

III. China's military expenditure

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China's military spending in 2015 is estimated by SIPRI to have been 1337 billion yuan (\$215 billion), an increase of 7.4 per cent over 2014, and of 132 per cent compared with 2006. This amounts to 1.9 per cent of China's gross domestic product (GDP) in 2015, a military burden that has remained steady since 2010.

Uncertainties in Chinese military spending and SIPRI's estimate

Although China publishes its National Defense Budget each year, and reports on actual spending on the previous year's budget, China's military expenditure includes significant amounts of extra-budgetary spending from other parts of the state budget. While figures for some of these additional elements are available from official sources, other substantial elements are not and can only be estimated, leading to a significant degree of uncertainty.

SIPRI's estimates for China's military spending are based on a methodology produced by Professor Wang Shaoguang in 1999, which has been updated based on subsequent developments and available data.¹ The SIPRI series for China has been revised in the 2016 edition of the SIPRI Military Expenditure Database.² Estimates of additional military research, development, test and evaluation (RDT&E) spending have been revised downwards, and estimates for spending on arms imports have been revised upwards. The sources of SIPRI's estimates for China and figures for 2015 are presented in table 13.5.

China's defence policy developments in 2015

China published its biannual Defence White Paper in May 2015, this time entitled 'China's Military Strategy'—this is the first time that China has issued a 'strategy' document.³

While noting that a world war was unlikely in the foreseeable future, the White Paper took a gloomy view of the geopolitical environment, highlighting actions by the United States, Japan and countries in the South China Sea

¹ Wang, S., 'The military expenditure of China, 1989–98', *SIPRI Yearbook 1999*.

² SIPRI Military Expenditure Database, <<http://www.sipri.org/databases/milex>>. While the 2016 edition covers the period 1988–2015, data for China is available only from 1989.

³ Chinese Ministry of National Defense (MND), *China's Military Strategy*, White Paper, (State Council Information Office: Beijing, May 2015); and Blasko, D. J., 'The 2015 Chinese Defense White Paper on Strategy in perspective: maritime missions require a change in the PLA mindset', *China Brief*, vol. 15, no. 12 (19 June 2015).

region as sources of insecurity. Nevertheless, the White Paper also emphasized the importance of military cooperation with various countries, including the USA.

Among other things, the White Paper reiterated the significance of ‘civil–military integration’. This includes: (a) the leveraging of civilian technological development to advance military industry; (b) the increased involvement of the private sector in military procurement; (c) the development of joint civil–military infrastructure; and (d) the outsourcing of military support functions to civilian providers.

The White Paper also gave official confirmation of the expansion of China’s military ambitions, enabled by its growing military spending, adding ‘protecting China’s overseas interests’ as a key task of the armed forces and signalling an expansion of the scope of China’s naval activities from ‘off-shore waters defence’ to ‘open seas protection’. As in the 2013 White Paper, ‘defending China’s maritime rights and interests’ was emphasized. Most strikingly, the White Paper stated that: ‘The traditional mentality that land outweighs sea must be abandoned, and great importance has to be attached to managing the seas and oceans and protecting maritime rights and interests’—the clearest statement issued so far of China’s shift of focus towards maritime defence. China’s growing maritime ambitions and assertiveness remained in evidence in 2015 through its continuing land reclamation efforts around disputed islands, sandbanks and reefs in the South China Sea, which neighbouring countries fear will be used both as military bases and to assert sovereignty over waters surrounding the new artificial islands. In particular, China completed the construction of an airstrip on reclaimed land on the Fiery Cross reef in the Spratly Islands.⁴

In September 2015 China announced a planned reduction in People’s Liberation Army (PLA) troop numbers from 2.3 million to 2 million—the fifth reduction since military reforms began after the end of the cold war.⁵

Military corruption

President Xi Jinping’s ongoing crackdown on corruption focused on the military establishment in 2015, due to increasing concerns that widespread corruption in the PLA threatened not only the efficiency of military spending, but also the effectiveness of the PLA as a fighting force. The PLA’s official newspaper carried a front-page editorial in August 2015 that stated ‘History has repeatedly proven that if corruption is not eliminated, we will

⁴ Hardy, J. and O’Connor, S., ‘China completes runway on Fiery Cross reef’, *Jane’s Defence Weekly*, 22 Sep. 2015.

⁵ Wong, E., Perlez, J. and Buckley, C., ‘China announces cuts of 300,000 troops at military parade showing its might’, *New York Times*, 2 Sep. 2015.

Table 13.5. Components of SIPRI estimates for China's military spending

Figures may not add up to stated total due to the conventions of rounding.

Item	Level in 2015 (billion yuan)	Source of data/basis of estimates
National Defence budget, central government	887	Published annually in report to NPC. Actual spending in previous years published in China Statistical Yearbook.
National Defence budget, local government	23	Actual spending in previous years published in China Statistical Yearbook. Figure for 2015 estimated using change in central government budget.
People's Armed Police	156	Actual spending for previous years from Government Finance Yearbook. Figure for 2015 estimated using share of Public Security budget, announced at NPC.
Additional military RDT&E spending	135	Estimate based on overall central government S&T budget, and on share of this budget that was allocated to civilian agencies with published spending figures. Assumed that 90% of non-disclosed S&T spending is for the military.
Payments to demobilized soldiers	70	Figures up to 2012 published in Ministry of Civil Affairs Yearbook. Estimates for 2013–15 based on growth of National Defence budget.
Additional military construction spending	57	Estimates up to 2006 based on 4% share of Capital Construction budget (no longer published). Estimates from 2007 based on growth rate of this item in previous 3 years.
Arms imports	10	Based on available figures for the value of Russian arms exports to China, combined with estimates based on the rate of change of SIPRI's TIV of Chinese arms imports.
Commercial earnings of PLA	1	Nominal residual figure. PLA commercial activities were officially banned in 1999 and are assumed to have reduced steadily since then.
Total	1338	

NPC = National People's Congress; PLA = People's Liberation Army; RDT&E = research, development, test and evaluation; S&T = science and technology; TIV = trend-indicator values.

Note: For further details on the methodology for calculating SIPRI's trend-indicator values (TIVs) see box 15.1, chapter 15, section I, in this volume.

defeat ourselves even before a war'.⁶ Corruption in the PLA is believed to be particularly endemic in the General Logistics Department, which handles

⁶ 'Military corruption: rank and vile', *The Economist*, 14 Feb. 2015; and 'Chinese military paper warns a corrupt army does not win wars', Reuters, 2 Aug. 2015.

procurement, and in the political department tasked with appointments and promotions.⁷ However, a budgetary inspection that reported in July 2015 found evidence of corruption in all departments.⁸

The anti-corruption campaign in the military claimed its two most high-profile targets in October 2014 and July 2015, with the expulsion from the Chinese Communist Party for corruption of two former co-vice chairs of the Central Military Commission—the body in ultimate charge of the PLA—Generals Xu Caihou and Guo Boxiong. General Guo is expected to face trial, while Xu died in March 2015. In addition to these two senior figures, a list of 14 generals under investigation for corruption was published in March 2015.⁹

The PLA has also introduced a range of new policies and regulations aimed at tackling corruption, such as: (a) closer scrutiny of appointments and promotions; (b) tighter restrictions on army-subsidized homes and cars; (c) greater freedom for private sector firms to bid for most military contracts; and (d) the closure of loopholes in spending guidelines related to entertainment, adjustments to budgets, misappropriation of funds and irregular granting of allowances.¹⁰

China's growing awareness of the damaging effects of corruption on military effectiveness reflects developments in conflict-affected countries such as Iraq, Nigeria and Ukraine, where corruption has been a major factor behind severe failures by the armed forces. The Chinese authorities are thus concerned that corruption could negate the impact of military modernization on a force that has not been tested in combat since 1979.¹¹

⁷ 'Military corruption: rank and vile' (note 6).

⁸ Grevatt, J., 'Chinese budget inspection finds "irregularities" in all areas of military spending', IHS Jane's 360, 3 July 2015.

⁹ 'Military corruption: rank and vile' (note 6); and Tiezzi, S., 'With latest ouster, China steps up fight against military corruption', *The Diplomat*, 31 July 2015.

¹⁰ 'Military corruption: rank and vile' (note 6); and Grevatt, J., 'China's PLA introduces spending regulations', IHS Jane's 360, 7 July 2015.

¹¹ See e.g. Wrong, M., 'Why are Africa's militaries so disappointingly bad?', *Foreign Policy*, 6 June 2014; Lapko, A., 'Ukraine's own worst enemy', *New York Times*, 7 Oct. 2014; and Kirkpatrick, D., 'Graft hobbles Iraq's military in fighting ISIS', *New York Times*, 23 Nov. 2014.