

...Implications for India

military confidence building measure is extremely difficult to understand. The only deduction that can be realistically drawn is that India is continuing to neglect the possibility of a future conflict in the Himalayas.

With the improved logistics infrastructure in Tibet, including the Gormo-Lhasa all-weather railway line, improved road axes with good laterals linking them and many new air strips, the Chinese are now capable of inducting large numbers of troops into Tibet in a time-frame that is likely to unhinge Indian war plans. India needs to invest more in improving the decrepit logistics infrastructure along the border with Tibet, in hi-tech intelligence, surveillance and reconnaissance (ISR) systems for early warning and in generating land- and air-based firepower asymmetries to counter China's numerical superiority. India also needs to raise and suitably equip four to six mountain strike divisions to carry the fight into Chinese territory if it ever becomes necessary. All of these capabilities will require a large infusion of fresh capital. India's growing economy can easily sustain a 0.5 to 1.0 per cent hike in the defence budget over a period of three to five years, especially if the government simultaneously shows the courage to reduce wasteful subsidies.

Conclusion

It can be safely predicted that China's military budget will continue to increase by double digits in percentage terms each year all through the three phases of its military modernisation. The funds provided for national security will keep pace with the country's economic development and growing GDP and the Central Military Commission's (CMC's) perception of China's defence needs. China's overall aim is to close the wide military gap between the PLA and the world's leading military powers, particularly in hardware designed to provide strategic outreach capabilities. This aim will continue to be pursued relentlessly and resolutely. The achievement of this aim will automatically lead to a still greater gap between the military power of India and China. Consequently, India must enhance its investment in modernising its armed forces so that they are not found wanting in case of another conflict in the Himalayas in the future, both in terms of the adequacy of force levels for carrying the conflict into Tibet and the military hardware (firepower, crew-served weapons and C4ISR), that is necessary to fight at altitudes above 11,000 feet on the Tibetan Plateau. ■
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China's Rising Defence Expenditure and Implications for India

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Rising Defence Expenditure

While India's defence budget for the ongoing financial year (FY) 2008-09 has been hiked by less than 5 per cent in real terms to Rs 1,05,000 crore (US \$26.4 billion), the People's Liberation Army (PLA) of China has been given a 17.6 per cent increase in planned defence expenditure to Yuan 417.77 billion (\$58.79 billion). Though China's official defence expenditure (ODE) is now about 1.5 per cent of its gross domestic product (GDP), it needs to be noted that China's GDP has been growing consistently at over 10 per cent per annum. Consequently, given its low inflation base and a strong yuan, China's defence expenditure has grown at between 12 and 15 per cent annually in real terms over the last decade.

In a move that took the international strategic community completely by surprise, it was announced at the Fifth Session of the 10th National People's Congress that China's defence budget for 2007 would be Yuan 350.92 billion (US \$45 billion), an increase of 17.8 per cent (\$6.8 billion) over the previous year. Though Chinese analysts sought to pass off the rather steep hike in the defence outlay in 2007 as having been "caused by the sharp increase in the wages, living expenses and pensions of 2.3 million People's

Liberation Army officers, civilian personnel, soldiers and army retirees," the world was sceptical.

Defence analysts looked at the spectacular anti-satellite test successfully conducted by China in January 2007, the recent pictures of the aircraft carrier under construction, the acquisition of SU-30 fighter-bombers and air-to-air refuelling capability, the drive towards acquiring reentry vehicle technology to equip China's ICBMs with MIRVs, a growing footprint in the South China Sea, and could not help wondering whether a 21st century arms race had well and truly begun. Analysts the world over are divided on whether China is modernising the PLA mainly in keeping with its objective of enhancing its "comprehensive national strength", or if they have more sinister designs in mind.

China's 2006 White Paper on National Defence cites increasing requirements of expenditure on international cooperation in non-traditional security fields as warranting additional expenditure. In the White Paper of 2004, the Chinese government had admitted that additional funds were needed for modernisation of the PLA, even though these were classified as "moderate". In the 2006 Paper, this reason has been mentioned only in passing. The allocation of additional funds for force restructuring and a qualitative

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China's Rising Defence Expenditure

increase in the levels of training is emphasised in both the White Papers, as also rising inflation as a cause of increased defence expenditure. However, nothing in the White Papers of 2004 and 2006 fully explains the double-digit inflation-adjusted growth in the annual defence expenditure. Since 1990, the average annual increase in China's defence budget has been approximately 15 per cent, not taking inflation into account. It is this lack of transparency that has fuelled speculation about an arms race.

China's defence expenditure compares favourably with the other major powers. China's ODE overtook that of Japan (\$42 billion) and Germany (\$37.5 billion) in 2007, but still lagged behind the United Kingdom (\$62.38 billion) and France (\$50.78 billion) whose economies are now much smaller than that of China. It is, of course, a small fraction – less than one-tenth – of the United States' defence budget of \$532.8 billion, not counting the supplementary grants sought by the Pentagon later in the year. According to Brahma Chellaney, "In fact, the United States accounts for nearly half – 48 per cent – of the total global military spending, with the United Kingdom, France, China, and Japan each making up 4 to 5 per cent of the world total."

Lack of Transparency

Complete transparency in defence spending has seldom been a strong point even among countries that take pride in being liberal democracies. Air Cmde Jasjit Singh has written, "All countries try and protect what they consider to be crucial information about their defence capability for understandable reasons; and defence expenditures are obviously part of that information except where democratic states practise greater transparency as part of their liberal ethos, domestic obligations and public oversight, and well established procedures of accountability..." Totalitarian regimes like the one in China not only actively practise deception in their admission of the amount that they spend on national security, but also lack egalitarian accounting practices and do not themselves have a real grip on all the details of what they actually spend. In Nimmi Kurian's view, "There is a great deal of consensus among experts that only a portion of the PLA's requirements is met by way of the budget. That budgetary allocations alone can adequately maintain as well as meet the defence

modernisation needs... is scarcely credible."

David Shambaugh, a well known China analyst, finds China's defence budget the most difficult aspect of the country's armed forces to research. In his view, "Few areas of China's military affairs are more opaque and difficult to research than the revenue/ expenditure and budget/ finance domains – but perhaps none is more important to understand." Wg Cdr V. N. Srinivas of the Centre for Air Power Studies has written that China's estimated military expenditure "is far higher than the officially published figure... the PLA is still a relatively opaque institution embedded within a larger system that continues to regard innocuous information like water table data as a national secret. In response to international calls for greater openness, one Chinese military official countered that 'transparency is a tool of the strong to be used against the weak.' ...the official PLA budget does not tell the whole story. China does not conform to international statistical standards for reporting defence expenditures and major categories are hidden in other parts of the state budget."

David Shambaugh lists several items of expenditure that do not figure in China's ODE: "China's official defence budget does not appear to include all funds for (1) Chinese-made weapons and equipment production (as distinct from procurement); (2) some RDT&E costs; (3) the paramilitary People's Armed Police; (4) funds for special large weapons purchases from abroad; (5) funds directly allocated to military factories under the control of the GAD and funds for defence industry conversion; and (6) military aid." Ted Galen Carpenter and Justin Logan point out that greater transparency would be in China's interest: "Of course,

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Expenditure ...

China would prefer not to disclose its actual level of defence spending. Any country would prefer more secrecy, rather than less, about its military programmes. But China needs to recognize that it gains little from opacity in comparison to what it loses. Any respectable observer of the People's Liberation Army knows about China's growing capabilities. We know about the Sovremenny destroyers, the Sunburn missiles and the Kilo submarines. We know about the Sukhoi 30s and the new F-10 fighter. Large-scale hardware acquisition and development is hard to hide."

Expenditure on R&D and Manufacture of Arms and Equipment

China's military aims and modernisation strategy have been enunciated in the Defence White Paper of December 2006. The strategy is "... a three-step development strategy in modernising China's national defence and armed forces, in accordance with the state's overall plan to realise modernisation. The first step is to lay a solid foundation by 2010, the second is to make major progress around 2020, and the third is to basically reach the strategic goal of building informationised armed forces and being capable of winning informationised wars by the mid-21st century."

To achieve its modernisation goals, even while it continues to import sophisticated weapons platforms, China lays a great deal of emphasis on self-reliance in the manufacture of defence equipment. It has a robust research and development and manufacturing programme that is export oriented in its approach. Most designs are of Soviet/ Russian origin and have been copied through the process of reverse engineering. In many cases, product improvement is known to have taken place in subsequent models. China has also actively collaborated with friendly countries like Pakistan to produce, for example, tanks and anti-tank missiles and has sold both technology and fully assembled arms such as surface-to-surface missiles, often in violation of treaties like the Missile Technology Control Regime (MTCR). However, little if anything is known about how much China actually spends on R&D and the manufacture of arms and equipment.

The India-China Equation

Compared with China, India's budgetary transparency is

With improved logistics infrastructure in Tibet, the Chinese can unhinge Indian war plans by inducting large numbers of troops in a short time frame.

indeed noteworthy – even though many Indian analysts are of the view that the government does not disclose sufficient details in the annually published *Defence Services Estimates*. India's defence budget for FY 2008-09 is Rs 1,05,000 crore. Except in the last two years, the annual increase has barely kept pace with inflation. India's defence budget is less than half of China's officially claimed figure and between one-fourth to one-third of the actual defence expenditure. Notably, the size of India's armed forces is also about half of the size of China's armed forces. However, India's expenditure on pay and allowances and maintenance is much greater than that of China. In the case of the Indian Army, it is about 50 per cent of the annual budget. Hence, in real terms, China is able to spend far more on modernisation and the acquisition of new military hardware and equipment for its armed forces than India.

Due to China's vigorous military modernisation drive, the military gap between India and China is growing every year. The Chinese continue to be in physical occupation of 38,000 sq km of territory claimed by India on the Aksai Chin plateau in Ladakh; and 5,180 sq km of territory has been illegally ceded to them by Pakistan in Shaksgam Valley in the Northern Areas of Pakistan Occupied Kashmir (POK), as per an agreement of March 1963. In the north-east, the Chinese refuse to give up their claim to the entire Indian state of Arunachal Pradesh, that is about 96,000 sq km of territory. Chinese intransigence on the issue of demarcating the Line of Actual Control (LAC) on the ground and the map as a

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