

A Chinese Connection? An analysis of Defense Spending in Southeast Asia and China

by

J. Mikhail Nacino  
MPP/IP

Graduate School of Public Policy  
The University of Tokyo

Abstract

With the global trend of defense spending decreasing since the cold war era, some regions have been shown to invest more in defense expenditures recently. The case of Southeast Asia, for instance has shown to have been in a state of a military “shopping spree” with an increasing trend towards arms acquisitions. On the other hand, the People’s Republic of China has for last decade exponentially increased its defense spending. With a possibility of an arms race brewing in the region, the study seeks to find a relationship between the defense spending of select ASEAN states and China. Based on the defense expenditures from the selected countries, as well as the defense policies of China, the study concludes that no direct relationship can be established with regard to the spending behavior of the ASEAN states to China’s growing military expenditure.

## Introduction

Global defense spending has been decelerating in recent years. Data from the Stockholm International Peace and Research Institute (SIPRI) shows that in 2011, total global military spending has increased by a mere 0.3 percent, or around \$1.738 Trillion. However, it is worth note taking that the same study also observed an increase in military spending in some developing regions, such as North Africa (25%), Eastern Europe (10.2%), the Middle East (4.6%) and Southeast Asia (2.7%). Moreover, the same study also pointed out the three-fold increase in arms transfers to Southeast Asia between 2002-2006, with purchase of naval equipment and aircraft with maritime roles accounting a lion's share of the said purchases.

On the other hand, defense scholars and analysts have kept close watch on China's increasing military expenditure. While figures indicate that China's defense spending is far from the US current defense spending, it is now second to the world's highest military spender. In 2012, it was reported that China has increased the pace by which it funds for its military machine, increasing its military expenditure by 11.2% from the previous year. (Perlez 2012) However, the official statements by the government did not provide details on what China is developing nor buying, nor does it offer a description of military strategy beyond protection of the country's sovereignty.

With Southeast Asia perceived to be in a military "shopping spree" while its big neighbor has stepped up its military funding, it is note finding out if the smaller Southeast Asian states have been behaving as a response to the threat perception provided by China. As such, this study shall look into the defense spending of China, as well as 4 ASEAN member countries, such as Brunei, Malaysia, Philippines and Vietnam. The study shall also look into

the defense policy of China and seek to find a relationship to the defense spending of the select ASEAN states.

The paper is divided into four (4) basic parts, namely: the Literature Review; the Methodology; the Analysis; and the Conclusion.

The literature review is further subdivided into subsections, which will deal with certain aspects of defense spending, from the theories and concepts that are used in this discourse, as well as the historical trends and analysis of defense spending in the region. The section shall also discuss specific concepts that are significant to the argument of the paper.

The methodology is likewise divided into subsections, discussing the research questions and objectives of this study. It also provides for the hypothesis of the author. The analysis section provides the meat of the paper, providing insights based on the data and sources gathered to support the argument of this paper.

## **Literature Review**

A number of academic studies have been taken note of, in light of topics relating to theories and trends on defense spending, issues on transparency on confidence-building measures in the defense sector, and semantics with regard to military spending, among others. In this paper, the author shall discuss some of the relevant materials that would help provide the foundation of this study.

## **Theories on Defense Spending**

Theories on defense spending from various academics are plentiful, although with opposing conclusions. As scholars conclude that defense spending has a positive effect to a country's economy, other scholars have concluded otherwise. Moreover, some studies indicate that internal and external factors also affect defense spending, which shall be discussed in this section.

Aizenman and Glick (2003) are among the academics who have looked into the relationship between military expenditure and economic growth. In their paper, they delve into the argument by most scholars regarding the significant share of military spending in most countries, despite military spending is often found to have a negative impact on economic growth. They argue that while economic growth declines as military spending increases due to certain factors such as corruption and rent-seeking practices, military expenditure actually increases growth if the country is in the presence of threats (Aizenman and Glick 2003).

Frederiksen and Looney (1983) furthers the debate on the effects of defense expenditures to countries, based on resource wealth. In their study, the defense expenditures in countries that do not have any resource constraints are less competitive with regard to their share of the pie. Furthermore, the defense expenditures may in fact play an important and positive role in increasing growth through factors such as education and linkages with industries, among others. However, countries that are deficient in government revenues and foreign exchange will suffer detrimentally. The reason for this is because defense expenditures will siphon funds away from more productive domestic investments, which shall have a negative effect its growth. (Frederiksen and Looney 1983)

In relation to this, Saadet Deger (1986) provides an argument against the positive effect of military expenditure on economic growth, particularly with less developed countries. Based on his study, defense expenditure, while providing a modernizing and structural role to the economy, it also works to the detriment of an economy by reallocating scarce resources to the defense sector from productive civilian investment. As such, it fails to create or mobilize any additional savings. He also argued that emphasis on defense spending significantly decreases the savings-income ratio, thus harming growth and development. (Deger 1986)

Focusing on third world countries, Looney (1989) argues that the level of military expenditures in developing countries is largely determined by economic constraints relative to external (threat) factors. Moreover, the arms industries affect defense spending as they necessitate a continuous inflow of resources from the government. As such, the presence of an indigenous arms industry puts a continuous demand to maintain a relatively high level of defense expenditures. Governments of countries without an arms industry on the other hand, will not face the same pressure politically to maintain high levels of defense expenditures during periods of low external threat simply to maintain employment in defense plants. As such, a reduction in arms production among third world countries would most likely result in lower overall levels of military expenditures. (*Looney 1989*)

On the matter of the “guns versus butter” debate in military expenditures, Whitten and Williams (2011) argue that defense spending, particularly in advanced industrial countries, cannot be limited to just guns and butters alone. According to the study, the situation can be more complex in such a way that political inclinations of regimes do not necessarily reflect the commonly-held behavior on defense spending, for various reasons. For instance, right-wing governments are thus inclined to spend on the military due to their hawkish nature. On

the other hand, leftist governments might see military spending as a welfare policy in disguise; hence they might increase military spending altogether. (Whitten and Williams 2011)

In Southeast Asia, the relationship between defense spending and economic growth in some countries are different. Hirnissa et. al. (2008) pointed out that out of the five (5) ASEAN countries, three (Indonesia, Thailand and Singapore) exhibited a long-run relationship between economic growth and military expenditure. On the other hand, the study did not find any meaningful relationship between military expenditure and economic growth of Malaysia and the Philippines. (Hirnissa 2008)

### **Historical Trends in Defense Spending**

Southeast Asia has been viewed to be in a concerted push towards military modernization in Southeast Asia since 1975. Tan (2004) took note of the fact that the military build-ups, picked up momentum during the 1980s and 1990s. Despite the financial crisis that affected the region in 1997, the modernization slowed but was not deterred. (Tan 2004)

Southeast Asian Modernization programs have been observed to have the following trends, as follows: (1) technological sophistication; (2) diversification of sources; (3) introduction of new capabilities; (4) emphasis on protecting economic resources (particularly maritime resources); and (5) and a trend towards competitive arms acquisitions. (Tan 2004)

A more recent literature provides a similar conclusion regarding the trends in military modernization, with emphasis on the implications to military spending. Bitzinger (2010)

notes that there is a growing concern among scholars and policymakers of a brewing “arms race” in the Southeast Asian region, as a number of nations have been in a shopping spree for more advanced conventional weaponry. While this has led to an increase in military spending, it however does not subscribe to a condition of an arms race. On the other hand, the acquisition of the types of military equipment goes beyond “mere modernization” that it can be considered as an arms competition. *With the introduction of new types of arms, unprecedented military capabilities into a region can always have unintended consequences.* Moreover, the said condition can lead to a classical “security dilemma,” whereby the actions of a certain country can actually weaken the stability and security that it intends to increase. (Bitzinger 2010)

Furthermore, Bitzinger (2010) theorized that Southeast Asian nations are more likely to be arming themselves against extra-regional powers, specifically China.

Swinnerton (1997) in his study, focused the defense spending of Southeast Asian countries to maritime security, wherein countries, especially those who have territorial disputes in the South China Sea, place its emphasis more. He provided a number of explanations regarding the maritime arms acquisitions in the region, to wit: (1) the trend is towards the acquisition of maritime weapons systems principally for a sea denial role; (2) competition is clearly at play; (3) labeling regional arms procurement as simple “modernization” seems to be a semantic distinction.

### **Defense White paper, defined**

Transparency among states in the defense sector has commonly been cited as one of the reasons for insecurity. However, the rationale behind why states keep their military cards

close is for national security reasons. In trying to find a bridge between ensuring state secrets are protected, while at the same time providing an assurance to other states of its un-antagonistic intentions towards its neighbors, confidence-building measures have been put in place. One such measure is the publishing of a “Defense White Paper.”

Choi and Wattanayagorn (1997) define the Defence White Paper as follows:

*“A Defence White Paper is an authoritative, publicly available, official statement of policy prepared and published by the agency responsible for defence in a given country and offers a comprehensive description of defence-related issues pertinent to the country. As the highest authoritative government document on defence, a White Paper is a distinctive way of expressing a country’s assessment of its security environment, its capability to accomplish national security objectives and its strategies for reacting to perceived national security threats.”*

Moreover, Defense White Papers serve a variety of functions, to wit: (1) it helps in the promotion of debates, development of consensus, and justification of security and defense-related policies within bureaucratic and political environments; (2) it provides information that reassures and deters; and (3) provides a balance in providing achieving transparency to a certain extent, without undermining its defense or deterrence posture. (Choi and Wattanayagorn 1997)

In the analysis of defence policies, it can be said that defense white papers can serve as a reliable source for other states to look into the developments and challenges of that state. As it is a comprehensive and internationally-circulated information source, its contents must be mutually supportive, balanced and its logic consistent. (Choi and Wattanayagorn 1997) It

also a useful instrument as a complimenting material to a complete analysis of the defense policy of a certain state, along with the defense spending trends. It does not however, provide all the necessary details that other states might be interested, although it offers a peek into the policies, as well as the factors that drive the current regime to implement such.

Choi and Wattanayagorn (1997) further argue that as an informative document, Defense White Papers must be publicly available.

### **Military Expenditure, defined**

There has been a continuous debate with regard to the coverage of military expenditure. This is particularly with regard to an individual or a group of states accusing another of being secretive, in the sense that the overall expenditures of the state were not disclosed for public scrutiny. Trivial as it may seem, there is no internationally accepted standards for defining what is and what is not included as “defense expenditure.” As such, defense think-tanks such as the Stockholm International Peace Research Institute (SIPRI) came out with its own definition of “military expenditure” for its research purposes.

SIPRI defines military expenditure as follows:

*All current and capital expenditure on*

- *The armed forces, including peacekeeping forces,*
- *Defence ministries and other government agencies engaged in defence projects,*
- *Paramilitary forces, when judged to be trained and equipped for military operations, and*
- *Military space activities*

*While excluding:*

- *Military and civil personnel, including retirement pensions of military personnel and social services for personnel,*
- *Operations and maintenance,*
- *Procurement*
- *Military research and R&D, and*
- *Military aid (in the military expenditure of the donor country)*

For the purposes of this study, the definition by SIPRI shall be used throughout this paper. Furthermore, defense spending and military spending will be treated as the same concept, hence they are interchangeable.

### **Arms race, defined**

In the ongoing discussion on military spending, it must be noted that some scholars related the trend of military spending in the region to that of an “arms race.” In reference to the concept, Colin Gray (1971) provided a minimal condition for an existence of an arms race, to wit: (1) *there should be two or more parties perceiving themselves to be in an adversary relationship; (2) who are increasing or improving their armaments at a rapid rate; and (3) structuring their respective military postures with a general attention to the past, current, and anticipated military and political behavior of the other parties. (Gray 1971)*

While there may or may not be an arms race as a phenomenon in the region, the fact that it was mentioned in some studies relating to the military spending necessitates that it should be considered for this study as well.

## **Methodology**

### **Research Objectives:**

The objectives of this research are as follows:

1. Look into the trends of defense spending in the target countries, namely: the Peoples' Republic of China (PRC), Brunei, Malaysia, Philippines, and Vietnam.
2. Analyze PRC's Defense Policy throughout the study period.
3. Analyze the relationship between PRC's defense spending and defense policy, compared to the defense spending of Brunei, Malaysia, Philippines and Vietnam.

### **Research Questions:**

The study seeks to analyze the following:

1. What are the current trends in defense spending in the PRC, Brunei, Malaysia, Philippines, and Vietnam (ASEAN-4)?
2. What were the salient features of PRC's Defense Policy throughout the study period?
3. Is there any relationship between PRC's defense spending and defense policy, to the defense spending trends of Brunei, Malaysia, Philippines and Vietnam (ASEAN-4)?

### **Hypothesis**

With the given trends in Defense in the region, the author seeks to provide a hypothesis, as follows:

*“Defense Spending in Brunei, Malaysia, the Philippines and Vietnam is affected by the defense policy and spending of the Peoples' Republic of China.”*



The study has included the four Southeast Asian countries (Brunei, Malaysia, Philippines, and Vietnam) given the fact that the abovementioned countries have a standing territorial dispute with China.

### **Scope and Limitations**

The study shall cover the defense expenditures of the four (4) Southeast Asian Countries, namely: the Philippines, Vietnam, Brunei and Malaysia; as well as the Peoples' Republic of China. In order to make the data consistent, figures to be used in this study shall be sourced from the Military Expenditure Database of the Stockholm International Peace Research Institute (SIPRI), as well as from the economic indicators database of the World Bank. The data used covers military expenditure data from 1988 to 2012.

With regard to the Defense Policies of China, the Defense White Papers published by the Information Office of the State Council from 2004 to 2012 shall be used. The said Defense White Papers are published every other year, usually during the first quarter of the following year.

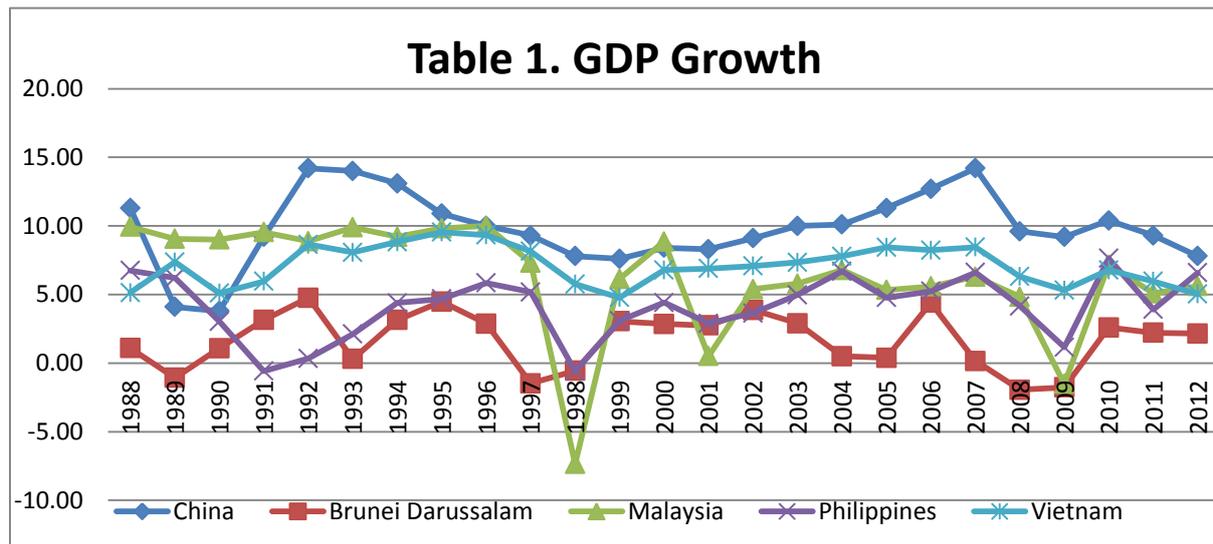
A number of constraints were encountered by the author in the conduct of this study. Given the nature of the topic, there were limitations in the gathering of data. For instance, some materials coming from the respective defense departments/ ministries of the countries covered in this study are difficult, if not impossible to access. Reasons for this could either

be: (1) materials are not available in their respective websites, or (2) materials are not available in English.

With that being said, the author relied on data sources such as SIPRI, the World Bank, as well as defense white papers of the target countries, whenever available (and in English), and academic researches on the topic. Moreover, the data used in this study has been instrumental in the conduct of analysis by the author. However, such the said data cannot also explain the details in depth, as specific data on military and defense are one of the most protected by their respective states, in the interest of protecting their national security.

For the purposes of this paper, the definition on defense spending are based from the definition provided by the Stockholm International Peace Research Institute (SIPRI), in order to make use of the database that they have in the most accurate manner. Furthermore, “defense expenditure,” as will often be stated throughout this paper, is synonymous with “military expenditure.

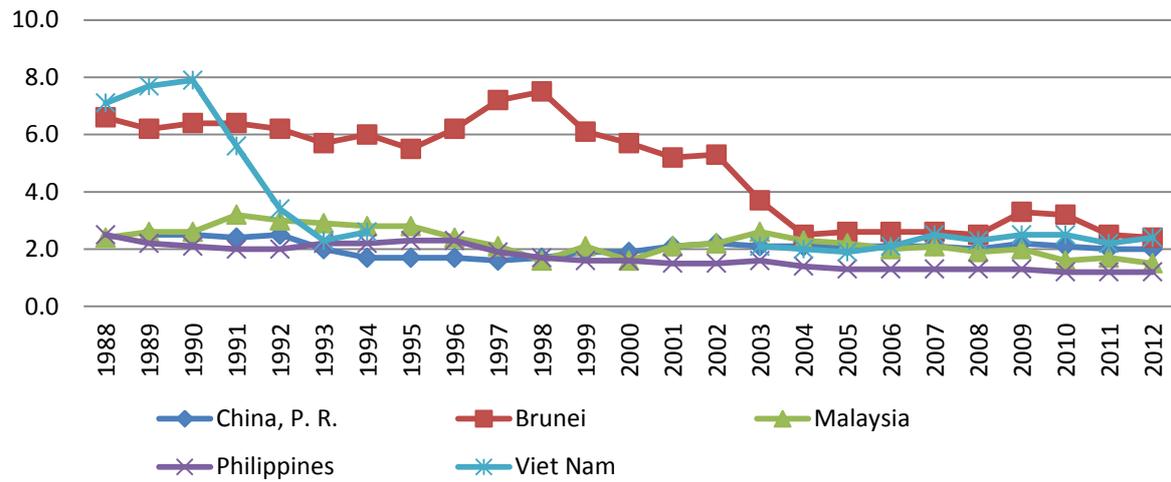
## Analysis of Data



Source: The World Bank

Table 1 shows the GDP growth of China, as well as the ASEAN-4 countries. Based on the table, China has shown remarkable progress in terms of its economic development, soaring to nearly 15% GDP growth twice during the period covered. On the other hand, the ASEAN-4 in general has shown inconsistent growth over the years, with declining growth during the 1997 and the 2008 financial crisis. As such, it can be said that the ASEAN 4 took the most hit during the financial crises.

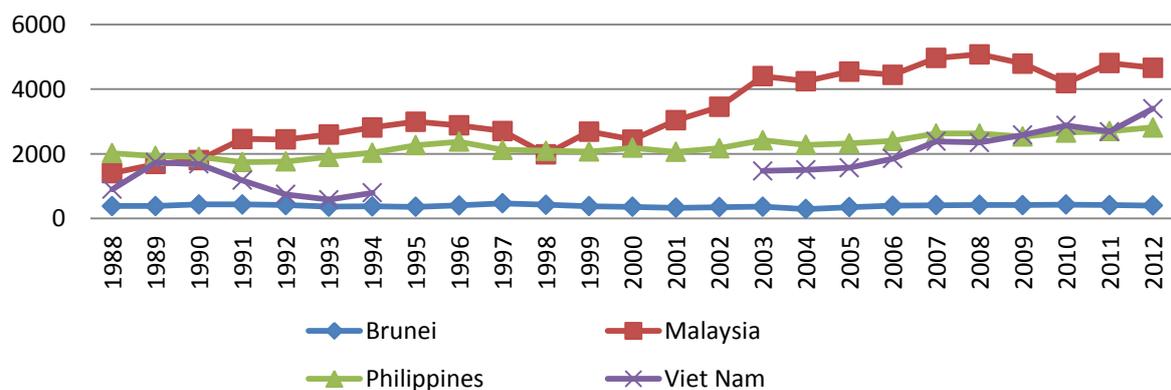
**Table 2. Military Expenditure as % of GDP, 1988-2012**



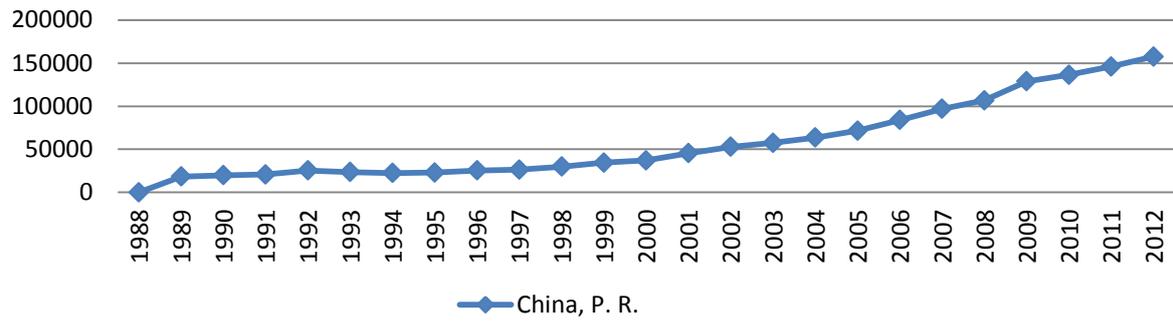
Source: Stockholm International Peace Research Institute

In relation to the military expenditure as a percentage of GDP (Table 2), we can see a consistent trend for countries to spend an equivalent of 2-3% of their GDP for military spending. It is worth note taking that Vietnam and Brunei have historically spent a higher proportion for defense spending, only to decline to the percentage levels of the other target countries (Vietnam during 1992; Brunei during 2004).

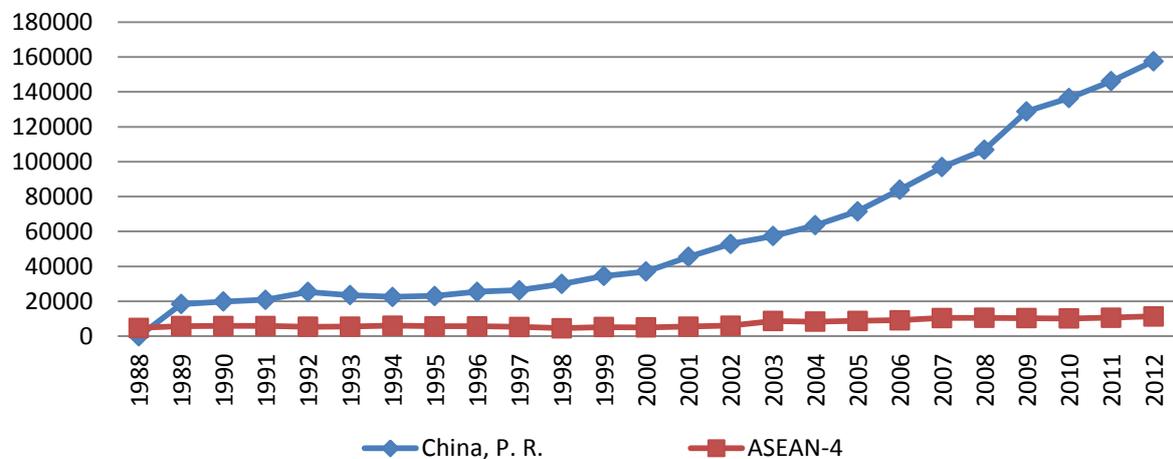
**Table 3. Military Expenditure by Constant (2011) US\$**



**Table 3(a) Military Expenditure by Constant US\$**



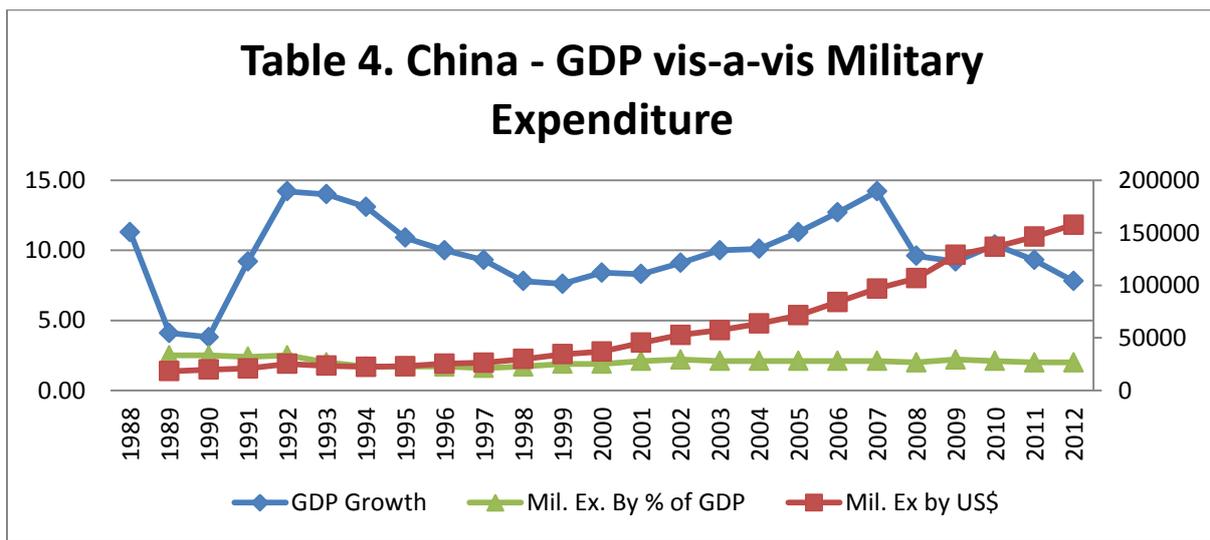
**Table 3(b) China vs ASEAN-4 Military Expenditure - Constant (2011) US\$**



Source: Stockholm International Peace Research Institute

Table 3 shows the Military Expenditure by Constant (2011) US Currency (\$). The table somehow provides a different picture, as it shows a trend towards increase in military spending by Malaysia and Vietnam, over the years. On the other hand, the spending of both Brunei and the Philippines was seen to be stable and consistent. This also shows that despite fluctuations in economic growth, the military spending of ASEAN-4 in general has shown to be independent of the economic situation.

Table 3(a) shows the Military Expenditure by Constant (2011) US Currency (\$) of China alone, while Table 3 (b) shows the difference between the military expenditure of China compared to the ASEAN-4 countries. As can be observed, the military expenditure of China alone is far greater than the military expenditure of the ASEAN-4 combined. Moreover, the military expenditure of China has grown exponentially for the last 10 years.



Source: Stockholm International Peace Research Institute, the World Bank

Table 4 provides a clearer picture of China’s military spending behavior, vis-à-vis its GDP growth rate. From this graph, we can infer that while China has remained consistent in terms of allocating funds for defense, it is also clear that the amount it uses for defense has steadily grown. Moreover, the military spending behavior of China was shown to have taken off around the late 1990s. Finally, it also shows that the China continuously increased its military spending, without any relation to its economic growth (through GDP growth), wherein despite the fluctuations in its economic growth, the military expenditure remained unaffected.

Based on the descriptive statistics shown above, a number of inferences can be made, to wit:

1. Consistent trend in the Military Expenditure as a percentage of GDP for Malaysia, Philippines and China; while Brunei and Vietnam initially had a high percentage, but decreased to the other countries' levels and became constant since 2004 and 1993, respectively.
2. Defense Expenditure of Brunei and Philippines was constant in terms of constant (2011) US\$. Malaysia and Vietnam showed an increase, while China increased exponentially since late 1990s.
3. China's Defense Expenditure is very high compared to the defense expenditure of all ASEAN-4 countries combined.

### **China's Defense Policy**

In the analysis of China's Defense Policy, the following Defense White Papers show the security situation, challenges, and its guiding policy during the period that they were published.

#### 1. National Defense of China (2004)

As of 2004, China outlined its basic goals and tasks in maintaining its national security, as follows:

- *To stop separation and promote reunification, guard against and resist aggression, and defend national sovereignty, territorial integrity and maritime rights and interests.*
- *To safeguard the interests of national development, promote economic and social development in an all-round, coordinated and sustainable way and steadily increase the overall national strength.*
- *To modernize China's national defense in line with both the national conditions of*

*China and the trend of military development in the world by adhering to the policy of coordinating military and economic development, and improve the operational capabilities of self-defense under the conditions of informationalization.*

- *To safeguard the political, economic and cultural rights and interests of the Chinese people, crack down on criminal activities of all sorts and maintain public order and social stability.*
- *To pursue an independent foreign policy of peace and adhere to the new security concept featuring mutual trust, mutual benefit, equality and coordination with a view to securing a long—term and favorable international and surrounding environment.*(Information Office of the State Council 2006)

In relation to its defense expenditure, the Chinese government provided the following rationale with regard to the increase, to wit:

- *Increase of the salaries and allowances of the military personnel;*
- *Further improvement of the social insurance system for servicemen;*
- *Support for the structural and organizational reform of the military;*
- *Increased investment on the development of high-caliber talents in the military; and*
- *Moderate increase of equipment expenses.* (Information Office of the State Council 2004)

## 2. National Defense of China (2006)

China's Defense White Paper for 2006 highlighted the purely defensive nature of its national defense policy. Moreover, it stressed that as a matter of policy; China will neither engage in arms race nor pose a military threat to anyone.

A salient feature of the defense white paper is it's mentioning of the presence of "a small number of countries" who are instigating a notion of a "China threat," and likewise

intensifying a preventive strategy against China and striving to keep a check on its progress.

At this point in time, China's national defense policy is defined as follows:

- *Upholding national security and unity, and ensure the interests of national development.*
- *Achieving the all-round, coordinated and sustainable development of China's national defense and armed forces*
- *Enhancing the performance of the armed forces with informationization as the major measuring criterion.*
- *Implementing the military strategy of active defense.*
- *Pursuing a self-defensive nuclear strategy.*
- *Fostering a security environment conducive to China's peaceful development.*

(Information Office of the State Council 2006)

In the interest of upholding national security, China emphasizes the following: (1) *guarding and resisting aggression; (2), defending against violation of China's territorial sea and air space and borders; (3) opposing and containing the separatist forces for "Taiwan independence" and their activities; and (4) taking precautions against and cracking down on terrorism, separatism and extremism in all forms.* (Information Office of the State Council 2006)

With regard to its defense expenditure, the China planned to make great strides in pursuing a more modernized armed forces. As such, Beijing announced that in 1985, 1997, and 2003, it would cut the manpower of the Peoples' Liberation Army (PLA) by one million, 500,000 and 200,000 troops respectively. The PLA Navy on the other hand, was tasked to create a modern maritime force, as well as the establishment of the mobile maritime troops that possess overall capabilities in coastal waters, joint operations and integrated maritime support. (Information Office of the State Council 2006)

It is also worth note taking that the Defense White Paper provided a more general rationale for the increases in the military expenditure, which can also be observed in succeeding defense white papers. For instance, it points to the gradual increase of its defense expenditure on the basis of its economic development, but as only compensatory in nature, to enhance the originally weak defense foundation. (Information Office of the State Council 2006)

In detail, the defense white paper likewise attributed the increase of the defense expenditure to the following: (1) increasing pay and the improvement of living conditions for military personnel; (2) increasing investment in armaments, as well as equipment and infrastructure; (3) supporting the training of military personnel; (4) compensating for the increase in prices; and (5) increasing expenses for international cooperation in non-traditional security fields. (Information Office of the State Council 2006)

### 3. China's National Defense in 2008

While maintaining its purely defensive national stance as its national defense policy, China in its 2008 Defense White Paper has stepped up its rhetoric towards the modernization of its armed forces. For instance, China *“adheres to taking the Scientific Outlook on Development as an important guiding principle for national defense and armed forces building. It also is actively adapting itself to new trend in world military development, taking it as its fundamental purpose to safeguard national sovereignty, security and development, taking reform and innovation as its fundamental driving force, and advancing the modernization of its national defense and armed forces from a higher starting point.”* (Information Office of the State Council 2009)

At the same time, it's also noteworthy that China has specifically pointed to the increasing interest of the US into the Asia-pacific region, as it consolidates its military

alliances, adjusts its force deployment in the region, and enhances its capabilities. It likewise takes note of the challenges to its national security such as ethnic and religious conflict, and disputes over territorial and maritime rights. (Information Office of the State Council 2009)

With regard to the trend towards its military expenditure, it has kept on its stance that for the first decade since 1978, the Chinese government placed more emphasis in economic development rather than military development. As such, *defense expenditure has always been kept at a reasonable and appropriate level. However, by 1988 to 1997, China gradually increased its defense expenditure on the basis of its sustained economic growth, to make up for the inadequacy of defense development and maintain national security and unity. And from 1998 to 2007, China continued to raise its defense expenditure steadily on the basis of its fast economic growth to maintain national security and be able to meet the requirements of the RMA with Chinese characteristics.* (Information Office of the State Council 2009)

Finally, the increases in the defense expenditure were attributed for the following purposes: (1) increasing the salaries and benefits of servicemen; (2) compensating for price crises; and (3) pushing forward the Revolution in Military Affairs (RMA) with Chinese Characteristics. (Information Office of the State Council 2009)

#### 4. China's National Defense in 2010

By 2010, China still retains its defensive stance towards its national defense policy. However, it again takes note of the intricacy and volatility in of security in the Asia-Pacific Region, due to thee increasing involvement of major powers in the strategic landscape. It again specifies the involvement of the US, as it reinforces its regional military alliances, and increasing involvement in regional security affairs. (Information Office of the State Council 2011)

This defense white paper also took note of China's national defense goals and tasks in the "new era," as follows:

- *Safeguarding national sovereignty, security and interests of national development - tasked to oppose and contain the separatist forces for “Taiwan independence,” crackdown on separatist forces for “East Turkistan independence” and “Tibet independence”*
- *Maintaining social harmony and stability*
- *Accelerating the modernization of national defense and the armed forces - bearing in mind the primary goal of accomplishing mechanization and attaining major progress in informationization by 2020, the PLA perseveres with mechanization as the foundation and informationization as the driving force.*
- *Maintaining world peace and stability - by consistently upholding the new security concepts of mutual trust, mutual benefit, equality and coordination, advocating the settlement of international disputes and regional flashpoint issues through peaceful means, opposing the use or threat to use of force at will, opposing acts of aggression and expansion, and opposing hegemony and power politics in any form. (Information Office of the State Council 2011)*

China’s 2010 Defense White Paper reiterated the rationale behind the increase in its military expenditures, as follows: *(1) improving support conditions for the troops; (2) accomplishing diversified military tasks; and (3) pushing forward the RMA with Chinese characteristics. It likewise pointed to the upward trend in purchasing prices and maintenance costs and the increased funding for high tech weaponry and equipment and their supporting facilities. (Information Office of the State Council 2011)*

Finally, the Defense White Paper noted that given the need to prioritize social spending in sectors like agriculture, education, science and technology, health, medical care and social security due to the residual impacts of the global financial crisis, the Chinese government increased its defense expenditure “moderately as needed.” (Information Office of the State Council 2011)

#### 5. The Diversified Employment of China’s Armed Forces (2012)

In the latest Defense White Paper, China’s rhetoric towards the involvement of major powers as a security challenge to safeguard its national unification, territorial integrity and development interests has been more emphasized. A case in point is that it makes reference of “some country” which continues to strengthen its alliances and expanding its military presence in the region, which causes greater tension. It likewise points to China’s maritime territorial disputes that complicate or exacerbate the situation, with particular reference to Japan “making trouble over the issue of the Diaoyu Islands (Senkakus in Japanese). (Information Office of the State Council 2013)

The said Defense White Paper also highlighted the Fundamental Policies and Principles of its Armed Forces, to wit:

- *Safeguarding national sovereignty, security and territorial integrity, and supporting the country's peaceful development*
  - *Aiming to win local wars under the conditions of informationization and expanding and intensifying military preparedness*
  - *Formulating the concept of comprehensive security and effectively conducting military operations other than war (MOOTW)*
  - *Deepening Security Cooperation and fulfilling international obligations*
- (Information Office of the State Council 2013)

In this Defense White Paper, the Chinese government made clear of the composition of its armed forces – one which has been the subject of debate among scholars as it affects how China’s defense expenditure has been summed up. In this publication, it was outlined that *China's armed forces are composed of the following: (1) People's Liberation Army (PLA); (2) People's Armed Police Force (PAPF); and (3) the militia.* (Information Office of the State Council 2013)

*Lastly, the author takes note of the development goals of the PLA Navy (PLAN). According to the publication, PLAN”endeavors to accelerate the modernization of its forces for comprehensive offshore operations, develop advanced submarines, destroyers and frigates, and improve integrated electronic and information system.”* Moreover, PLAN is in the midst of developing blue-water capabilities in order to conduct mobile operations, as well as enhance other capabilities in order to achieve strategic deterrence. (Information Office of the State Council 2013)

In summary, the salient points with regard to China’s defense policy (based on the Defense White Papers) are as follows:

1. Reference to China’s shift towards military development – based on the Defense White Papers, it emphasized that the Chinese government is compensating for the lack of investment in military spending in the first decade of reform due to the prioritization of economic development.
2. “Inflationary” increases – personnel pay, training and upkeep have been commonly cited as reasons for the increases.
3. Tied to GDP – military expenditure has kept in pace with its economic growth.
4. Increasing roles – as the PLA moves forward to becoming a modern military force, it has to keep up with the times. As such, it necessitates that it must upgrade its

equipment and training in order to undertake combat roles against Non-traditional security threats.

5. Security Challenges – China has been vocal with regard to the security challenges that it currently faces, with particular emphasis on the increasing involvement of major powers, as well as the rising tensions in disputed territories.

In line with these, it is worth noting that a recent study by Liff and Erickson has outlined similar observations regarding China's Defense spending. With regard to China's justifications for its defense spending, Liff and Erickson listed the following:

- *Catch-up* - military modernization was not among the top priorities since post-1978 China, hence the need to compensate to modernize
  - *Inflation-adjustment* - increase in personnel costs, utilities, fuel, and commodities, as well as inflation, interest rates and exchange rates driving the increase in defense budget
  - *Economic-growth-as-priority* - defence budget is increasing at roughly the same rate as China's GDP
  - *Palliative comparison* - defence spending is still low relative to that of other militaries by some metrics
  - *Strategic insecurity* - China's territorial size, geopolitical environment and international status require more defence spending compared to other nations
  - *New historic missions* - PLA's growing role in disaster relief and other non-traditional security missions, as well as international joint military exercises.
- (Liff and Erickson 2013)

Moreover, Liff and Erickson (2013) observed that major drivers to China's defense spending are as follows:

- Domestic security concerns/ internal threats to stability - secessionist

movements to anti-government protests

- Land borders with 14 states – of which, 4 are nuclear weapons states, while 2 of the 14 countries (India and Bhutan) are engaged in territorial disputes
- Maritime boundary or island disputes with all its maritime neighbors

The most important contribution of Liff and Erickson's work to the Chinese Defense literature is that it was able to provide insights with regard to the transparency issues in Chinese defense spending. For instance, the absence of reliable open-source data, as well as the impossibility of verifying data that are available, hindered efforts to determine total military spending figures. Moreover, " *the calculations of China's defence budget at constant prices (which account for the effect of inflation) show that in many years the effective growth rate of China's defence spending is much lower than the widely cited current price ("nominal") figures suggest.*" (Liff and Erickson 2013)

With regard to the share of military expenditure to the total expenditure of the government, it has been noted by Liff and Erickson that throughout most of the post-1978 period, the rapid growth in China's official defence budget was consistently outpaced by even faster increases in overall state financial expenditures. Both expenditures coincide with China's surging GDP. Moreover, China's military forces receive a declining percentage of the government's largesse with each passing year. (Liff and Erickson 2013)

## **Conclusion**

In conclusion, the author would answer the questions posed at the start of this study. With regard to the trends in defense spending, the data indicate that in terms of percentage to GDP, Brunei and Malaysia initially had a higher share for military spending, compared to Malaysia, Philippines, and China, which has been constant. In terms of amount spent (2011

US\$), Brunei and Philippine military expenditure remained constant, while Malaysia and Vietnam was observed to have increased its military spending. China, on the other hand, has increased its spending exponentially.

With regard to China's Defense Policy, it stands by to its "purely defensive" nature as a national defense policy. However, it has pointed out that given the need to protect its national sovereignty, territory and interests, as well as the need to modernize its lagging armed forces amidst increasing costs, it has become a priority of the state to provide added funding to this end. While the amount of military expenditure has risen exponentially over the past 2 decades, it has remained constant in terms of its percentage share to GDP.

As it stands, the results of the study shows that there is no clear relationship that China's Defense Policy, as well as its spending affected the defense spending behavior of the ASEAN 4. While there are noted increases with some of the countries' (Malaysia and Vietnam) expenditure in terms of the amount, its share in terms of percentage of GDP does not show any unusual fluctuations. Furthermore, the study agrees with the conclusion made by Bitzinger that no arms race currently exists in the region.

Given the above conclusions, a direction for future research along the lines of maritime security, which all target countries share a relationship with. Furthermore, future research should also look beyond the figures, and try to analyze the relationship among the selected countries in terms of what they bought, rather than how much they spent.

## References:

- Aizenman, J. and Glick, R. "*Military Expenditure, Threats, and Growth.*" Working Paper 9618. National Bureau of Economic Research. 2003.
- Bitzinger, Richard. "*Analyzing Chinese Military Expenditures.*" in Flanagan and Marti (eds). *The Peoples' Liberation Army and China in Transition.* Washington D.C. National Defense University. 2003.
- Bitzinger, Richard A. A New Arms Race? Explaining Recent Southeast Asian Military Acquisitions.* Contemporary Southeast Asia Vol. 32, No. 1. 2010. pp. 50-69
- Choi, K. and Wattanayagorn, P. "*Development of defence White Papers in the Asia-Pacific Region.*" In Bates and Mak (eds.). *Arms Transparency and Security in Southeast Asia.* Stockholm International Peace Research Institute. 1997.
- Gray, Colin, "*Arms Race Phenomenon*". World Politics, Volume 24 No. 1, October 1971
- Deger, Saadet, "*Economic Development and Defense Expenditure,*" Economic Development and Cultural Change, 35:1, October 1986
- Frederiksen, P.C., and Looney, P.C., "*Defense Expenditures and Economic Growth in Developing Countries,*" Armed Forces and Society, Vol. 9 No. 4, Summer 1983.
- Hirmissa, et. al. "Military Expenditure and Economic Growth in ASEAN-5 Countries." Universiti Putra Malaysia. 4 August 2008.
- Information Office of the State Council. "*China's National Defense in 2004.*" December 2004.
- Information Office of the State Council. "*China's National Defense in 2006.*" December 2006.
- Information Office of the State Council. "*China's National Defense in 2008.*" January, 2009.
- Information Office of the State Council. "*China's National Defense in 2010.*" March 31, 2011.
- Information Office of the State Council. "*The Diversified Employment of China's Armed Forces.*" April 2013.
- Liff, Adam and Erickson, Andrew. "Demystifying China's Defence Spending: Less Mysterious in the Aggregate." The China Quarterly. June 2013. pp. 1-28.
- Looney, Robert. "*Internal and External Factors in Effecting Third World Military Expenditures.*" Journal of Peace Research 1989 26:33. February 1, 1989
- Perlez, Jane. "*Continuing Buildup, China Boosts Military Spending More Than 11 Percent.*" New York Times. March 4, 2012.
- Stockholm International Peace Research Institute – World Military Expenditure Database

Swinnerton, Russ. "*The Strategic Environment and Arms Acquisitions in Southeast Asia.*" In Bates and Mak (eds.). *Arms Transparency and Security in Southeast Asia*. Stockholm International Peace Research Institute. 1997.

Tan, Andrew. "Force Modernization Trends in Southeast Asia." Nanyang Technological University. Institute of Defence and Strategic Studies. 2004

The World Bank

Whitten, G, and Williams, L., "*Buttery Guns and Welfare Hawks: The Politics of Defense Spending in Advanced Industrial Democracies.*" *American Journal of Political Science*, Vol. 5, No. 1. January 2011