

China's Ever Increasing Defence Budget

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In March 2014, China announced, one of the highest hikes in military spending in recent times, with its defence budget likely to cross US\$ 130 billion. This amounts to a hike of about 12.2 percent over the previous year. China's military analysts have justified the increase by stating that the hike is driven by the need to counter a "high risk security environment" in the region marked in recent months by rising territorial tensions with many neighbours.

China's levels of military expenditure have tended to rise in ways that are relatively constant when compared to national income. Many governments increase military spending in rough proportionality to their economic growth. While they find strategic rationales for doing so, wealth seems to generate force development, particularly in developing nations and emerging powers. In the case of China, it is economic growth that underpins the changes in its strategy and force structure as well as its rapid rate of military modernisation.

With such an increase, China's military budget is now the second largest in the world, only behind the US. China's military budget has been constantly rising at a double digit rate and is expected to cross US\$ 150 billion in 2015 – more than those of the UK, France and Germany combined.

On the other hand, the Indian military budget, which was also announced recently, has gone up by only 10 percent. Taking into account the depreciation of the rupee, the actual defence budget would fall in real terms to US\$ 36.2 billion from US\$ 37.5 billion – a massive amount of which remains unspent. This is almost one-third of China's defence budget.

Global and Regional Trends

The year 2014 would be the first year that the global defence budget would grow overall since 2009, according to *Jane's Annual Defence Budgets Review* from IHS Inc (NYSE: IHS), the leading global source of information and analytics. The total global spending in 2014 will be US\$ 1.547 trillion in 2013 – an increase of 0.6 percent in real terms.

As per figures released by the Stockholm International Peace Research Institute (SIPRI) on April 21, 2014, the world's military expenditure totalled \$1.75 trillion in 2013, a fall of 1.9 percent compared to just 0.4 percent in 2012. The fall in the global total is attributable to the decrease in the Western countries, led by the United States. However, military spending in the rest of the world, excluding the USA, increased by 1.8 percent.

The highest spenders after the USA and China are Russia and South Arabia that have made substantial increases. China, Russia and Saudi Arabia are among the 23 countries around the world that have more than doubled their military expenditure in the last decade.

As per SIPRI estimates, the increase in military spending is concentrated in the emerging and developing countries where the security dynamics are still unpredictable — genuine security concerns or emerging regional arms races. In Africa, the military spending increased by 8.3 percent while expenditure in Asia and Oceania rose by 3.6 percent in 2013.

China's defence expenditure rose by 7.4 percent in 2013, which China has justified using three arguments:

- It is in sync with the economic growth and is still well below the US military's spending, especially compared to the Gross Domestic Product (GDP) ratio.
- It is necessary, given the increasingly complex security environment in China's periphery.
- China needs to develop military capabilities through investment in high-tech weapon technology research.

Since, China does not release a detailed breakdown of expenditure and, the figures released are not so accurate, with actual military spending being much higher than what is indicated, the emphasis points to China's shift to structural reforms for the military. The true extent of China's spending on its armed forces

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remains uncertain, but China has provided a detailed description of military spending in its 2010 Defence White Paper. China's defence expenditure mainly comprises expenses for personnel, training and maintenance, and equipment with each accounting for nearly one-third of the total. Personnel expenses mainly cover salaries, allowances, housing, insurance, food, bedding and clothing for officers, non-ranking officers, institutional education, construction and maintenance of installations and facilities, and other expenses on routine consumables. Equipment expenses mainly cover Research and Development (R&D), experimentation, procurement, maintenance, transportation and storage of weaponry and equipment. Defence expenditure covers costs to support the active forces, reserve forces, and militia. It also covers part of the costs to support retired servicemen, servicemen's spouses, and education of servicemen's children, as well as national and local economic development and other social expenses.

In the past few years, the increase in China's defence expenditure has primarily been used for the following purposes:

- Improving support conditions for the troops alongwith economic and social development and an improvement of the people's living standards. The People's Liberation Army (PLA) has adjusted servicemen's salaries and allowances, increased funding for education and training, water and electricity supplies and heating, upgraded logistics support for grassroot units in a comprehensive and coordinated way, and improved the on-duty, training and living conditions of border and coastal defence forces and units in remote areas and harsh environments.
- Accomplishing diversified military tasks: China has increased investment in improving Military Operations Other Than War (MOOTW) capabilities, in supporting earthquake rescue and disaster relief operations, in escort operations in the Gulf of Aden and waters off Somalia, in flood control and emergency rescue operations, as well as in international rescue operations.
- Pushing forward the Revolution in Military Affairs (RMA) with Chinese characteristics. In view of the upward trend in purchasing prices and maintenance costs, China has moderately increased the funds for high-tech weaponry and equipment and their supporting facilities.

It is highly probable that the China's defence expenditure on the pattern of the past years would continue, hence, its military modernisation programme remains on course.

Regional Fall-Outs / International Reactions

China's increased defence spending has raised concerns in the US and Asia, particularly in Japan, with the two countries embroiled in an escalating row over the East China Sea islands called Diaoyu in China and Senkaku in Japan. After the latest figures were released, Japan expressed concern about Beijing's level of openness about the PLA. "The transparency of China's defence policy and military capacity or lack thereof, has become a matter of concern for the international community, including Japan", the Chief Cabinet Secretary of Japan told reporters. Philippines Foreign Secretary Albert Del Rosario was quoted as saying, "Given China's assertive mode as viewed by the international community, a clarification on the significant increase in military spending would be helpful".

Experts view that China's action will fuel the concern of its neighbours and encourage them to beef up their security cooperation with each other and the US. This is likely to add momentum to something that's already in motion. Japan has already hiked its defence budget.

Sixty percent of the Indian defence allocation goes towards revenue expenditure, 40 percent for capital procurements.

Indian Defence Budget

In sharp contrast to China's economy which continues to grow at a steady pace, the Indian economy has shown signs of slowdown which is apparent from the growth rates of the past couple of years. The Indian interim budget which was announced in February 2014, allocated about US\$ 37.15 billion for national defence. This represents about 10 percent increase over the 2013-14 defence budget. In other words, there has been no change in the budget allocation taking the rupee devaluation and high inflation into account. As such, about 60 percent of the defence allocation goes towards revenue expenditure, leaving the balance of about 40 percent for capital procurements. The present budget has seen only a marginal increase in the capital acquisition budget. While Army modernisation got an impressive hike, the Navy and Air Force have witnessed a decline in the capital acquisition budget.

While the capital acquisition budget in previous years have been allocated *ab initio*, the Ministry of Finance has been imposing cuts since it sees this as non-Plan expenditure. With the economic slowdown and the government's determination to cut fiscal deficit, coupled with rupee devaluation, high inflation, slow decision-making and tedious defence procurement procedure,

the defence budget has borne the brunt of major cuts as compared to subsidies or non-essential government expenditure. Consequently, this has adversely impacted the modernisation schemes of the various Services.

China's defence forces are seen to be contributing to better economic performance and, in turn, reaping the benefits of the same while this is not true for the Indian defence forces which are the first to face budgetary cuts to save the economy from a slowdown.

Implications for India

The asymmetry between the combat capabilities of India and China is bound to grow. While China spends US\$ 45 billion for modernisation, India spends only 40-50 percent of its budget on capital procurements i.e about US\$ 15 billion. Given this asymmetry, there is likely to be serious deterrence gap, which, if not addressed effectively, will lead to debilitating weakness for India in the times to come. There seems to be no way that the growing gap can be narrowed down in the near future. India, thus, needs to think innovatively to address this asymmetry without seeking parity in conventional forces.

On the other hand, with additional finances, China's military modernisation programme will continue unhindered and well on track. Hence, the PLA programmes like the Type 094 nuclear submarines, Y-20 long range strategic lift capability, DF-41 and JL-2 ballistic missiles, J-20 and J-31 fifth generation fighter programmes and building of the second aircraft carrier would continue to steam ahead.

The development of infrastructure in the Tibet Autonomous Region (TAR) is bound to improve, providing China's forces better capability of force projection and mobilisation while India's infrastructure development programme for the border areas remains marred by delays due to various reasons.

As brought out earlier, the programmes of improving support conditions for the troops and better salaries and allowances are likely to boost the morale and motivation of China's defence forces. It would also contribute in China's defence forces attracting youth of a higher calibre for enrolling in the armed forces.

Conclusion

The rise of China's economy has outpaced all other states, including major political rivals in the developing world like India, in terms of sustained growth. The growing economy of China is fuelling the military modernisation which, in turn, leads China to set its sights on higher economic and strategic goals, thereby, increasing dependence on its the armed forces. This self-sustaining cycle is propelling it to attain great power status. The increase in the budget signifies China's commitment to attaining great power status by having a strong military commensurate with its status in other areas – its size, wealth, political influence, cultural influence and last but not the least, its ambitions.

In the larger scheme of things, fiscal prudence is a good trait and reduction in deficits is desirable, yet cutting defence budgets to offset the expenditure in other sectors may lead to developments which may hurt us not only in the security arena but in economic growth as well. With a coalition government and its compulsions being a thing of the past, the new dispensation in the Centre should be more pragmatic than populist, in the interest of the nation at large.

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