

RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical issues and contemporary developments. The views of the authors are their own and do not represent the official position of the S. Rajaratnam School of International Studies, NTU. These commentaries may be reproduced electronically or in print with prior permission from RSIS and due recognition to the author(s) and RSIS. Please email: RSISPublications@ntu.edu.sg for feedback to the Editor RSIS Commentary, Yang Razali Kassim.

China's Defence Spending: Settling in for Slow Growth?

By Richard A. Bitzinger

Synopsis

China's recent defence budget increase of seven percent is the lowest in more than 25 years. It could signal a new round of belt-tightening for the People's Liberation Army. Nevertheless, Beijing is unlikely to pull back from its long-term commitment to build a modern, 21st Century military.

Commentary

IN EARLY March, China announced that it would increase military spending by seven percent this year to 1.044 trillion yuan (US\$151 billion). While most militaries would kill for a seven percent increase in defence spending, for China this represented the smallest defence budget increase in more than 25 years.

Moreover, this record increase (in terms of its parsimony) came on top of last year's budget increase of "only" 7.6 percent increase, or 954.4 billion yuan (equal to \$147 billion at the time), which itself was the lowest increase since 2010. Two such modest increases in defence spending beg the question: is China entering a long-term phase of economising and belt-tightening when it comes to its ambitious military modernisation plans, or is this just a temporary blip?

Past as Prologue

These smallish increases are significant when one compares them to the previous hyper-growth in Chinese defence spending that had been taking place since the late 1990s. Beginning around 1997, China experienced *double-digit* real growth (that is, after taking inflation into account) in defence spending *nearly every year*. Even according to its own official national statistics (which many expert observers believe

substantially understate spending levels), China's defence budget from 1999 to 2008 expanded at a rate of 16.2 percent per annum.

This trend remained basically unchanged throughout much of the second decade of the 21st century. Between 2009 and 2015, for example, Chinese military expenditures grew from 481 billion yuan (\$70.3 billion) to around 886.9 billion yuan (\$141.45 billion). Overall, between 1997 and 2015, Chinese military expenditures grew by at least 600 percent, after inflation.

As a result, China has moved from having a military budget smaller than that of Taiwan to being the second-largest defence spender in the world, outstripping Japan, France, Russia, and the United Kingdom. Today, only the United States spends more than China on defence. In fact, these increases got so embarrassing for the Chinese that they eventually dropped all discussion of them from their biannual defence white papers.

Fueling the Chinese War Machine

These steady, sizable defence budget increases have, of course, been crucial to the tremendous and sustained growth of Chinese military power over the past 20 years. If anything has underwritten China's recent expansion in military capabilities, it is this virtual explosion in defence spending. Increased defence budgets have permitted the People's Liberation Army (PLA) to acquire a whole host of new weapons systems, including modern submarines and surface combatants, advanced fighter jets, air-to-air refuelling aircraft, satellites, unmanned aerial vehicles, and a multitude of new ballistic, cruise, and tactical missile systems.

In turn, increased defence procurement has bankrolled the modernisation of China's defence-industrial base. New machine tools, computer-assisted design and manufacturing, modern management and manufacturing processes – all were funded by an ever-expanding defence budget.

Finally, increased defence expenditures have allowed China to sponsor an array of new military research and development (R&D) projects, including fifth-generation fighters, anti-ship ballistic missiles (ASBMs), armed drones, and nuclear submarines (both attack and ballistic-missile-carrying). In fact, China could be spending up to \$10 billion a year on R&D, second only to the US.

Are the Good Times Over...

Obviously, this steady expansion in Chinese military expenditures over the past two decades has financed the considerable modernisation of the PLA and its military-industrial complex. With defence spending stalled at around seven percent for the past two years, however, does this signal a new phase of slow-growth and subsequent economising?

If so, it might not be surprising. For years, China sheltered its defence budget from the ups and downs of its economic volatilities. Increases in military expenditures have outstripped economic growth in China for more than 20 years, and even when GDP growth contracted Beijing continued to spend lavishly on defence.

With its last two defence budgets, however, Beijing could be signalling to the PLA that it is time for the military to share the pain. At least for a while, the PLA may have to join the rest of the country and engage in a bit of belt-tightening. This could mean reduced procurements and slower increases in soldiers' pay. It might also mean a pause in some of China's more controversial military manoeuvres, such as its militarisation of the South China Sea (including more island-building efforts in the Spratlys).

...Or Just a Pause?

That said, do not expect China to totally pull back from its long-term commitment to build a modern, 21st Century PLA, matched by an advanced military-industrial complex. Two years of reduced growth in military expenditures do not necessarily make for a long-term trend. Beijing could just as easily reverse course next year and resume double-digit increases in military spending (and Trump's recent call for a ten percent increase in the US defence budget could be just the prod China needs).

In any event, the military – and therefore military spending – will continue to enjoy preferential treatment within the central Chinese government. Beijing will likely do all it can to ensure that the modernisation of the Chinese military continues, as unabated as possible, on a steady upward trajectory.

Richard A. Bitzinger is a Senior Fellow and Coordinator of the Military Transformations Programme at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University, Singapore. An earlier version of this Commentary appeared in Asia Times.

Nanyang Technological University
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
Tel: +65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg