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## China's Defence Budget: An Analysis and Comparison with India's Defence Budget



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### Introduction

The Chinese Premier (Prime Minister), Li Keqiang, kicked off a potentially momentous political summit in Beijing at the annual meeting of China's National People's Congress. Speaking in the Great Hall of the People, the cavernous Mao-era building where China hosts its most important political spectacles, Premier Li Keqiang released the annual budget. Li Keqiang said as he read a report to nearly 3000 delegates in the Great Hall of the People on March 05, 2018, "We will stick to the Chinese path in strengthening our armed forces, advance all aspects of military training and war preparedness".

The Ministry of Finance proposed a budget increase of 8.1 percent from the previous year, pegging China's 2018 budget at 1.107 trillion Yuan (\$174.6 billion). The 2018 figure is in line with a recent trend that has seen a yearly increase in China's defence spending fall to single digits. Nonetheless, the 8.1 percent increase in 2018 does represent a small jump from the last two years when the defence budget grew by 7.6 percent in 2016 and 7 percent in 2017.

China's budget announcement comes as President Xi Jinping, the Commander-in-Chief of the country's armed forces, focuses on increasing both the sophistication and reach of the country's military. The official media justified the increase

### Key Points

1. The 2018 defence budget of China is \$175 billion (1.11 trillion Yuan), a rise by 8.1 percent from 2017.
2. As per official Chinese media, this year's defence budget is about 1.3 percent of its gross domestic product (GDP) (82.7 trillion Yuan), and is lower than that of other major nations in terms of the percentage of GDP.
3. China does not provide the breakdown of its defence budget, leading neighbours and other military powers to complain that Beijing's lack of transparency is adding to the regional tension. The actual amount China spends on its military is perceived to be much more and is widely debated.
4. India's defence budget for 2018-19 is Rs. 2.95 lakh crore (\$45 billion), at around 1.58 percent of the GDP and is approximately one-fourth of China's defence budget. This is inadequate for the country's defence requirements. Further, the actual increase in the Defence Capital expenditure is just about Rs. 13,000 crore from the previous year.
5. To address budgetary challenges, India needs to do a fine balancing act and try to reduce its manpower cost. It is a well-known fact that a streamlined and well-equipped military is better than a manpower-intensive one that is mostly equipped with obsolete equipment.

The Centre for Land Warfare Studies (CLAWS), New Delhi, is an autonomous think-tank dealing with national security and conceptual aspects of land warfare, including conventional and sub-conventional conflict and terrorism. CLAWS conducts research that is futuristic in outlook and policy-oriented in approach.

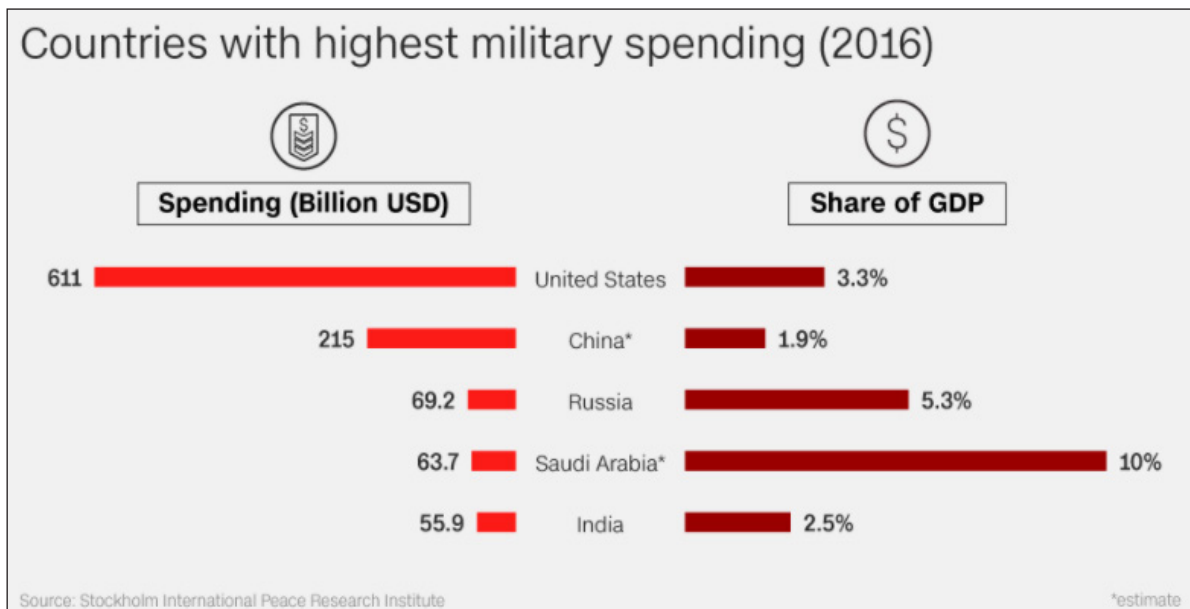
## China's Defence Budget: An Analysis ...

to \$175 billion, saying although slightly higher than the previous two years, the growth rate has dipped to a single digit for the third time since 2013.

China is the second largest spender on defence after the United States. The Pentagon has requested a budget of \$686 billion in 2019, up \$80 billion from 2017. The increase of China's defence budget by 8.1 percent this year is three times higher than India's latest defence budget of about \$46 billion. US defence budget is three times more than China's defence budget.

spending would increase at the quickest pace in three years, as President Xi Jinping pursues a 'world-class' military capable of projecting force further from the country's coasts.

Maj. Gen. Luo Yuan, Vice President of the China Strategic Culture Promotion Association, said that the budget was normal for maintaining the army, not a preparation for war. He said, "China has not had any wars in the past 30 years. It is building its military to ensure its own safety, so foreign powers don't need to worry". Ni Lexiong, a



Recently, the Stockholm International Peace Research Institute (SIPRI) released its annual report on worldwide defence spending. The United States led the way again with military expenditures of \$611 billion, accounting for 35 percent of the worldwide total. China followed with \$215 billion in estimated defence spending or roughly 13 percent of global expenditures. They were followed by Russia (\$69.2 billion), Saudi Arabia (\$63.7 billion) and India (\$55.9 billion). These five nations collectively spent just under 60 percent of the \$1.74 trillion spent on the military around the world in 2017.

### China's Defence Budget

China's defence budget increase has roughly kept pace with its national economic output in recent years. The economy grew by 6.9 percent in 2017 and the government said it will target growth of around 6.5 percent in 2018. "We can expect that China's defence budget will continue to be subordinated to, and coordinated with China's economic performance. It will likely not be over-militarised", said James Char, a military expert at Singapore's Nanyang Technological University. Defence

military expert from Shanghai University of Political Science and Law, said that the increase was modest in the face of rising costs, tensions on the Korean Peninsula and a border standoff with India. "Considering such a situation, this symbolic increase is equal to no increase".

China's steady and significant upward trend in defence spending has enabled the People's Liberation Army (PLA) to fund the development of a wide range of platforms and systems and simultaneously manage the multiple transitions and objectives. China's ability to invest—through its defence budget and other civil government funding mechanisms—in its own industry and the Science and Technology community as well as acquiring Western businesses have been indispensable to its growing number of high-tech successes, such as in quantum computing and encryption.

The growth in Chinese military spending is tied to its rising gross domestic product (GDP). China's estimated military budget was \$52 billion in 2001 and \$226 billion in 2016 (2015 base year USD). Although this number represents over a 330 percent increase, these figures generally run

parallel with the Chinese economic growth. Over the same period, the Chinese economy grew by approximately 950 percent, resulting in a rate of Chinese military expenditure as a percentage of GDP that remained steady at 2 percent. By comparison, Japan's military spending remains set at approximately 1 percent of its GDP. Smaller economies such as South Korea generally spend a larger percentage of their GDP to address their security needs and regional interests. South Korea must contend with instability on the Korean peninsula and averages around 2.6 percent spending on its military.

On the other hand, Xi's emphasis on a policy of civil-military integration should generate new non-budgetary investment in China's science, technology and industrial sector, in infrastructure development, higher education and social safety nets that should translate into benefits for improving the combat effectiveness of the PLA.

Although China's defence spending as a percentage of GDP has not risen significantly, China's aggregate spending increase has corresponded with several high-profile procurement programs, military reforms and



There are several other reasons that suggest that the budget increase may be more significant than it appears to be, because of substantial growth for more than three decades. China's defence outlay has expanded to the extent that single digit growth today may generate monetary figures that are much larger than those generated by double-digit growth in the past. This year's increase of about \$25 billion, is already higher than China's total defence spending for 2003, which was \$23 billion. Moreover, even though the cost of doing business in China has risen, it is still lower than in the United States, even in terms of the cost of acquiring comparable technologies.

Earlier, the PLA used to raise revenues through some business activities. Xi Jinping has ordered the PLA to completely stop 'compensated services and activities'. Such activities had corrosive effects on the PLA, such as military corruption, military-societal tension, tension among various PLA units, neglect of combat readiness and erosion of civilian control. PLA's complete divestiture from business activities should contribute to the enhancement of its combat effectiveness.

doctrinal and strategic shifts within the PLA. These shifts have facilitated China playing a larger role in regional and international security. Some of these efforts, such as China's participation in the United Nations peacekeeping operations, antipiracy efforts, humanitarian assistance and disaster relief are welcome contributions to global governance. On the other hand, defending China's security interests in the East and South China Sea may strain relations with other regional actors.

The approximate defence spending as a percent of GDP in other countries is given below:

- China: 2.0
- Russia: 4.4
- France: 2.3
- USA: 4.4
- Pakistan: 4.2
- UK: 2.5
- India: 1.6

As China's military budget continues to grow, even at a rate substantially lower than its current level, China's spending may converge with that of the United States

within the coming decades. However, some key questions remain:

- Will Chinese military spending continue to grow if the GDP growth slows?
- How will China's leaders balance the need to provide social services and provisions to its ageing population with the costs of its ongoing military modernisation?
- Does China have ambitions to become a military superpower?

All of these questions paint an uncertain future for defence spending and by extension, power politics, in the Asia-Pacific.

Zhang Yesui, a spokesman for The National People's Congress, said that even with the latest increase, China spends less of its GDP than other major military powers. He said, "A large part of the growth of the defence budget is to make up for the low military spending in the past and is mainly used to upgrade equipment and improve the welfare of servicemen and women and the living and training conditions of grassroots troops. China is committed to a path of peaceful development and China pursues a defence policy that is defensive in nature. China's development will not pose a threat to other countries".

### Hidden Spending in the Budget

China's released defence spending figures do not include numerous military-related costs typically included in the budgets of other nations. China does not provide a breakdown of how it allocates its defence budget, leading neighbours and other military powers to complain that Beijing's lack of transparency has added to the regional tension. Analysts do not consider China's publicly announced defence spending to be entirely accurate since the defence equipment projects account for a significant amount of 'off-book' expenditures.

Among China's neighbours, Japan, in particular, has raised the lack of transparency as a major problem in China's military spending. Reacting to the increase in military spending, Yoichi Shimada, a professor at Fukui Prefectural University, said that "it is an open secret that China's military spending is far bigger than their government will ever admit". He added that in addition to the quantum of funding, it is the increasing sophistication of the Chinese military that is alarming. Though China announced its military spending at about \$150.5 billion in 2017, observers say it is considerably higher, considering it is now building two more aircraft

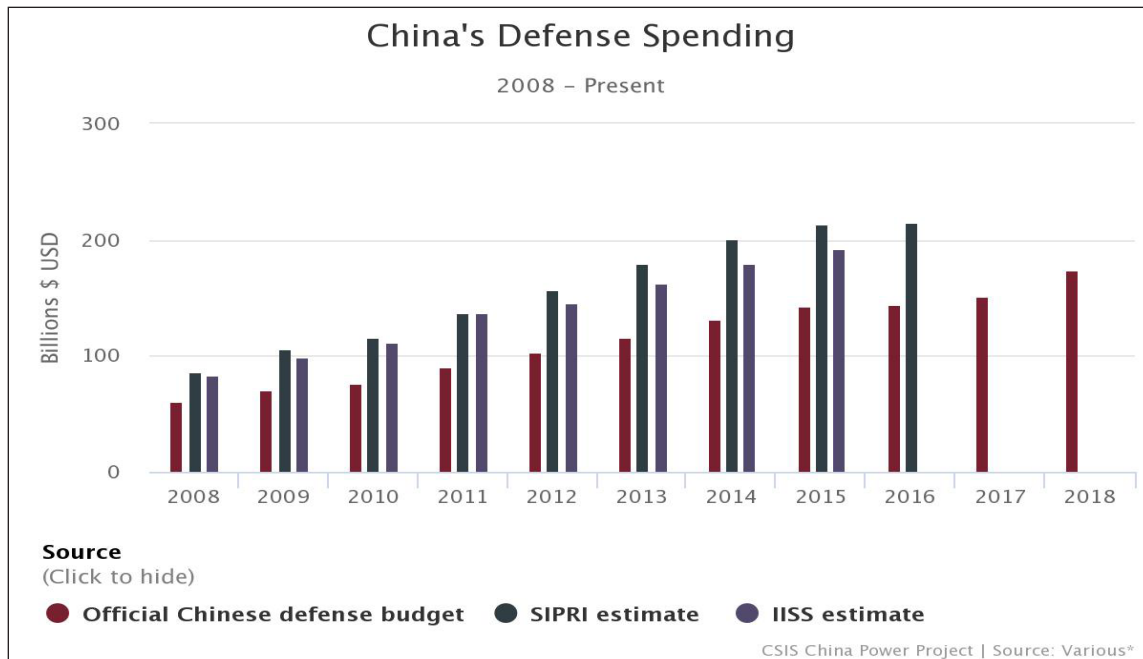
carriers in addition to the one already in service as well as the addition of new jet fighters, including stealth fighter J-20. Chinese Navy also expanded its global reach with flotilla ships sailing through the far-off oceans to expand China's influence. Vital elements of the Chinese military build-up including cyberwarfare and space capabilities as well as foreign procurements were not included in the announced budget. The bulk of the increased defence spending will go to the Chinese Navy, Air Force and the Second Artillery Corps, which runs the strategic nuclear forces.

The United States has also raised similar concerns about the non-transparent nature of China's military spending. Vice Adm. Phillip Sawyer, commander of the Asia-based US Seventh Fleet, referred to the lack of transparency as an issue that causes angst in the region which "is potentially disruptive to security and stability and the free flow of commerce and trade".

The Center for Strategic and International Studies (CSIS) China Power project, which monitors China's military expenditure, said that the outlays not covered may include government subsidies for military production, funds for strategic and nuclear forces and paramilitary organisations, suggesting that China's real budget is far greater than the official figures reveal. "Military-related aspects of Beijing's space program, extra-budgetary revenues from military-owned commercial enterprises, defence mobilisation funds, authorised sales of land or excess food produced by some units, recruitment bonuses for college students, and provincial military base operating costs are absent from China's officially announced numbers", said CSIS.

The actual amount China spends on its military is widely debated. Official figures released by the Chinese government peg the country's 2016 defence budget at 955 billion Yuan (\$143.7 billion). The SIPRI estimates the overall 2016 figure at \$226 billion and the 2015 estimate at \$214 billion. Estimates from other organisations as to how much China actually spent on its military in 2015 vary. The US Department of Defense places the 2015 defence budget at more than \$180 billion, and the International Institute for Strategic Studies puts the number at \$193 billion.

Chinese official figures do not account for a number of military-related outlays that are often included in the budgets of other countries. Estimates of China's military budget are further complicated by what China does include in its budget reporting. China's official defence figures likely include costs not typically included in



many Western defence budgets. For instance, expenses incurred by the military infrastructure construction are assumed to be included in the official figures, although many of these projects are designed to be of dual-use and draw funding from local and national nondefence coffers. Disaster relief is also ostensibly funded through the defence budget and is to be reimbursed by nondefence agencies, but the mechanism and effectiveness of this reimbursement remains unclear. The percentage of expenditures that constitutes China's total defence budget remains unclear.

No serious China analyst thinks the official Chinese defence budget accurately captures the total Chinese defence spending. It almost certainly does not include, for example, Beijing's substantial investments in space, and probably covers only a fraction of its cybersecurity spending. The combined defence budgets of the United Kingdom, France and Germany—the three highest-spending US allies in the North Atlantic Treaty Organization—total only \$141 billion. These budgets support a combined naval fleet consisting of 26 submarines and 56 major surface combatants (of increasing age and declining readiness), and respectively smaller ground and air forces.

The recent restructuring and downsizing of the PLA by 300,000 billets, with an eye on cutting non-combat agencies, units and personnel and stricter supervision on authorised strength of various PLA organisations, should lead to a more optimal use of the defence spending for combat tasks by a smaller military. The

relatively successful civilian governance by the party and government leadership, with an emphasis on continued economic growth, along with political and social stability, has denied the PLA a major reason to get involved in the domestic politics and power struggle. Consistent with Xi Jinping's call on the PLA to make preparations for fighting and winning wars, this development allows the PLA to focus narrowly on perfecting its functional and technical expertise, which also contributes to a more optimal usage of defence spending on the military tasks.

China is not alone in accounting for elements of military-related spending in other places. The United States funds its nuclear weapons through the Department of Energy and does not include these details in its defence budget. However, the US government maintains a high level of budgetary transparency, which enables analysts to readily account for these discrepancies. For instance, a recent study designed to estimate the total US national security budget (including the budget for the Department of Veteran Affairs) used the publicly available data published by the Department of Homeland Security and placed the US spending at roughly \$1 trillion.

### What Will China Do with the Budget

China's military reach is getting extended, including launching the country's first domestically built aircraft carrier last April. Last year, the PLA established its first overseas military base near the US's Camp Lemonnier naval facility in the tiny West African nation of Djibouti, strategically located near some of China's top oil sources. It is also likely to create additional bases in friendly

countries such as Pakistan. Its Air Force, Army and Navy are being developed for the offensive and long-distance operations. As China becomes more and more integrated into the global economy, it understands that maintaining economic superiority requires more security. In Africa, where China has poured vast sums of money into various projects, they have also been quietly building small military bases and developing relationships with various African military and security forces.

China is going through the largest, fastest shipbuilding expansion in modern history, producing the world's largest Navy, coast guard and maritime militia by a number of ships; the world's largest conventional ballistic and cruise missile force and other armed forces subcomponents that are among the world's largest in quantity and likewise, rapidly improving in quality.

The PLA has stocked up on stealth fighter jets, warships and high-tech weaponry over the years. The PLA announced that its newest stealth fighter, the J-20, was combat-ready. Last month, in the air, China said it had begun equipping combat units with its J-20 stealth fighter jet, the country's answer to fifth-generation jets such as the US F-22 and F-35. China has in recent years built artificial islands—some with airstrips—capable of hosting military installations in the South China Sea, inflaming tensions with its Southeast Asian neighbours.

China's missile technology is impressive, particularly the DF-21D, which is built to take out an aircraft carrier, and a new air-to-air missile with a range of some 400 km (249 miles) that could attack assets such as early warning aircraft and refuelling tankers. Sometime later this year, it is expected to enter the Dongfeng-41 intercontinental

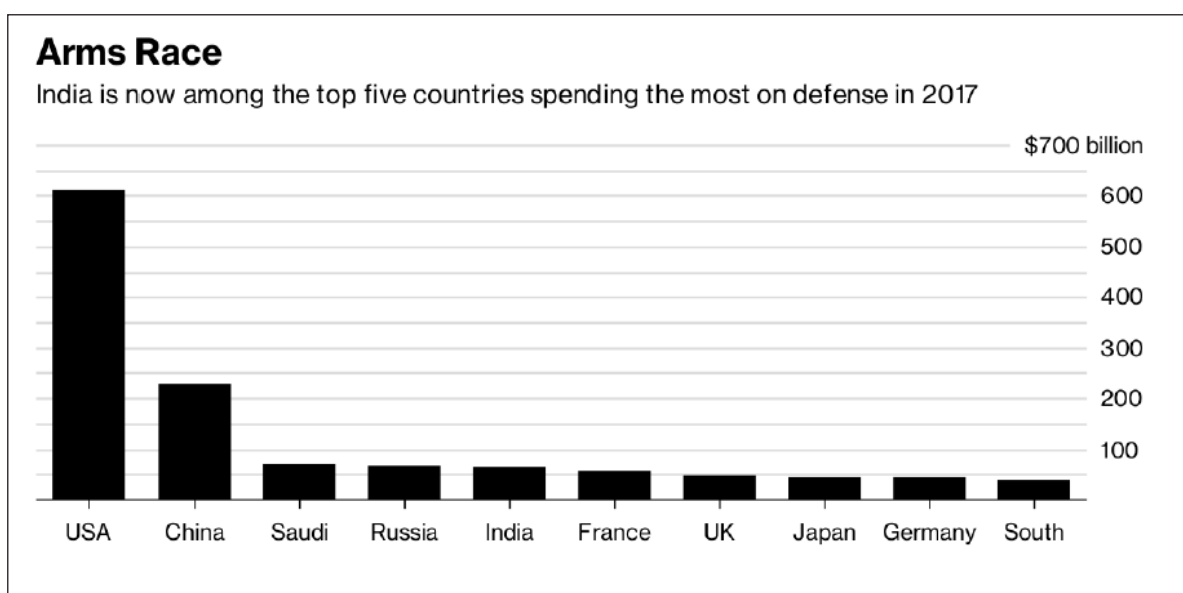
ballistic missile into service. Capable of carrying 10 independently targeted nuclear warheads as far as 15,000 km, the road and rail mobile DF-41 will have the longest range of any Chinese missile in operation and could hit the US mainland in 30 minutes, according to the CSIS.

But analysts caution that despite recent developments, China continues to lack arguably the most important attribute—combat experience. The PLA has not engaged in a foreign conflict since a border war with Vietnam in 1979. One key means of overcoming this barrier is through the sale of arms, thereby allowing China to test the domestically made weapons in low-level conflicts via client states. Arms sales provide military advantages—more influence, more countries becoming dependent on China. China is increasing its sale of arms considerably. China is the world's third-biggest arms exporter, only behind the United States and Russia. Seventy-two percent of its exports go to Pakistan, Bangladesh and Myanmar. Seventy percent of the arms import of Pakistan is from China while the United States is the second largest arms supplier at 12 percent, while Russia is third at 5.7 percent. Raised technological sophistication combined with low procurement cost is attracting discerning buyers in the upper middle/higher income countries, including Turkey, Saudi Arabia and the United Arab Emirates.

### Indian Budget

India is now among the top five countries spending the most on defence.

India's defence budget for 2018-19 is Rs. 2.95 lakh crore (\$45 billion). Last year, it was Rs. 2.74 lakh crore (\$42 billion). Out of the total allocation of Rs. 295,511 crore for the defence budget, only Rs. 99,947 crore has been set



aside for capital outlay for the purchase of new weapons, aircraft, warships and other military hardware. The allocation has been estimated at around 1.58 percent of the GDP (the lowest since 1962) and 12.10 percent of the total budget of Rs. 2,442,213 crore for 2018-19. While the government has increased the defence budget by 5.91 percent for the Fiscal Year 2018-19 to Rs. 295,511.41 crore, the actual hike is marginal, considering the inflationary pressure and increase in the cost of military hardware compared to last year.

Of the total defence outlay, Rs. 1.95 lakh crore was allocated for revenue expenditure (which includes day-to-day expenditures of the armed forces) and Rs. 99,500 lakh crore was allocated for capital expenditure (which includes capital expenditure and modernisation). The Defence Capital expenditure is up from Rs. 86, 529 crore. This is an increase of Rs. 13,000 crore, which gives the Armed Forces some more leeway to modernise its ageing equipment.

Increased spending does not mean the armed forces are deploying state-of-the-art equipment. The rise in defence spending mostly goes toward the salaries and pensions of roughly 1.4 million serving personnel and more than two million veterans. The Defence Pension was pegged at Rs. 1.08 lakh crore. This is the first time India will spend more on pensions than it will on capital expenditure. Moreover, this is also the first time the pension amount has breached the Rs. 1 lakh crore mark. This is a whopping rise of 26.6 percent from the Rs. 85,740 crore allocated for Defence Pensions last year.

The present defence budget, pegged at 1.6 percent of the GDP, is inadequate for defence preparedness as well as modernisation. The allocation will not be sufficient

for modernising Indian Armed Forces at a time when they have to deal with an increasingly assertive China on the Northern frontier and a hostile Pakistan along the Western border. On top of that, the United States is prodding India to assume a greater security profile in the 'Indo-Pacific', from the Indian Ocean to the waters off Southeast Asia. With a high defence budget, China is focused on modernising its forces, including building a powerful naval fleet and air bases. In comparison, India's modernisation programmes, such as the procurement of new combat jets for bringing up the number of fighter squadrons, next-generation submarines and future infantry combat vehicles, have slowed down. India needs to quickly bridge the gap in military capabilities with China to build a strategic deterrence, especially in the wake of Doklam standoff in the recent past.

Under the present economic conditions in the country and the likely strengthening of the economy due to the Goods and Services Tax (GST), it is felt that a sustained increase in the budget allotment of 2.1-2.3 percent of the GDP is necessary to meet the national security commitments.

The Finance Minister said that the government would also bring out an industry-friendly 'Defence Production Policy 2018' to promote domestic production by the public sector, private sector and the Ministry of Micro, Small and Medium Enterprises. He said that a number of initiatives had been taken to develop and nurture India's intrinsic defence production capability to make the nation self-reliant on its defence needs. The minister said that private investment in defence production had been opened up, including liberalising foreign direct investment.

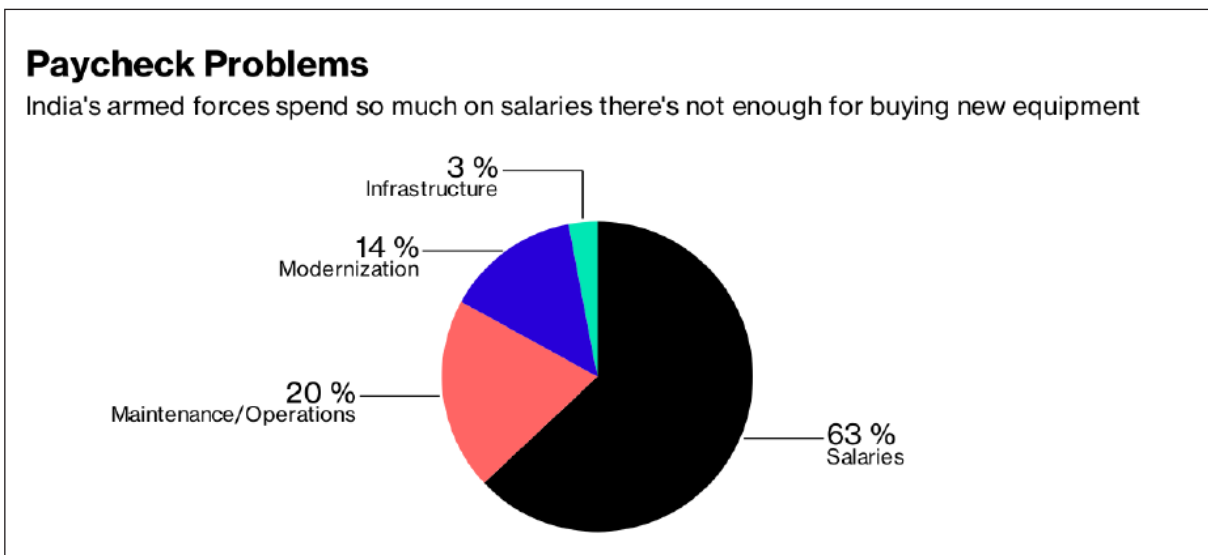
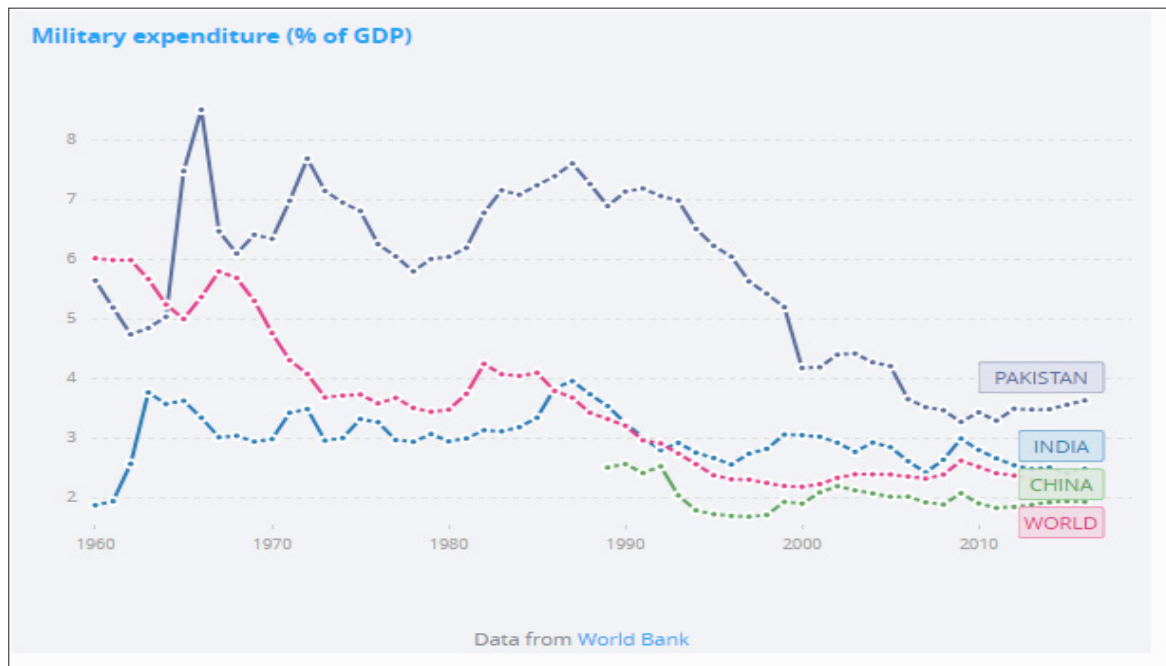
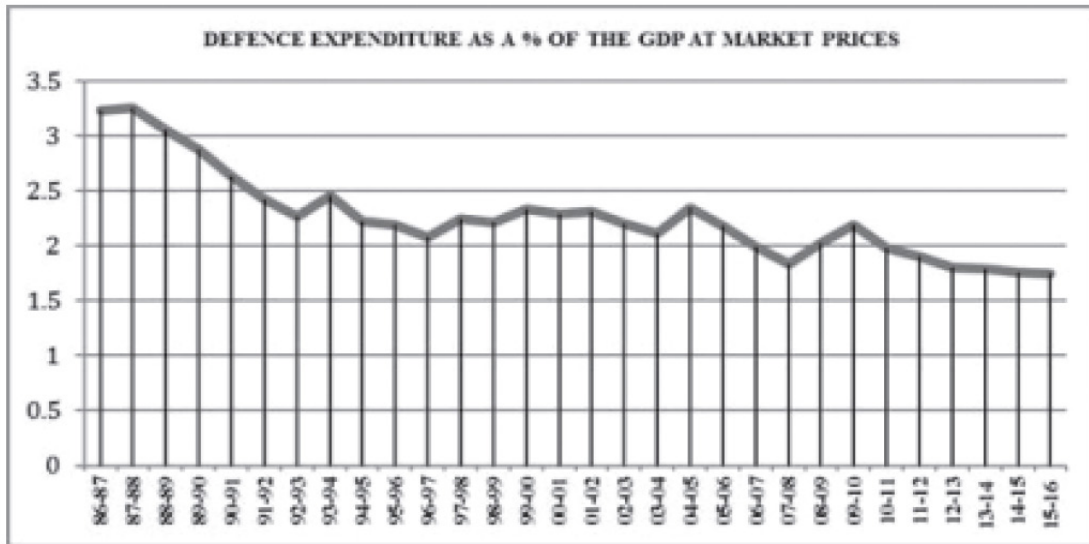


Figure 1: Defence Expenditure as a Ratio of GDP: 1986-87 to 2015-16<sup>2</sup>



All the three services are clamouring for more funds, especially for capital acquisition. Navy and Air Force projects are heavily capital intensive. The cost of aircraft carriers or the latest fighter aircraft is very high. However, the concerns of Indian Army have been starkly highlighted by the Parliamentary Standing Committee on Defence. The parliamentary panel has rapped the government for low allocation to the Army. The Committee notes that over the years, the army has accumulated a substantial deficiency in weapons and ammunition. The Committee adds that this is because adequate attention has not been given in policy and budget for modernising the ageing armoury. Importantly, it says that the terrorist attack on

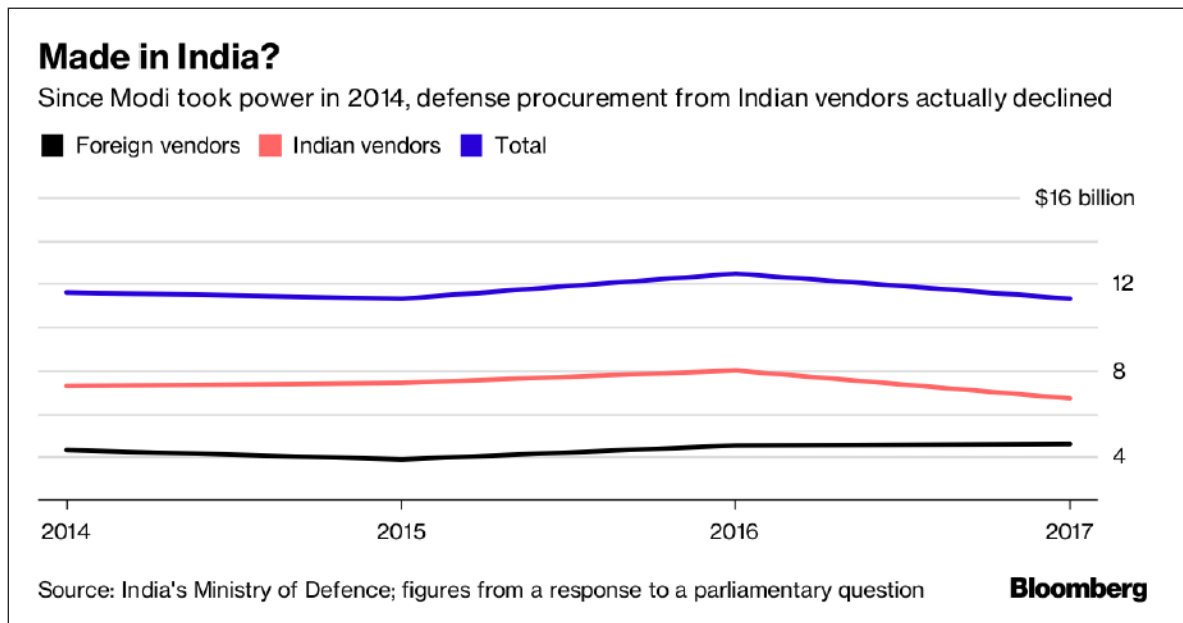
the Sunjuwan army camp highlights the scant progress made in perimeter security, adding that the budgetary provisions do not show the seriousness towards meeting it.

### The Budget does not Support Army

Vice Chief of Army Staff, Lt. Gen. Sarath Chand has flagged to the parliamentary committee the concerns of the Indian Army in no uncertain terms. He drew the attention of the government on the following:

- The marginal increase in the current budget barely accounts for inflation and tax payments. Only 14





percent goes toward military modernisation compared to 63 percent for salaries.

Allocation of Rs. 21,338 crore for modernisation is insufficient even to cater for the committed payment of Rs. 29,033 crore for 125 ongoing schemes, emergency procurements and weaponry for 10 days of intense war and other Director General of Ordnance Factories requirements. Committed liabilities of 2017 which will also get passed on to 2018 will further accentuate the situation. The Army does not have enough money for future acquisitions and also for strategic roads along the line of actual control with China. Budget allocation for strategic roads along the northern borders is falling short. There is an overall shortfall of around Rs. 12,296 crore as far as the capital budget is concerned.

- Typically, any modern armed force should have one-third of its equipment in the vintage category, one-third in the current category and one-third in the state-of-the-art category. As far as the Indian Army is concerned, 68 percent of our equipment is in the vintage category, with just about 24 percent in the current and eight percent in the state-of-the-art category. The Army is looking forward to manufacturing a future-ready combat vehicle and Future Infantry Combat Vehicles through the Strategic Partnership model. With the kind of budget that has been allocated, this may get delayed by a few years. It is important to pay attention to modernisation and bridging deficiencies while considering the possibility of a two-front war.
- 'Make in India' is a great step taken by the Ministry of Defence towards development and self-reliance. The

Army has identified as many as 25 projects for Make in India, but there is not enough money available for the army to take up projects.

- There is an additional burden of Rs. 5000 crore because of new taxation laws in GST, which has come into force in the last 1 year and which has also not been taken care of in the latest Budget.
- While financial power has been delegated to the Vice Chief of Army to spend around Rs. 14,097 crore, there is no separate allocation for it.

### What Can India Do

To address the budgetary challenges, the government can try to reduce manpower cost. Faced with similar budgetary constraints in the past, China has cut the strength of its army in several phases over the years. India could initiate similar restructuring and reform, although ours need not be as drastic as China's. The numerous security threats India faces makes this a sensitive issue, but the fact remains that a streamlined and well-equipped military is better than a manpower-intensive one, equipped with mostly obsolete equipment.

Another piece of the solution could be a more efficient utilisation of the limited capital allocation. Despite its best efforts, including the introduction of a revised Defence Procurement Procedure, the government seems to have failed to significantly re-engineer the equipment acquisition system. The process is still marred by confusion, long gestation periods and lengthy discussions on pricing and delivery. A long gestation period not only affects the preparedness of the Armed Forces but also results in a significant increase in the cost

of the equipment being procured. By making the process of acquisition shorter, smoother and making smarter choices, India can acquire more equipment for its forces with lesser expenditure.

### Conclusion

Widely read Chinese tabloid, the *Global Times*, said that if China really wanted to expand militarily, the defence budget should really be rising by 20–30 percent. “China has obviously not fallen into the mindset of engaging in an arms race with the US. Otherwise, it could realise double-digit increases in its defence expenditure”, the paper said in its editorial.

China has justified its defence budget by arguing that its defence spending is less than 1.5 percent of its GDP, but that argument is not going to go down well with its neighbours. Given the size of China’s economy, its defence spending in absolute terms is quite high.

It is believed that organisations such as Office of Net Assessment of the United States carried out a study and came to the conclusion that if the United States kept on increasing expenditure on defence, space, nuclear, and so forth, the erstwhile Soviet Union would also increase their

budget correspondingly during the Cold War and after some time the economy of Soviet Union would collapse. Beijing’s latest defence spending figure shows that it is determined to avoid succumbing to a Soviet-style military overextension, yet it remains focused on enhancing capabilities to further its interests (contested islands and maritime claims) in the East and South China Seas.

While Chinese military spending has increased considerably over the past decade and a half, China’s military budget pales in comparison to the US military budget. China would have to spend a great deal more to match the US defence spending. It is important to note that the United States maintains a global military presence while China has no bases on foreign soil and its defence interests are primarily focused within the Asia-Pacific.

India has no choice but to increase its defence expenditure. However, some hard decisions have to be taken regarding priority, indigenisation and self-sufficiency, innovation, research and development in niche technology areas, restructuring and modernisation of the forces. Indian Armed Forces have to spend their budget smartly.

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