

CHINA'S MILITARY SPENDING: SOFT RISE OR HARD THREAT?

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Interpreting China's military expenditure has been a complicated issue with important regional implications. This article will first look at the various estimates of China's military budget and the discrepancies in the numbers as well as the geopolitical rationale driving Chinese military planning. Although China publishes its official defense budget and provides justifications for increases in its military spending, most observers remain skeptical of the accuracy of the official figures and wary of the military modernization efforts. This skepticism has shaped the responses of other Asia-Pacific nations toward China's military modernization. Ultimately, even if the Chinese leadership views the military buildup as a natural part of the country's ascension to great power status, the uncertainties surrounding its military expenditures actually undermine the contention that China's rise will be peaceful.

Key words: East Asian security, China, military spending, arms race

Introduction

The rapid growth of China's economy and its increasingly vigorous diplomatic engagement with regional and international institutions have given rise to much discussion of China's "peace-

ful rise" to great-power status.¹ At the same time, the Pentagon has identified China as the only potential hegemon on the horizon that stands a chance of challenging the unipolar power of the United States. These two views of China—as a largely benign global partner or as a military superpower-to-be—rely on different understandings of a critical factor: the Chinese military budget.

According to the Chinese government, the country's rising military budget reflects general economic growth, is devoted to non-threatening expenditures like better pay for soldiers, and remains only a small percentage of what the United States spends every year on the military. Critics, however, argue that China vastly underreports its military expenditures and that the country is acquiring new power-projection capabilities that change the regional balance of power.

Determining which of these pictures of China's military spending is correct is not an easy task. In recent years, the Chinese government has published its official annual defense budget figures and provided justifications for the announced increases in military spending as part of its efforts to alleviate the fears outsiders might have about a rapidly rising China. But these published figures, since they don't match the estimates of outside observers, raise more questions than they answer. Why has there been a large discrepancy between China's official defense budget and other estimates? What are China's ultimate geopolitical goals and rationales behind its military planning? How have other nations in the Asia-Pacific region responded to the more robust Chinese military spending? Finally, what implications do the uncertainties in China's military have for its own national goals?

A clear picture of China's military spending is essential for an understanding of the country's unfolding conception of itself, for any analysis of Northeast Asian regional politics, and, ultimately, the future trajectory of global geopolitics. How China

1. See the special report, "China Rising," *Foreign Policy*, January-February 2005 and Zheng Bijian, "China's 'Peaceful Rise' to Great Power Status," *Foreign Affairs*, vol. 84, No. 5 (September-October, 2005), pp. 18-24.

resolves the seeming contradiction between its insistence on a peaceful rise to great power status and its considerable annual military budget increases will have an enormous impact on the shape of international institutions and the ends of multilateral action.

Estimates of China's Military Expenditure

The Official Chinese Case

Calculating China's exact military expenditures is complicated by the Chinese government's relative lack of transparency. Although the Chinese government announces its military budget publicly, usually through the published annual report of the Ministry of Defense, its figures are vastly different from the estimates of outside analysts. Nor is there consensus among outside observers on the exact amount of Chinese military spending. They agree on one point, however: that the Chinese government greatly underreports its military expenditures.

In March 2009, Chinese legislature spokesman Li Zhaoxing announced that China would boost its military spending to RMB 480.6 billion (\$70.3 billion) in 2009.² In China's most recent Defense White Paper published in January 2009, the overall defense budget for 2008 is reported as RMB 417.769 billion (\$61.185 billion). China also reported total defense expenditures of RMB 355.491 billion (\$52.064 billion) in 2007 and RMB 297.938 billion (\$42.635 billion) in 2006.³ Despite these significant increases in the level of military spending, China's White Paper states:

In the past three decades of reform and opening up, China has insisted that defense development should be both subordinated to

2. Dune Lawrence, "China Plans to Boost 2009 Military Spending by 14.9%," *Bloomberg*, at www.bloomberg.com/apps/news?pid=20601080&sid=aVsYPKCY1aNg&refer=asia.

3. Ministry of National Defense, People's Republic of China, "White Paper 2008: Defense Expenditure," at http://eng.mod.gov.cn/Database/WhitePapers/2009-07/21/content_4006240.htm.

and in the service of the country's overall economic development, and that the former should be coordinated with the latter. As a result, defense expenditures have always been kept at a reasonable and appropriate level.⁴

Thus, China contends that its military spending remains proportional to the country's rapid economic development. For instance, Chinese government figures indicate that from 1998 to 2007, the average growth of its Gross Domestic Product (GDP) was 12.5 percent. Military expenditures, meanwhile, grew at an average of 15.9 percent and total state expenditures increased by 18.4 percent.⁵ These statistics suggest that China's military spending remains consistent with the rate of its economic growth and that the military's share within the total state budget has actually decreased over the same period. China also argues that the growth in military spending primarily relates to the increasing salary and benefits of servicemen, compensating for rising prices, and updating the information technology capabilities of the military. Consequently, China officially claims that the rise in the military budget merely reflects an attempt to modernize and provide better services for its military personnel.

Chinese assertions regarding its military expenditures remain consistent with its overall "peaceful rise" foreign-policy doctrine. According to the "peaceful rise" policy, the Chinese actively try to convince the rest of the world, particularly its neighbors and the United States, that its development will not pose a threat to the international order.⁶ China argues that other countries would only gain from China's rise because of the economic benefits of expanding trade and investment. China also emphasizes that with soft power, the maintenance of positive relations with its neighbors enhances its own security. More concretely, China in the past decade has engaged in various strategic partnerships with the other major powers, including

4. Ibid.

5. Ibid.

6. Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford, Calif.: Stanford University Press, 2005).

Russia and United States. The improvement in relations between China and Russia culminated in the signing of the 2001 Treaty of Good-Neighborliness and Friendly Cooperation that provided the basis for greater economic, diplomatic, and security collaboration between the two countries. In 2004, the two countries finalized an agreement on borders that cleared away a long-standing dispute, and the two countries cooperated extensively in the creation of the Shanghai Cooperation Organization, a regional security organization spanning central Asia. The Sino-American partnership, meanwhile, became closer with China's cooperation on the "war on terrorism" and in dealing with North Korea's nuclear program. In 2009, the Obama administration launched a Strategic and Economic Dialogue with China that focused on economic recovery from the global financial crisis, climate change, clean-energy technology, nuclear nonproliferation, counterterrorism, and humanitarian disasters.

China, moreover, has increased its support of multilateral institutions. In recent years it has become more engaged in the activities of the Association of Southeast Asian Nations (ASEAN), as it is a participant in the ARF (ASEAN Regional Forum) and is a member of the ASEAN+3 (China, Japan, South Korea) talks. China has also taken a leading role in the Six Party Talks focused on North Korea's nuclear weapons. At the international level, China has contributed more than 2,000 soldiers to United Nations peacekeeping operations and was the seventh-largest contributor to these missions in 2008.⁷ China's quota at the International Monetary Fund (IMF), which is calculated on the basis of relative size in the global economy, is set to rise to 6.3 percent in 2011, which will put it second behind the United States.⁸

Through its official rhetoric and the substantive policies of its peaceful rise doctrine, China essentially strives to sustain the international conditions necessary for its continuous economic development while minimizing the risk that other nations would

7. International Crisis Group, "China's Growing Role in UN Peacekeeping," April 17, 2009.

8. "China's IMF Quota Set to Surpass Japan's," *Caijing*, April 2, 2009, at www.caijing.com.cn/2009-04-01/110131846.html.

feel threatened and attempt to constrain its rise. By publishing its military figures, China aims to assuage any fears connected to the increases in military budget. It claims time and again that it will not pose a threat to the stability of the Asia-Pacific and the world order.

Skepticism about Chinese Claims

In spite of China's efforts to defend its military spending according to its peaceful rise doctrine, the U.S. government remains quite skeptical of China's reported figures and its justifications. The U.S. Department of Defense presents its own annual report to Congress regarding China's military capabilities and expenditures. In the latest report, the Defense Department estimates China's real military expenditure to be somewhere between \$105 billion and \$150 billion.⁹ Although the report acknowledges that this is an extremely broad estimate, it attributes the imprecise numbers to the Chinese government's lack of accounting transparency and the country's incomplete transition to a market economy. Even with the wide range of its estimate, the Defense Department's approximation represents a significantly higher number than the roughly \$61 billion figure that the Chinese published in its own report. Other nongovernmental organizations provide their own estimates of China's annual military spending. The Stockholm International Peace Research Institute (SIPRI), for instance, calculates China's 2008 military expenditures at \$84.9 billion, putting its figure in between the lower figure of the Chinese government and the higher American estimate.¹⁰

Thus, the exact figures for China's annual military spending have been a point of contention. What, then, best accounts for the massive discrepancies among the different estimates? Part of

9. U.S. Department of Defense, *Annual Report to Congress: Military Power of the People's Republic of China 2009* (Washington, D.C.: 2009).

10. Stockholm International Peace Research Institute, "The 15 Major Spender Countries in 2008," at www.sipri.org/research/armaments/milex/resultoutput/15majorspenders.

the reason for the discrepancy in numbers could be attributed simply to the use of different currencies in the accounting of the military expenditure and the failure of one calculation to accurately capture the relative spending power of the Chinese military. The currency exchange rates used could greatly influence the estimates in U.S. dollars. Moreover, a given dollar has different levels of spending power depending on what is being purchased, and that may be difficult to gauge in calculations. For example, many goods purchased for the military would cost less in China than in the more developed countries of the West. The lower pay and standards of living in the Chinese army reduce the amount spent on personnel, and the lower wages at defense factories lessen the costs of arms procurement. By using a purchasing power parity (PPP) exchange rate, the differences in the relative value of the dollar are better accounted for. Hence, the 2005 report by the RAND Corporation on the Chinese military used PPP exchange rates in its estimates.¹¹ Yet even the RAND report acknowledges the weakness of PPP exchange rates, especially since those calculations often require unobtainable data about military prices and fail to account for the inferior quality of Chinese products and services when compared with more developed nations. Lastly, market exchange rates tend to more accurately reflect military imports, as they are purchased at world market prices.

Beyond the problems of exchange rates, the discrepancy between the various calculations of China's real military expenditures also results from relying on official Chinese economic and spending data, which often employ inconsistent terms and definitions. The official military budget from the Chinese Defense White Paper broadly includes three main categories: personnel, operations and maintenance, and equipment. The personnel category includes the cost of salary, food, and clothing for both military and nonmilitary personnel. Operations and maintenance encompasses training, construction, maintenance of facilities,

11. Keith Crane et al., "Modernizing China's Military: Opportunities and Constraints," RAND Corporation, 2005.

operating expenses, education, and combat costs. Lastly, the costs for equipment, research and development, procurement, maintenance, transportation, and storage are all broadly included under equipment. Each group accounts for approximately one third of the overall military budget.

However, outsider observers believe that China excludes a wide range of military items typically included in the defense budgets of Western nations. The RAND report lists the following items not accounted for in the official Chinese military budget: procurement of weapons from abroad, expenses for paramilitaries, nuclear weapons and strategic rocket programs, state subsidies for the military-industrial complex, some military-related research and development, and extra-budget revenue.¹² For example, the funds for foreign weapons procurement are drawn from specially arranged hard-currency accounts controlled by the State Council and not by the Ministry of Defense. Many of China's weapons acquisitions were subsequently not reflected in its expenditures, including the large number of fighter aircrafts, destroyers, submarines, and surface-to-air missiles purchased from Russia over the years. Estimates suggest that China's foreign weapons purchases jumped from around \$1.5 billion annually in the 1990s to about \$3.6 billion by 2002. Furthermore, the Chinese paramilitary forces, called the People's Armed Police, remains partially funded by local governments and by the State Council, and is thus not included in the official military budget.

Provincial spending on military affairs in general is not part of the figures given by the Ministry of Defense. Many provinces in China bear the burden of the costs for many of the military activities within their area, yet these expenditures are not accurately reflected in the defense budget either. In important military regions such as Fujian province, located across from Taiwan, the costs of operating military bases and running military exercises can be significant. RAND estimates that the total provincial spending on defense affairs was around \$800 million

12. Ibid.

in 2001. This figure would be a minor line item in the U.S. military budget, but it reflects a significant slice of overall Chinese spending.

In addition, the Chinese government subsidizes military-industrial enterprises and provides money for defense research and development, which amounts to an estimated \$3-4 billion annually. The Chinese military actually receives additional income from its arms exports as well, which accounts for extra-budget revenue not reflected in its official budget. China sells weapons to other developing nations, including Pakistan, Burma, and Thailand. Although China is a relatively smaller player in the global arms export market, it still received extra revenues ranging from \$400 million to \$1.2 billion yearly throughout the 1990s. These additional revenue sources present another disparity between the official Chinese budget and the other external estimates.¹³

China is by no means the only country for which a precise calculation of military spending is difficult. In the United States, for instance, the Pentagon budget does not include most of the spending on nuclear weapons, which falls under the Department of Energy budget. Then there are the supplemental spending bills for the wars in Iraq and Afghanistan. The financing of foreign arms sales appears in the State Department's budget. Veterans' benefits are covered by the Department of Veterans Affairs and military pensions by the Treasury Department budget. The National Aeronautics and Space Administration (NASA), the National Security Agency (NSA), the Department of Homeland Security, and other government departments also allocate a portion of their budgets to military activities. These additional line items can add 50 percent or more to the total U.S. military expenditures.

13. *Ibid.*

Geopolitical Rationales for China's Military Spending

Weapons Modernization

Over the past few years, China has undergone a comprehensive review of its military and is currently engaged in a process of rapid modernization. China's basic objective is to transform its massive army, originally designed for wars of attrition in defense of its own territory, to one capable of fighting and winning short-duration, high-intensity conflicts along its peripheries against high-tech opponents. The Chinese refer to this as winning "local wars in conditions of informationization."¹⁴ Thus, the Chinese military has focused on the acquisition of advanced foreign weapons and invested heavily in domestic military technology industries. Moreover, China has initiated a variety of organizational and doctrinal reforms of the armed forces as part of its modernization efforts.¹⁵

In terms of weapons enhancement, China is upgrading its strategic nuclear force. This involves the acquisition of weapons such as a new class of inter-continental ballistic missiles and nuclear-powered ballistic missile submarine. China's nuclear arsenal has traditionally been rather small. At least in theory, then, missile defense systems challenge the country's deterrent capability, and thus the perceived need for modernization. China's military planning also focuses on anti-access and anti-denial capabilities that would put aircraft carrier, airfields, and regional logistical hubs as well as the aircrafts of adversaries at risk. China is developing a greater capacity for conducting conventional strikes regionally as well, by focusing on building up its short- and medium-range ballistic missiles, especially in the Taiwan Strait. In the 1990s, China embarked on a serious program of naval modernization that included missile upgrades and construction of destroyers and frigates, patrol craft, and

14. Ministry of National Defense, People's Republic of China, "White Paper 2008: National Defense Policy," at http://eng.mod.gov.cn/Database/WhitePapers/2009-07/21/content_4006236.htm.

15. Department of Defense, *Annual Report to Congress*.

amphibious ships.¹⁶ Lastly, the Chinese have paid special attention to the development of its capacity for electromagnetic warfare, which involves disabling the enemy's computer networks and operational systems.

Beyond the modernization of military equipment, China's state-owned military and military-related companies have tried to streamline their own bureaucratic and business practices to increase efficiency. For instance, these firms have taken steps to shorten development timelines, increase quality-control measures, and boost production capacity at factories. China's domestic military industry will continue to improve with the transfer of technology and skills from foreign joint ventures and with increased funding for research and development. China's military firms have also developed partnerships with leading academic institutions for recruitment and improved technical training. The combination of direct weapons acquisition from other countries along with the transformation of its own internal defense industries have allowed China to develop and upgrade its military hardware, and it now can produce its own advanced weapon systems, such as missiles, fighter aircraft, and warships.

Another impressive measure of its rapid military capabilities is the advancement of its domestic space program. China successfully performed its first space walk from *Shenzhou-VII* in September 2008 following the launch of its first lunar orbiter *Chang'e-1* in 2007. Thus, the Chinese military has taken steps to improve both its military hardware and human organization, backed by a more robust military industry.¹⁷

Building "Comprehensive National Power"

The rationale behind China's increased military spending seems to be consistent with the goals of the Chinese leadership of building "comprehensive national power." This involves cre-

16. Ronald O'Rourke, *China's Naval Modernization: Implications for U.S. Navy Capabilities*, Congressional Research Service, Washington, D.C., October 21, 2009.

17. Department of Defense, *Annual Report to Congress*.

ating both internal and external power. Internally, communist policy makers want to focus on maintaining economic prosperity, domestic cohesion, and the social influence of the party. Separatist struggles in Tibet and Xinjiang provinces pose significant challenges to the central government, and some of China's military budget goes toward policing these regions. Externally, Beijing is also concerned with territorial integrity as it relates to Taiwan, but it has greater ambitions in terms of power projection, diplomatic influence, and international prestige.

The Chinese leadership believes that in order to achieve its ultimate objective of engineering its country's rise to great-power status, China must first secure an international environment conducive to its continual economic development. To do this, the decision makers in China have concocted the peaceful rise doctrine. China wants to reassure the rest of the world, through its rhetoric and substantive policies, that its rise would be a source of stability rather than threaten the international order. Only if other countries do not try to constrain its rise will China have the necessary space for its rapid development. Yet the peaceful rise policy does not necessarily mean that China will forfeit its military buildup, as it sees no fundamental contradiction between the two policies. Chinese leaders repeatedly contend that the expansion of the military budget only serves its goals of protecting its own territorial integrity and sovereignty because its increased military budget enables it to contribute more to peacekeeping missions. Finally, Chinese leaders argue that the country does not spend significantly more on its military than other major powers and still spends only a small portion of the United States military budget.

Despite the Chinese overtures, many other countries and observers perceive the escalation of China's military spending differently. Almost all analysis of China refers to the Taiwan issue as a main driving force behind its military planning.¹⁸ Indeed, over the past decade, Beijing has focused on shifting the military balance in the Taiwan Strait toward its favor. The cen-

18. *Ibid.*

tral goal for China is to prevent Taiwan from declaring official independence, even if it does not seek a near-term resolution. China has indicated in the Anti-Secession Law of March 2005 that it would resort to "non-peaceful means" if "secessionist forces . . . cause the fact of Taiwan's secession from China"; if "major incidents entailing Taiwan's secession" occur; or if "possibilities for peaceful reunification" are exhausted.¹⁹ This willingness to use force to deter a declaration of Taiwanese independence has dictated much of the military planning in China. In case of a contingency in the Taiwan Strait, the Chinese want to be able to quickly overcome Taiwan's will to resist an attack while also countering any possible intervention by third parties, particularly the United States. Toward this end, China has built up a massive arsenal of short-range missiles, cruise missiles, and submarines in case of battle in the Taiwan Strait. Moreover, China's deployment of advanced aircraft fighters starting in the late 1990s also overturned the previous dominance Taiwan enjoyed in the airspace over the Strait. Although some Taiwanese see more sinister motives, the Chinese leadership argues that its military modernization against Taiwan is simply for the purpose of protecting its own territorial sovereignty.

Another key reason for China to continue its military modernization efforts is its sense of urgency regarding access to markets and natural resources that feed its economic growth. This need is becoming an important factor in shaping China's strategic behavior. China is extremely reliant on imports from abroad, particularly metals and fossil fuels. To secure these resources, China feels the need to defend the sea lanes vital for its imports. For example, 80 percent of China's crude oil imports go through the Strait of Malacca near Singapore.²⁰

Moreover, China has been in a variety of territorial disputes on its borders and may want to augment its military spending and modernization efforts to bolster its claims. China has

19. "Text of China's Anti-Secession Law," *BBC News*, at <http://news.bbc.co.uk/1/hi/world/asia-pacific/4347555.stm>.

20. Department of Defense, *Annual Report to Congress*.

clashed over the Spratly and Paracel island groups in the South China Sea with Brunei, the Philippines, Malaysia, Indonesia, Vietnam, and Taiwan. In the East China Sea, China and Japan have disputes over ownership of potentially rich off-shore oil and gas deposits. Lastly, China and India still have lingering tensions along their 4,057-kilometer shared border, especially over Arunachal Pradesh.²¹ In all of these cases, a demonstration of force may be strategically important for China and the reinforcement of its military only supports its claims. Just as with the Taiwan issue and interests in acquiring markets and resources, China's territorial disputes play a key part in its geopolitical thinking to increase its military spending. These specific strategic interests remain consistent with China's overarching goal of building comprehensive national power.

Regional Responses to China's Military Modernization

China's increased military spending and modernization have had significant implications for the Asia-Pacific region. First of all, the uncertainty regarding the rise of China's military has led to internal debates within other countries on how best to respond. These debates have dominated security thinking in the United States, Japan, Taiwan, and among ASEAN members.

The United States remains the region's most powerful player with its military alliances and considerable firepower. Americans also have a strategic interest in the region, both economically and in terms of national security. Within the United States, a growing debate has emerged within the policy-making community regarding how best to interpret and respond to China's rise. The 2010 Quadrennial Defense Review, for instance, features a tension between counterinsurgency advocates and traditionalists. The proponents of a counterinsurgency plan want the emphasis of the American military to be on asymmetric, irregular warfare as conducted in Iraq and Afghanistan. Counterterrorism would

21. *Ibid.*

then be the central point of U.S. military planning. On the other hand, the traditionalists believe that the strongest threat to American security still comes from other competing nations, such as a rising China. These traditionalists want the U.S. military to focus on acquiring weapons like the F-22 *Raptor* fighter aircrafts, CVN-78 advanced aircraft carriers, DDG-1000 Zumwalt-class destroyers, and Virginia-class submarines. The purchase of these advanced weapons would enhance American's ability to counter the challenge of any other international competitors. The traditionalist faction tends to highlight the "China threat" when making the case for its military strategy. They point to China's growing military budget, the modernization of its military, and its increased ability to compete with American naval, missile, and space programs.²²

The region's other major player, Japan, faces a similar debate on how best to respond to China's growing military. Two schools of thought dominate the discussions in Japan: those seeking cooperative engagement with a soft hedge and those supporting competitive engagement with a hard hedge.²³ Advocates of the first strategy believe that China genuinely wants a peaceful international environment for its own growth but are still wary of its military modernization efforts and the lack of transparency in its military planning. Given the uncertainties regarding China's intentions, these strategists want to engage China but still keep the U.S.-Japan security alliance as the main focus of its regional security. On the other hand, those in support of a hard hedge against China remain worried that China will be less cooperative as its relative power increases. They point to China's military modernization as evidence of its growing threat and want to ensure that Japanese and American forces in the region can still out-muscle the Chinese military. Hence, they support advanced upgrades to the Japanese military in the

22. Michael T. Klare, "The China Syndrome," *Foreign Policy in Focus*, at www.fpif.org/fpiftxt/5041.

23. Mike M. Mochizuki, "Japan's Shifting Strategy Toward the Rise of China," *Journal of Strategic Studies*, vol. 30, No. 4 (August-October, 2007), pp. 739-76.

form of fighter aircraft, destroyers, cruise missiles, and even small aircraft carriers. On either side of the debate, Japanese policy-makers are worried about the implications of China's increased military expenditure.

An important part of the security strategies of other countries in the region remains the continued U.S. involvement in the region to counterbalance China's growing military threat. For instance, the members of ASEAN are particularly skeptical of China's rising military capabilities. While Southeast Asian governments do not believe that China will be expansionist and undertake military conquests, they are concerned that China's growing military assertiveness will undermine regional stability and ultimately hinder regional economic growth. In addition, China's demonstration of force is particularly alarming when placed in the context of territorial disputes between China and Southeast Asian countries. Southeast Asian nations have consequently pursued policies designed to maintain American military preponderance in the region. As such, Philippines and Thailand have formal alliances with the United States while Indonesia, Malaysia, and Singapore provide military facilities and access to American forces.²⁴ Some ASEAN countries—Singapore, Malaysia, Indonesia, and Thailand—also continue to modernize their fleets, acquiring new fighter aircrafts and submarines.²⁵ While ASEAN members continue to engage China economically, their security policies suggest that they are still wary of the growth of the Chinese military threat.

Taiwan's reaction to China's increased military spending is particularly interesting given the island's position at the forefront of Chinese strategic military planning. From 1997 to 2007, Taiwan actually reduced its military expenditures from around \$10.024 billion to around \$7.791 billion, which brought military

24. Evelyn Goh, "Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies," *International Security*, vol. 32, No. 3 (Winter, 2007-2008), pp. 113-57.

25. Robert Hartfiel and Brian L. Job, "Raising the Risks of War: Defence Spending Trends and Competitive Arms Processes in East Asia," *Pacific Review*, vol. 20, No. 1 (March, 2007), pp. 1-22.

spending down from 3.5 percent of GDP to about 2 percent.²⁶ However, this reduction in spending can be attributed more to pressures both externally and internally that derailed Taiwan's defense spending rather than to any genuine willingness on the part of the Taiwanese leadership to lower the military budget.

Taiwan's ability to acquire weapons depends significantly on the U.S. government's approval of weapons sales connected to the Taiwan Relations Act. Pressure from China has often thwarted past attempts by the United States to sell weapons to Taiwan. For example, Taiwan has for years tried to obtain the more advanced F-16 C/D fighters from the United States, but the Bush administration did not approve this sale in deference to China.²⁷ In addition, legislative infighting between the Kuomintang (Nationalist Party) and the Democratic Progressive Party has also stalled budget appropriations within Taiwan, which prevented more weapons purchases.

Meanwhile, in the last two years Taiwan has attempted to increase its military spending in response to China's growing military capabilities. The Taiwanese government allocated \$10.5 billion and \$10.17 billion to its defense spending in 2008 and 2009 in an attempt to raise military expenditure levels back up to 3 percent of GDP.²⁸ The irony is that Taiwan's military spending declined during a turbulent period of relations with the mainland but is now on the increase when cross-Strait relations have improved with the election of Ma Ying-jeou and his Kuomintang.

Toward What End?

China has never been satisfied with following the example of Japan, namely building up a world-class economy but forego-

26. Stockholm International Peace Research Institute, "The SIPRI Military Expenditure Database," at <http://milexdata.sipri.org/>.

27. Ting-I Tsai, "Taiwan's New Defense Report Could Fray Ties with China," *Wall Street Journal*, March 17, 2009.

28. Globalsecurity.org, "Taiwan Defense Budget," at www.globalsecurity.org/military/world/taiwan/budget.htm.

ing a large, offensive military capability. Beijing has wanted to be a “normal” global power, with a military that is the equal of its economy. As its economy has increased by double digits, so has its military budget. By any objective standard, China faces considerable security challenges. It must address internal challenges in Tibet and Xinjiang provinces. The conflict with Taiwan has been a flashpoint for half a century. It has an enormous border to patrol, with fourteen countries as neighbors. In the last half-century, it has fought wars with India and Vietnam and had border disputes with Russia and Kazakhstan. It has had to deal with nuclear programs in Pakistan and North Korea. Conflicts in Afghanistan and Tajikistan have had the potential to spread in China’s direction. Disagreements persist over islands and their territorial waters in the South China Sea and the East China Sea.

To maintain a measure of stability along its enormous border and with its numerous and often unstable neighbors, China has argued that it needs a sizable military. But is the military modernization simply designed to preserve the country’s territorial integrity and prevent instability along the edges? China has traditionally lacked the ability to project power over distance.²⁹ It does not possess a blue-water navy, air transport capabilities, or an aircraft carrier. In recent years, however, China has spent considerable sums to beef up this capability. In 2009, China’s defense minister told his Japanese counterpart that China needs to develop an aircraft carrier.³⁰ In the same year, Admiral Wu Shengli told *China Daily* that “the navy wants submarines with greater stealth capabilities, high-speed intelligent torpedoes, electronic weapons, supersonic cruise aircraft and long-range missiles with high accuracy.”³¹

These displays of power are also for external consumption.

29. Martin Andrew, “The Dragon Breathes Fire: Chinese Power Projection,” *China Brief*, Jamestown Foundation, July 18, 2005, at [www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=30674](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=30674).

30. “Aircraft Carrier Project,” GlobalSecurity.org, at www.globalsecurity.org/military/world/china/cv.htm.

31. “China Navy Will Be Built Up Fast, Commander Says,” *Los Angeles Times*, April 16, 2009.

The allocation of money to the military serves an important political function for the Chinese Communist party. Displays of military strength tap into deep-seated Chinese nationalism and provide legitimacy to the ruling party at a time when dissatisfaction with corruption and economic inequity is growing. The leadership also needs the support of the military to push through any of its ambitious economic reforms.³²

At a certain point, however, China may see diminishing returns from its military modernization. Take the case of Taiwan. China and Taiwan have grown increasingly close with more high-level official contacts, the linkages of postal, transportation, and trade, and more cross-cultural exchanges. However, increased military capabilities on both sides may interrupt this detente, as both sides perceive offensive intent in what the other side claims is merely defensive. Cross-Strait relations will only truly improve if the security concerns are addressed and the growing military spending brought under control.

Ultimately, China's increased military spending undercuts its larger geopolitical goals. The uncertainties surrounding China's military spending have triggered a sense of skepticism among Asia-Pacific countries, as they bolster their own militaries to counterbalance China's rise. China's military modernization, undertaken for whatever reasons, creates perceptions that China is interested in power projection and not a peaceful rise after all. If other countries perceive China as a threat and seek to contain it, especially by allying with the United States, that hinders China's ability to continue to have uninterrupted development. If China uses its military power to secure access to natural resources vital to its economic development, it may well find itself clashing with the United States, directly or through proxies, and that too would complicate its claims to peaceful growth.

China's rise, both militarily and economically, relies on the

32. See, for instance, Willy Lam, "Beijing's Great Leap Outward," *China Brief*, Jamestown Foundation, February 6, 2007, at [www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=32467](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=32467).

maintenance of a favorable international environment. Yet the lack of transparency regarding its spending and the direction of its military planning in the long run erodes confidence that China has only peaceful intentions. For China really to achieve an unconstrained rise to great-power status, it must be more forthcoming about the ultimate goals of its military spending. For China to achieve economic parity with the United States and avoid a clash of superpowers, it may well have to reexamine its budget priorities and cooperate with other leading military spenders in shrinking global military expenditures.

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