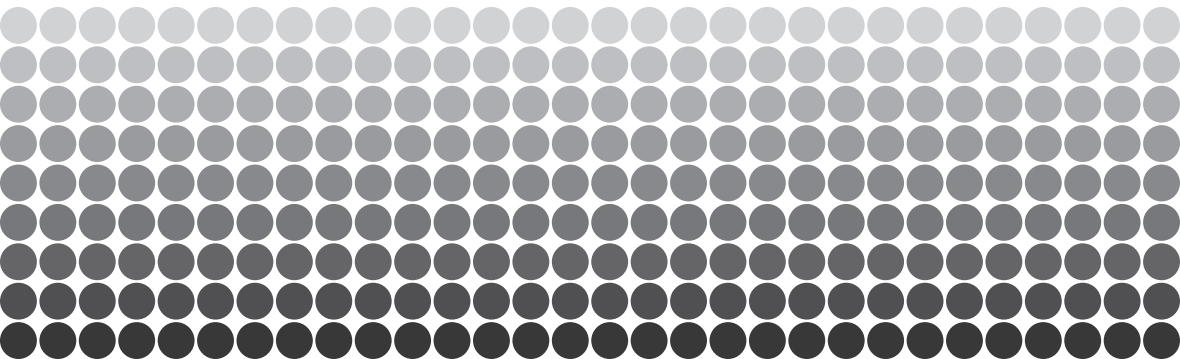


SIPRI YEARBOOK 2014

Armaments, Disarmament and International Security

Military spending and regional security in the
Asia–Pacific

SAM PERLO-FREEMAN AND CARINA SOLMIRANO



Military spending and regional security in the Asia–Pacific

SAM PERLO-FREEMAN AND CARINA SOLMIRANO

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III. Military spending and regional security in the Asia–Pacific

SAM PERLO-FREEMAN AND CARINA SOLMIRANO

Military spending in the Asia–Pacific region increased by 65 per cent between 2004 and 2013.¹ Four of the top 15 military spenders in the world are in this region: China (ranked 2nd), Japan (8th), the Republic of Korea (South Korea, 10th) and Australia (13th).

However, the pattern of spending increases since the effects of the global financial crisis began to be felt in 2009 has been mixed across this region. Some countries continued (or started) to increase spending rapidly—for example, Indonesia (by 93 per cent since 2009), China (33 per cent), the Philippines (27 per cent) and Viet Nam (24 per cent). In contrast, spending by Australia, Cambodia, Japan, Singapore, Taiwan and Thailand—several of which had previously had large increases—fell between 2009 and 2013, while Malaysia’s real military expenditure levels remained virtually unchanged. The overall trend for the Asia–Pacific region is heavily influenced by the increase in China, which accounted for 55 per cent of these region’s total spending in 2013. Total spending excluding China was largely unchanged between 2009 and 2013 (see figure 4.5).

This section analyses trends in military expenditure in the Asia–Pacific region in the context of the rapidly developing security environment in the region, including its numerous interstate disputes, which—while not currently threatening armed conflict—are becoming clear drivers of military spending for many countries.²

For many countries in the Asia–Pacific region, two key trends are shaping security perceptions, policies and thus spending: the rise of China, which includes its growing political and economic weight, but also its rapidly developing military capabilities; and the policies of the United States, and in particular its ‘pivot’ to the Asia–Pacific region announced in late 2011.³ Perceptions of China’s rise vary considerably among countries in the region, with those with which China has territorial disputes naturally viewing it with more concern. Territorial disputes have been escalating, in particular in the South China Sea and the East China Sea (see figure 4.6). Nonetheless, military spending levels and priorities in the region are

¹ The Asia–Pacific region is defined here to include the Pacific-facing countries of East Asia, South East Asia and Oceania. States in this region that are included in the SIPRI Military Expenditure Database are China, Japan, North Korea, South Korea and Taiwan in East Asia, Brunei Darussalam, Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Timor-Leste and Viet Nam in South East Asia, and Australia, Fiji, New Zealand and Papua New Guinea in Oceania.

² On the history of armed conflict in the region see Tønnesson, S. et al., ‘The fragile peace in East and South East Asia’, *SIPRI Yearbook 2013*.

³ Clinton, H., ‘America’s Pacific century’, *Foreign Policy*, 11 Oct. 2011.

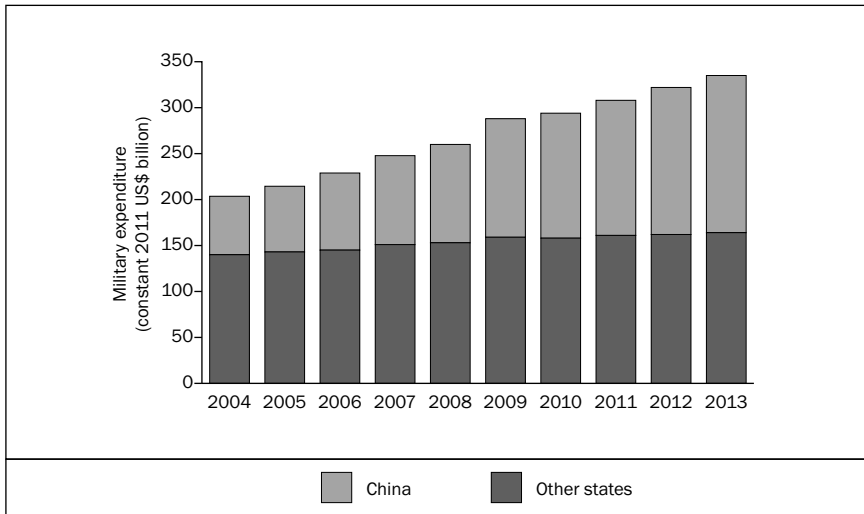


Figure 4.5. Military spending of states in the Asia–Pacific region, 2004–13

Source: SIPRI Military Expenditure Database, <<http://www.sipri.org/databases/milex/>>.

affected by a range of other issues, notably the perennial conflict on the Korean peninsula. Whether or not related to territorial disputes, maritime security in general is also a key regional issue due to the crucial importance of the region for sea lines of communication—with over 50 per cent of world shipping by tonnage passing through the South China Sea, via the Strait of Malacca between Indonesia and Malaysia.⁴ In many cases the importance of maritime issues and naval forces is reflected in patterns of military spending.⁵

The following subsections discuss military spending trends in the light of these security dynamics, first in the Asia–Pacific region’s leading spenders—China, Japan, South Korea and Australia—and then in the countries in and around the South China Sea, focusing in particular on Viet Nam, the Philippines and Indonesia.

The leading spenders in the Asia–Pacific

China

For the fourth consecutive year, in 2013 China’s military spending increased by less than 10 per cent in real terms, with a 7.4 per cent increase. Following an increase of 21 per cent in 2009, when China was applying

⁴ Rosenberg, D., ‘Why a South China Sea website?’, [n.d.], <<http://www.southchinesea.org/why-a-south-china-sea-website-an-introductory-essay/>>.

⁵ See also Wezeman, S. T., ‘The maritime dimension of arms transfers to South East Asia, 2007–11’, *SIPRI Yearbook 2012*.



Figure 4.6. Map of the Asia–Pacific region

Note: Named states appear in the SIPRI Military Expenditure Database.

stimulus measures, the slower rate of increase has reflected weaker economic growth in the wake of the 2008 global financial crisis. Nonetheless, the growth rate is still extremely high by global standards, with a total increase of 170 per cent between 2004 and 2013. A further nominal rise of 12.2 per cent in the official defence budget for 2014 was announced in early 2014. Given China's inflation target of 3.5 per cent, this would represent a 8.4 per cent real increase, slightly higher than the target rate of gross domestic product (GDP) growth of 7.5 per cent.⁶ By 2013 China's military

⁶ 'China congress reveals growth target and defence boost', BBC News, 5 Mar. 2014, <<http://www.bbc.com/news/world-asia-china-26429481>>. See also Perlo-Freeman, S., 'Deciphering China's latest defence budget figures', *SIPRI Update: Global Security and Arms Control*, Mar. 2014, <<http://www.sipri.org/newsletter/march14>>.

spending had reached an estimated \$188 billion, more than twice the spending of Russia, although still less than one-third of US spending.

There is a strong focus on maritime security issues in China's 2012 Defence White Paper, which emphasizes the need to build up a blue-water navy—that is, a navy capable of operating across oceans.⁷ The roles specified for the People's Liberation Army (PLA), Navy (China's navy) and the civilian maritime security forces include safeguarding China's maritime rights and interests (a phrase repeated numerous times throughout the white paper); ensuring coastal security; protecting sea lines of communication, including in anti-piracy operations; assisting with emergency and disaster relief; and carrying out evacuation missions for Chinese nationals.⁸

China does not release figures on the distribution of its military spending among the different armed services, but in recent years there is evidence of a strong emphasis being placed on developing naval capabilities. Following the launch in 2012 of its first aircraft carrier, a refurbished and modernized ex-Ukrainian vessel, in 2013 China announced plans to develop indigenously built carriers with greater capabilities.⁹ According to the US Department of Defense, China has major programmes to develop and modernize both submarines and surface ships, including a new generation of ballistic missile submarines; an expanding force of nuclear-powered attack submarines, again with a new generation in the pipeline; guided missile destroyers and frigates, which will lead to both quantitative and qualitative improvements in capabilities; and a large number of smaller vessels.¹⁰

This new equipment is increasing China's blue-water naval capabilities. In addition to its first active long-distance naval operation, off Somalia as part of international anti-piracy efforts, China conducts an increasing number of long-range exercises, including some close to the US state of Hawaii and Pacific territory of Guam. However, limited logistics and intelligence support remain a challenge for long-distance operations.¹¹

While displaying a highly assertive approach to its various maritime territorial disputes, China maintains that it is following a path of 'peaceful development' and continues to seek enhanced economic, political and

⁷ Chinese State Council, *The Diversified Employment of China's Armed Forces*, Defence White Paper (Information Office of the State Council: Beijing, 16 Apr. 2013).

⁸ On China's protection of its overseas interests and its nationals overseas see Duchâtel, M., Bräuner, O. and Zhou, H., *Protecting China's Overseas Interests: The Slow Shift away from Non-interference*, SIPRI Policy Paper no. 41 (SIPRI: Stockholm, June 2014).

⁹ 'China plans new generation of carriers as sea disputes grows', Bloomberg, 24 Apr. 2013, <<http://www.bloomberg.com/news/2013-04-24/china-plans-to-build-new-generation-of-bigger-air-craft-carriers.html>>; and Xinhua, 'China's second aircraft carrier will be "larger"', *People's Daily*, 24 Apr. 2013.

¹⁰ US Department of Defense (DOD), Office of the Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2013*, Annual report to Congress (DOD: Washington, DC, 6 May 2013), pp. 29–43. See also chapter 6, section V, in this volume.

¹¹ US Department of Defense (note 10), pp. 38–39.

military relationships with other states in the region.¹² Military cooperation in recent years has included joint counterterrorism operations with India, and joint maritime exercises with Indonesia, Viet Nam and the USA.¹³ In August 2013 a visit to the USA by the Chinese Minister of National Defence, General Chang Wanquan, led to an agreement for enhanced military cooperation in several areas.¹⁴

Japan

Japan's military spending has generally been falling gradually over the past decade or more, and has remained at or close to an informal limit of 1 per cent of GDP (excluding military pensions) throughout this period. However, largely as a result of rising tensions with China, Japan increased its 2013/14 defence budget for the first time in many years, by 0.8 per cent, and has announced a larger increase of 2.8 per cent for 2014/15.¹⁵

Japanese moves towards increasing military spending and rearmament are prompted by what the government describes as an increasingly 'severe' security situation in the region.¹⁶ This is a function of, first, continuing tensions on the Korean peninsula and, in particular, of the continued development of the nuclear weapon and ballistic missile programmes of the Democratic People's Republic of Korea (DPRK, or North Korea) and, second, increasing tensions with China. The dispute between China and Japan over the Japanese-controlled Senkaku Islands (called the Diaoyu Islands in China) in the East China Sea had flared up in 2012, following Japan's nationalization of the islands, and periodic standoffs between Chinese and Japanese vessels in the area.¹⁷ Tensions escalated further in 2013, with an increase in Chinese naval and coastguard patrols in the islands' vicinity and intensified Japanese efforts to reinforce the area; and with the declaration by China in November 2013 of an air defence identification zone (ADIZ) in the East China Sea, which included the islands.¹⁸

¹² Chinese State Council (note 7).

¹³ On confidence- and security-building measures involving China see Wezeman, S. T., 'Confidence- and security-building measures in Asia', *SIPRI Yearbook 2013*.

¹⁴ Weitz, R., 'China–U.S. military ties on the upswing', Jamestown Foundation, *China Brief*, vol. 13, no. 19 (27 Sep. 2013).

¹⁵ In fact, Japan's actual military spending increased also in 2011 (by 2.5%) due to additional unplanned spending following a devastating offshore earthquake and tsunami that year. SIPRI figures in constant US dollars are reported on a calendar year basis, and thus may show slightly different trends for Japan from the budget figures, which are based on a financial year (which runs from Apr. to Mar.). Thus, although the 2013/14 defence budget was 0.8% higher in real terms than in 2012/13, the SIPRI calendar year figures show a slight fall of 0.2% between 2012 and 2013.

¹⁶ Japanese Ministry of Defense, 'National defense program guidelines for FY 2014 and beyond', 17 Dec. 2013, <http://www.mod.go.jp/e/d_act/d_policy/national.html>; and Japanese Ministry of Defense (MOD), *Defense of Japan 2013* (MOD: Tokyo, 9 July 2013).

¹⁷ Warimann, H. B., 'A dangerous standoff over the Senkaku islands', *Asia Defence Journal*, Oct. 2012, pp. 4–6.

¹⁸ Mattis, P., 'Spiraling surprises in Sino-Japanese tensions', Jamestown Foundation, *China Brief*, vol. 13, no. 2 (18 Jan. 2013).

China thereby required foreign aircraft within the ADIZ to declare their presence to the Chinese authorities. This move drew sharp criticism from Japan, South Korea and the USA.¹⁹

In the wake of the dispute over the Senkaku/Diaoyu Islands, Japan's 2013 Defence White Paper complained of increasing Chinese violations of Japan's marine and air space.²⁰ Japan's national defence programme guidelines refer to the need for Japan's armed forces, the Japan Self-Defense Forces (JSDF), to respond to an increasing number of 'grey zone' incidents that fall between peacetime and war—such as infringements of marine and air space, and stand-offs between vessels that do not necessarily result in exchange of fire.²¹

As well as increasing military spending, the nationalist government of Shinzo Abe also appears to be exploring ways to expand the mandate of the JSDF, which is currently restricted by Japan's 'pacifist' constitution that forbids the country from possessing 'military' forces. While exactly what constitutes 'military' forces has often been a matter of dispute, on occasion requiring judgements by the Supreme Court, governments in recent decades have interpreted the constitution as not allowing Japan to engage in collective self-defence with allies or to possess capabilities that could threaten other countries, such as pre-emptive strike capabilities.²²

Some of the major equipment purchases announced in the defence programmes and budgets for 2014 and the mid-term defence programme relate particularly to potential conflict in the East China Sea.²³ These include new tilt-rotor aircraft and amphibious vehicles, aimed at increasing Japan's ability to protect and, if necessary, retake remote islands, and unmanned aerial vehicles (UAVs) and patrol aircraft to improve its surveillance capabilities. In relation to North Korea, there are plans for two additional destroyers equipped with the Aegis ballistic missile defence system.

In addition to the increased budget for 2014/15, there is a much larger increase—17.8 per cent—in future financial obligations related to new contracts planned to be signed in 2014/15.²⁴ A clear emphasis on naval capabilities is evident among new equipment to be procured in 2014, with the Maritime Self-Defense Force accounting for half of the 614 billion yen (\$6.3 billion) of major equipment procurement planned for the year. The changing nature of the Japanese–US alliance, influenced by efforts to

¹⁹ Szechenyi, N. et al., 'China's Air Defense Identification Zone: impact on regional security', Centre for Strategic and International Studies, 26 Nov. 2013, <<https://csis.org/publication/chinas-air-defense-identification-zone-impact-regional-security>>.

²⁰ Japanese Ministry of Defense, *Defense of Japan 2013* (note 16), p. 1.

²¹ Japanese Ministry of Defense, 'National defense program guidelines' (note 16).

²² Katsumata, H., 'View from Japan, past and future: SDF at a turning point', Japan News, 6 Nov. 2013, <<http://www.the-japan-news.com/news/article/0000740649>>; and Kallender-Umezu, P., 'Japan plans more aggressive defense', *Defense News*, 26 May 2013, pp. 1, 7.

²³ Japanese Ministry of Defense, 'National defense program guidelines' (note 16).

²⁴ Japanese Ministry of Defense, 'National defense program guidelines' (note 16).

relocate some US military bases from Okinawa and by the US pivot, is itself leading to some additional Japanese spending—for example, the purchase of F-35 (Joint Strike Fighter) combat aircraft and contributions towards base construction on Guam, as part of ‘burden-sharing’ arrangements.²⁵

South Korea

South Korea’s military spending has been increasing slowly but steadily since at least 1988, with only a few interruptions, such as during the Asian financial crisis of the late 1990s. Its spending increased by 2.8 per cent in 2013 and was 42 per cent higher than in 2004. As a share of GDP, South Korea’s spending has been relatively steady since 2008, standing at 2.8 per cent in 2013.

South Korea’s major strategic preoccupation remains the conflict with North Korea. Tensions on the Korean peninsula have been exacerbated in recent years; in particular, due to the sinking of the South Korean corvette *Cheonan* and the shelling by North Korea of Yeonpyeong Island in 2010, and North Korea’s ongoing nuclear weapon programme, with the most recent nuclear test occurring in February 2013.²⁶ The alliance with the USA continues to be a cornerstone of South Korea’s defence policy, but that alliance is evolving as South Korea prepares to take over wartime operational control from the USA in 2015. Developing capabilities to manage this transition is one factor driving South Korean military modernization and expenditure.²⁷

The 2013 budget is the first following the publication of the Basic Defense Reform Plan 2012–30, released in August 2012.²⁸ Three key features of the plan stand out. The first is increasing ‘jointness’—denoting cross-service cooperation—in operations by expanding the authority of the Joint Chiefs of Staff over individual services, a move aimed in particular at dealing more effectively with incidents such as the sinking of the *Cheonan* and the shelling of Yeonpyeong Island. The second is developing ‘active deterrence’ capabilities against future North Korean attacks and against its asymmetric capabilities. This involves acquiring new ballistic and cruise missiles, improving capabilities for command, control, communications, computers, intelligence, surveillance and reconnaissance (C⁴ISR), and

²⁵ Feffer, J., ‘World cuts back military spending, but not Asia’, Inter Press Service, 17 Apr. 2014, <<http://www.ipsnews.net/2014/04/world-cuts-back-military-spending-asia/>>; and Dian, M., *Japan and the US Pivot to the Asia Pacific*, Strategic Update 13.1 (London School of Economics: London, Jan. 2013).

²⁶ On North Korea’s nuclear programme see chapter 6, sections IX and XI, and chapter 7, section II, in this volume.

²⁷ Paek, J., ‘2013 ROK defense budget: priorities and tasks’, Korea Institute for Defense Analyses, *ROK Angle*, no. 84 (2 May 2013).

²⁸ ‘The Korean peninsula: “nuclear weapons state” North Korea aiming to become an economic power, ROK seeking active deterrence capability’, *East Asian Strategic Review 2013* (National Institute for Defense Studies: Tokyo, May 2013).

developing ballistic missile defence systems. The development of C4ISR is considered important for the transfer of wartime operational command from the USA in 2015. The third key feature of the plan is reducing troop numbers from 636 000 in 2012 to 522 000 in 2022, with the cuts falling on the army, while increasing the ratio of officers and non-commissioned officers (NCOs) with the goal of creating an 'elite' force structure.²⁹ These developments are part of a general move towards heightening the importance of naval capabilities, away from the traditional focus on land forces. In 2013 South Korea appointed its first chairman of the Joint Chiefs of Staff who was not from the army, Admiral Chie Yoon-hee. Recent conflicts with North Korea have often focused on the maritime domain, and maritime trade is of central importance to South Korea's economy. In a speech in September 2013, South Korea President Park Geun-hye stressed the importance of maritime security and argued that, geopolitically speaking, South Korea was effectively an island rather than a peninsula.³⁰

The 2013 budget initiated some of the troop cuts, with increases in officer and NCO numbers. It also included salary increases for conscripted forces and pursued the equipment acquisition and technology development measures outlined in the defence reform plan. The share of research and development (R&D) in total military spending is 6.6 per cent. This share has been steadily increasing for some time, having stood at just 4.2 per cent in 2004.³¹ It is intended to increase to 10 per cent of the defence budget by 2020.³²

Despite continuing tensions with North Korea, the high priority given to military spending is not unchallenged, and indeed the South Korean National Assembly cut the government's proposed defence budget for 2013 slightly, by 290 billion won (\$265 million, or 0.8 per cent of total military spending), in favour of social programmes.³³

Australia

For the third consecutive year, Australia's military expenditure decreased in 2013, by 3.6 per cent in real terms, totalling 25.4 billion Australian dollars (\$24.0 billion). The decreases have led to the chief of the Australian Defence Force (ADF) warning about the possibility that further cuts may

²⁹ 'The Korean peninsula' (note 28); and Paek (note 27).

³⁰ Yoon, S., 'The new chairman of the JCS and South Korea's evolving military strategy', *PacNet*, no. 73 (3 Oct. 2013).

³¹ On the related growth in arms exports see section V below and chapter 5, section I, in this volume.

³² Paek (note 27). SIPRI's figures for South Korean military spending include military pensions in addition to the defence budget so that the planned share of R&D in total military spending will be slightly lower than 10%. In 2013 R&D spending was 7.1% of the defence budget but 6.6% of total military spending.

³³ Paek (note 27); and 'The defense budget is not a sacred cow', Editorial, *The Hankyoreh*, 4 Jan. 2013.

hurt the country's military capabilities.³⁴ However, Australia's military spending in 2013 was 19 per cent higher than in 2004.

While recognizing the impact of current financial constraints, the government is seeking to move forward with plans set out in the 2009 and 2013 defence white papers and has set out long-term military spending plans to support them.³⁵ The budget is planned to increase from 25.3 billion Australian dollars in 2013/14 to 30.7 billion Australian dollars in 2016/17, in line with the priorities set out in the 2013 white paper.³⁶ In total, the Australian Government has allocated 113.1 billion Australian dollars to military spending over the four-year period 2013/14–2016/17, and a total of 220 billion Australian dollars is projected in defence planning guidelines for the years 2017/18–2022/23.³⁷ In the long run, the Australian Government expects to increase military spending from 1.6 per cent of GDP to 2 per cent.

The 2013 Defence White Paper, launched on 3 May 2013, should have been launched in 2014, but 'The significant developments in Australia's strategic circumstances since 2009 and the continuing adverse effects of the Global Financial Crisis' prompted bringing it forward.³⁸

The 2013 white paper acknowledges China's increasing role in the Pacific but does not describe that country as an adversary. Instead, Australia's policy 'is aimed at encouraging China's peaceful rise and ensuring that strategic competition in the regions does not lead to conflict'.³⁹ The USA continues to be Australia's most important strategic partner. This partnership deepened in 2011 with the signing of two agreements: one on the deployment of US Marine Corps personnel to the Northern Territory to conduct exercises and training on a rotational basis with the ADF, which will increase US troop numbers to 2500 at a time; and the other on closer cooperation between the Australian and US air forces that will result in

³⁴ Kerr, J. and Caffrey, C., 'Australian chief warns cuts could hurt capability', *Jane's Defence Weekly*, vol. 49, no. 45 (7 Nov. 2012), p. 16.

³⁵ Australian Department of Defence, *Defence White Paper 2013* (Australian Government: Canberra, 2013); and Australian Department of Defence, *Defending Australian in the Asia Pacific Century: Force 2030—Defence White Paper 2009* (Australian Government: Canberra, 2009).

³⁶ Australian Department of Defence, 'Minister for Defence—budget 2013–14: defence budget overview', 14 May 2013, <<http://www.minister.defence.gov.au/2013/05/14/minister-for-defence-budget-2013-14-defence-budget-overview/>>.

³⁷ Smith, S., Australian Minister for Defence, 'Portfolio budget statements 2013–14: defence portfolio', <<http://www.defence.gov.au/budget/13-14/pbs/>>, p. 12.

³⁸ Australian Department of Defence, *Defence White Paper 2013* (note 35), p. 3. In the 2013 white paper, the Australian Government described the new white paper, the national security strategy and the 2012 white paper on 'the Asian century' as together making 'a statement of the priority the Government places on Australia's security and prosperity, and on maintaining a strong [ADF] to meet Australia's national security challenges'. Australian Department of the Prime Minister and Cabinet, *Strong and Secure: A Strategy for Australia's National Security* (Australian Government: Canberra, 2013); and Australian Department of the Prime Minister and Cabinet, *Australia in the Asian Century*, White Paper (Australian Government: Canberra, Oct. 2012).

³⁹ Australian Department of Defence, *Defence White Paper 2013* (note 35), p. 11.

increased rotations of US aircraft through northern Australia. Australia is spending 11 million Australian dollars (\$10.6 million) on upgrades to military bases in Darwin to accommodate the increased US deployments.⁴⁰

The changing international environment, the US pivot and the emergence of the Indo-Pacific region (defined as a ‘strategic arc . . . connecting the Indian and Pacific Oceans through Southeast Asia’) as a policy focus account for Australia’s restatement of its defence policy. In fact, as outlined in the Defence White Paper, Australia has four strategic interests: a secure Australia, a secure South Pacific and Timor-Leste, a stable wider Indo-Pacific region, and a stable, rules-based global order.⁴¹

The 2013 Defence White Paper highlights the strategic value and importance of Australia’s submarine capability and confirms the government’s commitment to replacing the existing Collins class fleet with an expanded fleet of 12 conventional submarines to be assembled in South Australia.⁴² Also on the list of planned procurements are 12 EA-18G Growler electronic attack aircraft, 3 air warfare destroyers, 2 Landing Helicopter Dock amphibious ships, naval combat helicopters, transport aircraft, maritime patrol aircraft and F-35 combat aircraft.⁴³

The countries around the South China Sea

The Philippines

Until recently, the Philippines had made only modest increases in military spending, having one of the lowest in the Asia–Pacific region. However, increases accelerated dramatically in 2013 with an increase of 17 per cent, bringing growth since 2004 to 41 per cent. Its armed forces are generally seen as one of the weakest in the region, with minimal naval and air capabilities.⁴⁴

A major increase in tension between China and the Philippines occurred in 2012 and 2013 over disputed islands in the South China Sea. A weeks-long stand-off between naval and coastguard vessels from the two countries near the disputed Scarborough Shoal in 2012 ended with China in effective control of the reef, previously controlled by the Philippines. China has subsequently cemented its control of the area through 2013 by what Chinese

⁴⁰ Australian Department of Defence, *Defence White Paper 2013* (note 35), p. 10; and Harkins, G., ‘Australians invest millions to upgrade military facilities for Marines’, *Marine Corps Times*, 14 Oct. 2013.

⁴¹ Australian Department of Defence, *Defence White Paper 2013* (note 35), p. 24.

⁴² Australian Department of Defence, ‘Minister for Defence—budget 2013–14: defence capability’, 14 May 2013, <<http://www.minister.defence.gov.au/2013/05/14/minister-for-defence-budget-2013-14-defence-capability/>>.

⁴³ Australian Department of Defence, *Defence White Paper 2013* (note 35), p. 23.

⁴⁴ Goldman, J., ‘President Aquino’s second half: minimum credible defense in contested waters?’, Jamestown Foundation, *China Brief*, vol. 13, no. 13 (21 June 2013), pp. 8–11; and Morella, C., Agence France-Presse, ‘Philippines to spend \$1.8B on defense to resist “bullies”’, *Defense News*, 21 May 2013.

General Zhang Zhaozhong described as a ‘cabbage strategy’, saturating the area with surrounding layers of fishing vessels, civilian maritime authority vessels and a smaller number of naval vessels in the outer layer.⁴⁵

The Philippines responded to these developments in 2013 by taking the Scarborough Shoal issue to the International Tribunal for the Law of the Sea (ITLS), based on the provisions of the 1982 United Nations Convention on the Law of the Sea (UNCLOS), to which both countries are party.⁴⁶ China rejects the validity of the process, in which it has not participated. In November 2013 the Chinese province of Hainan, an island in the South China Sea, passed a regulation requiring foreign fishing vessels to obtain permission to fish in much of the sea, a requirement that the Philippines has told its fishermen to ignore.⁴⁷

In the light of these developments, in May 2013 the Philippine Government announced a \$1.8 billion military acquisition package for the period up to 2017, focused on naval capabilities, including two frigates, two anti-submarine warfare helicopters, three coastal patrol vessels and eight amphibious assault vehicles. President Benigno Aquino described the purchases as being to enable the country to resist ‘bullies’.⁴⁸ However, these acquisitions build on an extremely weak initial capability, with the demands of responding to Typhoon Yolanda in November placing severe pressure on the country’s ageing military aerial and naval assets, as well as on future budgetary priorities.⁴⁹ Thus, the Philippines is unlikely to be able to shift the balance of military power in the South China Sea in relation to China in the foreseeable future.

Given this, the Philippines appears to be following a strategy of gaining international support and moral authority for its position, such as by taking the dispute over the Scarborough Shoal to the ITLS, as well as continuing to seek a common position on the South China Sea in the Association of Southeast Asian Nations (ASEAN). The latter efforts have so far borne little fruit given the strong economic dependence of some ASEAN members, especially Cambodia, on China.⁵⁰ The Philippines also relies for its military security primarily on the USA, with which it has a mutual defence treaty, and the two countries are currently negotiating a new framework agreement to increase US troop rotations through the Philippines under their

⁴⁵ For more on the South China Sea disputes in 2013 see e.g. Jamestown Foundation, *China Brief*, vol. 13, no. 13 (21 June 2013); and Himmler, J., ‘A game of shark and minnow’, *New York Times*, 27 Oct. 2013.

⁴⁶ United Nations Convention on the Law of the Sea (UNCLOS), opened for signature 10 Dec. 1982, entered into force 16 Nov. 1994, *United Nations Treaty Series*, vol. 1833 (1994).

⁴⁷ Agence France-Presse, ‘Defense chiefs: Philippines to defy China fishing rule’, *Defense News*, 16 Jan. 2014.

⁴⁸ Morella (note 44).

⁴⁹ Wood, P., ‘Philippine military modernization more urgent and less likely after hurricane’, Jamestown Foundation, *China Brief*, vol. 13, no. 24 (5 Dec. 2013).

⁵⁰ Wezeman (note 13), pp. 413–15.

1998 bilateral Visiting Forces Agreement.⁵¹ However, while the USA has criticized Chinese actions in the South China Sea, it has not made clear if it would treat its mutual defence obligations towards the Philippines as encompassing disputed territories in the sea.

Viet Nam

Viet Nam's reported military spending in 2013 amounted to \$3.4 billion. Although spending grew by 113 per cent in real terms between 2004 and 2013, the increase between 2012 and 2013 was only 2.5 per cent—a smaller increase than in previous years, possibly resulting from a slowdown in the country's economic growth rate.⁵²

Viet Nam's military modernization is heavily focused on defending its large oil and gas reserves in the South China Sea, on which Viet Nam's economy is increasingly dependent.⁵³ New discoveries and development increased the US Energy Information Administration's estimate of Viet Nam's proven oil reserves sevenfold in 2012, and its gas reserves fourfold, making Viet Nam the third-largest holder of oil in Asia, after India and China.⁵⁴ Like the Philippines, Viet Nam has territorial disputes with China in the South China Sea, with both countries claiming the entirety of the Spratly Islands group. While 2013 was relatively uneventful in terms of major incidents between China and Viet Nam, the dispute remains one of the country's dominant security concerns.

The main focus of Viet Nam's modernization efforts is naval capability. The biggest recent development in this area was the order in 2009 of 6 Kilo class diesel-electric submarines from Russia, with the first delivery expected in 2013.⁵⁵ Viet Nam has also ordered other Russian frigates, corvettes, fast attack craft and patrol craft, and agreed to order 2 Sigma class corvettes from the Netherlands in August 2013.⁵⁶ In addition, Viet Nam ordered an additional batch of 12 Russian Su-30MK2 combat aircraft in August.

⁵¹ Thayer, C., 'US-Philippines struggle to reach troop basing deal', *The Diplomat*, 11 Dec. 2013; US-Philippines Mutual Defense Treaty, signed 30 Aug. 1951, entered into force 27 Aug. 1952, *UN Treaty Series*, vol. 177 (1953); and Philippine-US Agreement Regarding the Treatment of United States Armed Forces Visiting the Philippines, signed 10 Feb. 1998, entered into force 1 June 1999, <<http://www.state.gov/s/l/treaty/tias/107752.htm>>.

⁵² Viet Nam's military spending is among the least transparent in the region, and the figures must therefore be treated with some caution. Moreover, it is likely that the true level of Viet Nam's military spending is higher than the official budget, as there are persistent reports that major arms purchases are made in exchange for oil and gas rights, rather than by budgetary means.

⁵³ Grevatt, J., 'Powering up', *Jane's Defence Weekly*, vol. 50, no. 28 (10 July 2013), pp. 22-27; and Stekete, M., 'Vietnam to order Dutch corvettes', *Jane's Defence Weekly*, vol. 50, no. 35 (28 Aug. 2013), p. 6.

⁵⁴ US Energy Information Administration, 'Vietnam: country analysis note', 30 May 2013, <<http://www.eia.gov/countries/country-data.cfm?fips=VM&trk=m>>.

⁵⁵ 'Russia to deliver first kilo class sub to Vietnam in 2013', RIA Novosti, 29 Mar. 2013, <http://en.ria.ru/military_news/20130329/180332942.html>; and Wezeman (note 5), p. 285.

⁵⁶ Grevatt (note 53).

Viet Nam's Navy, however, is starting from a much weaker starting point than others in the region, in particular that of China, and there are doubts as to whether Viet Nam has the technological and human resource capacity to absorb the new equipment and effectively integrate it into its forces.⁵⁷ As an alternate means of hedging against China, Viet Nam has even been drawing closer to its old enemy, the USA, with increasing military cooperation between the two countries.⁵⁸

Indonesia

Indonesia's military spending has increased almost continuously since the advent of democratic rule in 1999, more than quadrupling in real terms. Its spending increased also in 2013, by 4.8 per cent, to reach a total increase of 99 per cent since 2004. Having moved away from a predominantly internal security role, the Indonesian National Armed Forces (Tentara Nasional Indonesia, TNI) are now being focused on external security, as Indonesia seeks to develop a minimum effective force to protect its vast territories, coastal waters and key international trade routes.⁵⁹ This expanded external role, and the increased budget that goes with it, can be seen in part as a form of compensation for the TNI's withdrawal from politics and significant reductions in its formerly major role in the Indonesian economy. Indonesia's defence budget for 2013 includes a target of achieving by the end of the year 30 per cent of the minimum effective force goals, which is scheduled to be completed by 2024.⁶⁰

Indonesia has a strong relationship with China and continued to develop these ties in 2013, with agreement on enhanced economic, cultural and security cooperation during a visit to Indonesia by the new Chinese President, Xi Jinping, in October 2013.⁶¹ Some Indonesian commentators see China as Indonesia's partner of choice in terms of strengthening regional maritime security and in developing Indonesia's domestic arms industry.⁶² At the same time, Indonesia must pursue a delicate balancing act in its relations with China and the USA, as any conflict between the world's two leading powers could place Indonesia, with its strategic location and limited military capacity, in a difficult position.⁶³

⁵⁷ Grevatt (note 53).

⁵⁸ Zhang, D., 'South China Sea: the action point for pressure on China's rise', *Shijie Zhishi*, 16 Dec. 2011, pp. 14–23, Translation from Chinese, Open Source Center; and Grevatt (note 53).

⁵⁹ Perlo-Freeman, S. and Solmirano, C., 'Two case studies in the governance of military budgeting and expenditure: Colombia and Indonesia', *SIPRI Yearbook* 2013, pp. 163–68.

⁶⁰ 'New toys for 2013 ...?', Indonesia Defense Blog, 26 Nov. 2012, Translation from Indonesian, Open Source Center.

⁶¹ 'Chinese, Indonesian presidents pledge strategic partnership', Xinhua, 10 Oct. 2013.

⁶² Bakrie, C. R., 'The 21st century regional maritime silk road', *Jakarta Post*, 22 Nov. 2013.

⁶³ Supriyanto, R. A., 'The US rebalancing to Asia: Indonesia's maritime dilemma', S. Rajaratnam School of International Studies (RSIS) Commentaries no. 073/2013, 24 Apr. 2013, <<http://www.rsis.edu.sg/publications/commentaries.asp?selYear=2013>>.

Other countries

After the big four spenders in the Asia–Pacific region—China, Japan, South Korea and Australia—Taiwan (with a budget of \$10.5 billion) and Singapore (with a budget of \$9.8 billion) were the next two largest spenders in the region in 2013.

Despite Taiwan's concerns about the growing gap in military capability with mainland China and other issues such as the South China Sea dispute, which led to the fatal shooting of a Taiwanese fisherman by the Philippine coastguard in May 2013, its military spending fell in 2013, by 2.6 per cent. Between 2004 and 2013 its spending was virtually unchanged, increasing by just 5 per cent. This is most likely related to the increasingly warm relations between China and Taiwan promoted by Taiwan's President, Ma Ying-jeou.

Singapore increased its military spending by 2.1 per cent in 2013, but its spending was still slightly (3.7 per cent) below its 2009 level, although 12 per cent higher than in 2004. Singapore has the most advanced military in South East Asia, and the highest military burden (i.e. military spending as a share of GDP) in the Asia–Pacific region. It was also one of the top 10 importers of major conventional weapons worldwide in the period 2009–13.⁶⁴ Its relatively unchanged spending level reflects generally positive relations with other states in the region, including China.

Malaysia is in a similar position. While it is also a party to the South China Sea dispute, the disagreement has been much less of a live issue in recent years than is the case for the Philippines or Viet Nam. Its military spending also increased by 3.1 per cent in 2013, and was 13 per cent higher than in 2004, but unchanged since 2009.

The factors outlined above that appear to be driving growth in military spending in the Asia–Pacific region seem unlikely to change in the near future. With economic growth in most of the region remaining strong, and with no sign of the rising tensions and territorial disputes abating in the near future, military spending growth in the Asia–Pacific region is likely to continue.

⁶⁴ See chapter 5, section I, in this volume.