster relief operations, international humanitarian assistance and counterpiracy patrols.

But while the military's participation in such activities, like its counterpiracy patrols off of Somalia, is clearly seen as important, the PLA's core mission remains clear. As General Xu declared, "To deter and win wars remains the top priority of the armed forces."⁵ As part of the concept of "multiple military tasks," Chinese strategists envision several potential types of combat operations, including, but not limited to, large-scale island attack, air defense and border-area defense operations.

The PLA faces the challenge of balancing the relationship between enhancing combat operations and ramping up military operations other than war. Chinese analysts argue that such activities can help improve the PLA's ability to win wars by giving it experience in critical areas such as command and decision-making, projection of military strength, logistics and support operations, and intelligence, surveillance and reconnaissance activities. Growing involvement in such missions can enhance China's image and offer valuable operational experience that will help improve its ability to conduct combat operations and support the core goal of deterring and winning wars.

Potential Constraints

Even as the PLA's involvement in nontraditional security missions grows, it seems likely that demand for greater defense spending may increasingly come into conflict with the rising costs of China's domestic priorities. Indeed, calls for increased defense spending are

likely to be matched by growing demands for government outlays to cope with a range of social problems. Such problems, which emerged as consequences of Beijing's economic reforms during the Deng Xiaoping and Jiang Zemin eras, include a growing income gap, the glaring inadequacies of the Chinese health care system, worsening environmental degradation and rising social unrest. Tensions that have risen from these challenges could worsen if the pace of China's economic growth slows.

Under the leadership of President Hu Jintao and Premier Wen Jiabao, China has been shifting from an economic strategy that emphasized rapid GDP growth above all else to an approach that devotes more attention to reducing income inequality and promoting sustainable economic development. As part of this new approach, Chinese leaders stress that the country's economic policies must promote the development of a "harmonious society" based on balanced growth and sustainable economic development.⁶ Hu and Wen are likely to have their hands full, as top officials historically have been evaluated using metrics associated with the rapid growth strategy. The shift in orientation may also begin to impose serious constraints on further dramatic increases in military spending in the future.

Outlook and Implications

Rapid economic growth has allowed Beijing to dramatically increase defense spending since the late 1990s. It has been able to do so without having to make tradeoffs between military modernization and other policy priorities. In the not too distant future, however, the government is likely to face growing pressure to devote a larger share of government spending to cope with serious domestic problems. As these problems become

more pressing, Beijing may have to make tough choices it has previously managed to avoid, especially if economic growth slows.

China remains determined to continue modernizing its military for at least two major reasons. First, China still sees military power as an important aspect of its Taiwan policy even in a time of warming relations. Second, Beijing appears convinced that China's growing global interests require a much more capable military. Indeed, the concepts of "new historic missions" and "multiple military tasks" provide a more expansive rationale for Chinese military modernization beyond Taiwan.

How should the U.S. and the world view these changes? To the extent that new roles and missions ultimately require a greater global presence for the PLA, we could see growing concerns about China's expanding military capability in some countries, rising tensions within China over some of its traditional foreign policy principles and potentially new challenges for the U.S.-China security relationship. That said, a greater Chinese military presence on the global stage might also create opportunities for an increased U.S.-China partnership. Indeed, both sides have highlighted issues such as antipiracy and international humanitarian assistance as possible areas for greater U.S.-China cooperation.

Michael S. Chase is an associate professor in the Strategy and Policy Department at the U.S. Naval War College and a fellow with the Truman National Security Project. The opinions expressed in this article are his alone and do not necessarily reflect the views of the Naval War College, Department of the Navy or Department of Defense.

1 Frank Gaffney, "Obama vs. the All-Volunteer Military," Center for Security Policy, February 1,

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2 Office of the Secretary of Defense, Annual Report to Congress, Military Power of the People's Republic of China 2005, pp. 21-22.

3 Keith Crane, Roger Cliff, Evan Medeiros, James Mulvenon and William Overholt, *Modernizing China's Military: Opportunities and Constraints*, Santa Monica, CA: RAND, 2005.

4 General Xu Caihou, "The Chinese Military: A Force for Multiple Military Tasks," Speech at the Center for Strategic and International Studies, Oc-

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5 Xu, "The Chinese Military: A Force for Multiple Military Tasks."

6 For a detailed explanation of this approach, see "Communiqué of the Sixth Plenum of the 16th CPC Central Committee," *People's Daily*, October 12, 2006, english.peopledaily.com.cn/200610/12/eng20061012_310923.html.

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Progressive Policy Institute
1301 Connecticut Avenue
Suite 450
Washington, DC 20036

Tel 202.525.3926
Fax 202.525.3941
Email info@ppionline.org
www.progressivefix.com