

The Political Economy of China's Defence Modernisation

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Abstract

World over, differences exist about the impact of military expenditure. While development economists consider excessive military expenditure as wastage, many defence economists have a different view. With the defence versus¹ development debate unending, China makes a unique contribution. While China's defence expenditure is not well known, the Chinese experience shows that investments in development do provide an expanded economic base subsequently, which will take care of defence needs. Thus, in the last fifteen years, China's high economic growth rate also coincided with high military expenditure. China's experience carries an important lesson, i.e., defence and development cannot be treated differently. Rather, they conjoin in contemporary international relations discourse.

World over, differences exist about the impact of military expenditure.² While high military expenditure does mean better prospects for defence modernisation, opinions differ over the cost and impact on the economy. The relationship between national security and development is complex and while one cannot take place without the other there is a difference on what is optimum defence expenditure. According to Amartya Sen, excessive military expenditure is wastage in developing countries. He believes that the benefits of military expenditure are uncertain and limited, and it affects economy by 'crowding out' other uses such as private investment and social spending.³ Development economists argue that 'defence is a major, economically unproductive, consumption expenditure (and), hence, its long-term effects must be negative, either in terms of growth reduction or in terms of welfare losses'.⁴ In the developing world, it "tends to reduce government socio-economic expenditures, such as on education, housing, health, social security, welfare, transport and economic

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services".⁵ Hence, the UN General Assembly, since 1950s, has repeatedly called for reductions in defence expenditures and re-allocation of funds for development.⁶ They highlight evidence that indicate military expenditure is, 'a regional public bad' as it cuts social and growth-promoting expenditure; provides external security but increases internal vulnerability and social cohesiveness; worst, it leads to security dilemma and arms race.⁷ The 'disarmament- for- development' thesis⁸ also supports the above propositions as this will lead to resource conversion and redirection.⁹ Further, they argue, disarmament has led to the economic growth in most countries, except oil-producing countries.¹⁰ At the same time, there is a school holding that sustained economic production will spur defence spending. A RAND publication, based on some great powers' military expenditures between 1870 and 1935 concludes that economic growth encourages increase in military expenditure and military capabilities.¹¹ Another scholar concludes that sustained economic production has significant bearing on defence spending.¹²

Many others, however, do not agree with such arguments. Chowdhury and Kusi, in their studies, suggest a diverse relationship between defence spending and economic growth.¹³

In fact, growth is determined by many factors of which military expenditure may be just one. Smith and Dunne, in their paper, surveyed 28 countries during 1960-1997 to examine the relationship between military expenditure, investment and growth. They found variable patterns. First, there are countries with low military expenditure and high growth, e.g., Germany. The second case is high military expenditure and high growth, e.g., Taiwan and South Korea. Sub-Saharan Africa comes under the category of low military expenditure and low growth. The final case is of high military expenditure and low growth, e.g. former Soviet Union.¹⁴ In fact, some literatures treat military expenditure and development expenditure as two independent variables, the former being determined by different determinants.¹⁵ With the defence vs. development debate unending, an authoritative statement on their relationship is difficult. It is worth examining here the way China's post-Mao military modernisation endeavour has contributed to this debate.

Most great powers dedicate large finances to military build up. The United States, for example, is spending, \$ 422 billion in its 2005-2006 defence budget. While this accounts for just 3.5 per cent of its GDP, in

absolute terms it is two-fifth of the total world military expenditure.¹⁶ China is no exception. Strategic realities and availability of funds have always dictated its military modernisation. However, in 1979, as it launched its post-Mao modernisation plan, it consciously decided to stress development vis-à-vis defence. The logic was to widen its economic base for adequate resources for defence subsequently. A decade later, China started making huge investments in defence. In 2005-2006, China's estimated defence budget had risen to \$ 60 billion as per international estimates.¹⁷ China's own officially declared figures are considerably lower.¹⁸ Without falling into any 'statistical trap', it is proposed that China's defence modernisation is a logical corollary of its economic achievements and constitute an integral part of its grand strategy of accomplishing comprehensive national power (CNP) in a reasonable time-frame. This article, therefore, studies the financial strategies adopted by China to modernize the PLA.

The Modernisation Status of the PLA in 1979

Enough has been written elsewhere on the defence modernisation under Mao Zedong.¹⁹ Given the threat perceptions, first from the United States and then from the Soviet Union, military modernisation was a priority for Mao Zedong and he took keen interest in transforming a hitherto guerilla army into a modern army. After the Korean War, considerable attention was given to the modernisation process, first with Soviet help and later through indigenous efforts. The official data shows that funds were not a constraint and the PLA cornered roughly one-fifth of the total government expenditure. Official budgetary allocations increased more than four times between 1961 and 1979, though the economic base of China was small and the developmental challenges were huge. Despite its flirtations with various development strategies, China remained a poor country. Its GDP base was small and the total government expenditure in 1979 was just RMB 127 billion.²⁰ Despite large expenses on defence, including on the vital nuclear weapon and missile programmes through the Maoist phase, the PLA in 1978-79 was not a modern force and in view of its vast size (4.6 million in 1979), its modernisation was a challenging task.

The deterioration in Sino-Soviet relations after 1960 had dealt a heavy blow to China's military modernisation. The Soviet Union had both before and after the Korean War, had helped modernise the Chinese PLA in a significant manner. Soviet support was indeed critical and very large, and what they gave was very modern for China at that stage. The Soviets

exported various forms of military equipment worth US \$ 2 billion by 1957, a big amount in those days. China also got Soviet expertise and technology to start a military-industrial complex (MIC) for modernising its defence services. Thus, by late 1950s, China had a somewhat professionalized and modern military. These included an air force having 4000 combat aircrafts.²¹ However, differences over the Soviet leader Nikita Khrushchev's policy of détente with the United States had emerged by the late 1950s. Mao, was an ambitious leader. Though in the initial decade, China accepted the Soviet leadership of the international communist movement under the strategy 'leaning towards one side,' soon it developed independent instincts in its foreign policy, and by the late 1950s was openly challenging key Soviet ideological and foreign policy positions. Despite large Soviet military aid, the Maoists were to argue that the Soviets "did not give them their latest weapons, and the quantities were far from enough to mechanize all the ground forces of the PLA".²² While the Soviets had helped China substantially with its nuclear weapon and missile programmes under the *Agreement on New Technologies for Defence (1957)*²³ given his growing concern over Mao's militant posture on nuclear war and the US as well as his hostility towards Soviet policies, Khrushchev finally did not provide China with a sample nuclear bomb. With increasing Sino-Soviet tensions,²⁴ Soviet assistance in the form of men, material and technology stopped by the early 1960s.²⁵

Mao's beliefs were equally responsible for China's retarded defence modernisation between 1960-1978. Though he believed that 'political power flows out of the barrel of the gun', Mao also believed in supremacy of "men over material". During civil warfare days, he often emphasised the multifunctionality of the Red Army as "a fighting force, a political force and an economic production force".²⁶ After the formation of the People's Republic, the PLA continued to carry out such a role. Despite the promises in the Provisional Constitution of "building a modernized armed force",²⁷ Mao preferred a politicised PLA and not an apolitical army. This became more acute in the 1960s following the split with the Soviet Union when Mao faced increasing resistance to his authority within the party and in the higher echelons of the PLA. Mao's close associates began to emphasise 'people's war' and denounced any suggestion of military technology and techniques being equal to "men armed with Mao Zedong's thought." For this radicalism, Harlan W. Jencks has equated Maoism with Fascism.²⁸

The findings in recent literature have been, however, sympathetic to Mao for his resource management skills. The Chinese experience during the Korean War and the nuclear threats from the US during the war had compelled Mao to reconsider his thesis of nuclear weapons being 'paper tigers' and develop an indigenous nuclear deterrent. Mao realised that the PLA had just emerged from the shadows of the Long March, the Anti-Japanese War, and the Civil War. A comprehensive modernisation of men and weaponry was impossible overnight and the ill-trained PLA was not in a position to meet the challenges of the nuclear age. Hence Mao's pursuit of the nuclear option reflected a mind rooted in contemporary strategic reality. At a meeting in October 1954 with military leaders, Mao recognised that the advent of the nuclear era had raised the benchmark for Chinese modernisation on all fronts. He said, "Since the appearance of atomic weapons, military strategy, tactics, and weaponry have all changed dramatically. In this area, we haven't the faintest understanding". He reportedly told the visiting Indian Prime Minister Jawaharlal Nehru that China required an independent nuclear deterrent. In January 1955, the Politburo decided to acquire nuclear weapons. Within three years, the decision was expanded to pursue vigorously a full range of land and sea-based delivery systems and thus all the elements of a comprehensive strategic arsenal.²⁹ Mao therefore, allocated substantial finances to the development of critical technologies and weaponry while the conventional modernisation of the PLA lagged behind.

When Mao died and Deng Xiaoping took over after a brief interregnum in 1979, the combat preparedness of the PLA was in a pathetic state. Far from being a modern army, it was a laggard in almost every aspect. The soldiers were poorly fed, poorly led and poorly armed. Barring nuclear weapons, China did not have any other weapon of strategic importance. The war doctrines based on Mao's 'people's war' concept were outdated. China also had not been able to achieve much in developing new military technologies nor acquire them from abroad due to years of its self-imposed isolation in international relations. It did not take the Chinese much time to learn the ground realities. Their decision to attack Vietnam in early 1979 resulted in a stalemate and huge losses. The myth of Chinese military superiority as well as 'people's war' concept lay thoroughly exposed.

Financial Considerations in Four Modernisations

Deng's assessment about PLA's capabilities was very pessimistic. In

1975, Deng had declared how the “Chinese armed forces were bloated, arrogant, ill-equipped, and too poorly to conduct modern warfare”.³⁰ After the Vietnam stalemate, Deng sought to modernise China’s entire defence establishment: the armed forces, their training and professional development, communications infrastructure, the defence industrial base, and defence research, development, testing and evaluation capabilities.³¹ However, funds were a problem. Given the size and complexities in the PLA modernisation, it required huge funds over a long period of time. Deng had inherited a weak economy with a limited resource base.³² Funds were also required for priority sectors such as agriculture and industry. Deng also noted how in China’s own neighbourhood, countries like Japan had developed its economy by low investments in military sector and an alliance with the US. Deng could also see from the experiences of the Maoist phase, as well as the Soviet and North Korean examples, how very large military expenditure could be wasteful. He saw enough rationale in putting a cap on PLA budget, reorganise it, and use the available resources for rapid economic modernisation.

The new leadership favoured a grand strategy where strategic resources were to be used in a manner that will ensure the survival and development of the Chinese nation.³³ The ‘four modernisation’ programme that emerged in 1979 was, nothing, but one of the many tools of the Chinese grand strategy. It put defence modernisation as the last priority and instead gave preference to agriculture, industry and science and technology at the first, second and third place. However, there was some resistance. As Thomas W. Robinson puts it, “at least one group challenged the decision by asserting that military should be put first, not merely for reasons of national defence but because, being the most advanced sector technologically, the military portion of the economy could more efficiently pull the rest of the economy along with it”. Support to this group had come from a section of the PLA, conservative leaders like Ye Jianying, Mao’s chosen successor Hua Guofeng and other Maoists.³⁴ However, Deng was determined to cut the PLA to size as well as those leaders who were espousing its cause. He was determined to reduce the PLA’s political influence in post-Mao China and to transform it from a wielder of power to an instrument of power. Remember that the PLA was used by Mao to destroy his political opponents, by Zhou En Lai to protect China from the excesses of the Cultural Revolution, and by Deng to oust the Gang of Four. Deng could not afford

a challenger to his power, and he was able to persuade the PLA to go along with budgetary cuts in the name of economic development.

As a result of reallocation of financial resources under the 'Four Modernisation' programme, China's official defence expenditure went down from an all-time peak of RMB 22.27 billion in 1979 to RMB 19.38 billion in 1980. This amounted to a 13 per cent fall. In subsequent years, China's official defence expenditure kept on falling and surpassed the 1979 figures only in 1989 when the figures touched RMB 25 billion. If the inflation factor is taken into consideration, during 1979-1989, there was a considerable decline in China's official defence expenditure. During this period, Chinese economy was on an upward swing. China's GDP was growing at an average of 9 per cent. By 1989, China's official defence budget was around 9 per cent of the central government's expenditure and less than 2 per cent of the GDP. This was a sharp decline from the 1979 official figure of 17.7 per cent and 3.5 per cent respectively. Even if space is allowed for Chinese statistical ambiguity, there was a real budgetary decline for the PLA. Deng made it clear that PLA's budgetary hike would not be forthcoming until economic goals had been achieved.³⁵ He asked the PLA to explore new means to achieve its modernisation goals.

The PLA experimented its affairs within the new financial constraints. In June 1985, it announced a cut in the manpower by 25 per cent. Between 1985 and 1987, one million service personnel (including civilians) were demobilised. About 70 per cent of the cuts came from the ground forces, while the air force was reduced by 25 per cent. More than 30 units at or above the corps level were eliminated, as well as 4,050 divisional and regimental units. By 1987, the PLA had been reduced to 3.2 million. Most of them were transferred to civilian control as they were primarily engaged in civil work.³⁶ Another tool used by the PLA was the process of 'defence conversion', i.e., use of defence enterprises for civilian production. China had a vast military-industrial complex and Deng Xiaoping felt that the equipment and technical forces in the defence industry should be put to the service of the national economy while continuing to serve PLA. This would bring additional revenues and finance the modernisation needs of the PLA. The actual policy was very liberal and defence enterprises were allowed to freely choose the items they would manufacture for civilian production. Bicycles, sewing machines, and watches thus became favourite products for military enterprises. Between 1978 and 1988, civilian

production as percentage of total production in the defence industry increased from 14.6 per cent to 66 per cent and so did PLA's extra-budgetary earnings.³⁷

The money saved on the PLA was invested in the priority areas. Agriculture got the top priority in 1979 and for the next several years. Trade and industry also got state attention and investments. The Chinese grand strategy had fixed targets for the short term, medium term, and long term under the four-modernization programme. For example, by 2000, China aimed to quadruple its 1980 GDP. With the growth rate over 9 per cent, this target was achieved. Similarly, targets were achieved in other priority areas. China's objective was simple: through investments in economic reforms, it was preparing for long-term capacity building in Chinese defence. By the 1990s, China was indeed in a better position to allocate more resources for the PLA.

If the PLA agreed to low defence budget in the early stages of the economic modernisation, part of the reason was a perceptible change in the global balance of power. It was no more a case of tight bipolar world order. China had created a security space for itself through improved relations with the United States. In 1982, China declared its independent foreign policy of peace without leaning towards any particular superpower. In essence, it was a sort of diplomatic defence by keeping China away from superpower politics. It identified 'peace and development' as major themes in international relations and not the 'unavoidable world war' as expected under Mao. Relations with its rival, the then Soviet Union, were gradually improved and China began to also build ties with its neighbours by suggesting 'postponement of complex issues'. In addition, China tried to break its pariah image by improving relations with many countries and even international organisations. Since there was no threat of a 'looming world war' or even a possible regional flare up, Deng was able to convince the PLA to toe his line.

Incremental Modernisation

After a decade of declining budget, the Chinese leadership became generous towards PLA. Funds for the PLA started increasing after 1989. That year, the official defence expenditure of RMB 25.2 billion was the biggest figure in PRC's history. Post-1989, the budgetary allocations increased more rapidly than inflation, and indeed, than the GDP growth

rate. By 1994, the official defence expenditure was more than double of 1989 figures. Even after taking into account the inflation factor, about one-third of the rise in defence budget was in real terms. Various reasons could be accounted for this persistently real increase in PLA's budget. *First*, the PLA had played a crucial role in suppressing the 1989 Tiananmen Square incident. Since then, it started playing an increased role in internal Chinese politics. Increased budget outlays were a way in which the PLA extracted its price for supporting the leadership's actions and sustaining the regime in power. *Second*, a decade of neglect and low budgetary allocation had severely hampered the PLA. Far from modernising itself, it was becoming difficult for the PLA to even sustain itself. The emphasis on extra budgetary resources was not very helpful. In addition, it was also having a negative impact on the PLA's combat capability. So, when the national economy expanded dramatically during the late 1980s, senior PLA generals began questioning the rationale for low and inadequate defence budgets. Their assessments of modern warfare and the PLA's backwardness gave further force to their arguments for budget increases. Enhanced budget allocation was the only way to stop any dissent and heartburn among the PLA generals.³⁸ *Third*, the Gulf War of 1991 also contributed to the PLA kitty, albeit indirectly. The Chinese leadership, under Jiang Zemin, saw in awe how the US-led coalition destroyed the Iraqi resistance. The speed with which the war was won and the extensive use of high technology, airpower and low levels of troops losses left the Chinese leadership mesmerised. China's own perspectives on limited war, developed in the mid-1980s, took a beating. Lack of preparedness in 'revolution in military affairs (RMA)' now bothered the Chinese strategic thinking. This urge for a technological push in PLA's modernisation contributed to the defence budgetary increase.

Chinese military expenditure grew rapidly during the post-1995 period. In 1995, the official figure was RMB 63 billion. In 2000, it was almost double: RMB 121 billion. In 2005, the official figure stands at RMB 247.7 billion.³⁹ Thus, based on 1995 figures, the budget has increased more than four times, and nearly ten-fold since the budget increase began in 1989. On most of the occasions, the budgetary increase over the previous year was in double digits. Also, since 1995, inflation continued to drop sharply, reflecting tighter monetary policies and stronger measures to control food prices.⁴⁰ Except during the Asian financial crisis of 1997 when the inflation touched a double-digit figure, it hovered around 2 per cent. Thus, the budgetary allocations were really generous. An obvious explanation was

the extraordinary performance of the Chinese economy. By the end of the 20th century, the development strategy was an acclaimed success and had catapulted China among the largest economies. In recent years funds have not been a problem for China. The death of the Soviet Union, the long-term prospects of a multipolar world order, the desire to push its own agenda in international relations were some of the factors now propelling China's military build up. The growing complexity in the East Asian security environment too was a factor. The military confidence of Taiwan necessitated an adequate response from the PLA according to its leaders. The failure of multilateral diplomacy to bring about a resolution of South China dispute to the advantage of China has also contributed to enhance PLA Navy's funding.

China's own explanations for significant PLA funding are conservative and point at increase in expenses on personnel, establishment and gradual improvement of social security system for servicemen, higher maintenance cost particularly after the commercial activities of the armed forces were stopped in 1998, and rising expenses on military hardware and technology.⁴¹ In practice, China seems to be walking on 'two legs'. Whereas earlier, defence modernisation was a last priority; in the last decade it has got increased attention largely due to economic prosperity. But even while China tries to do a balancing role between development and defence, the focus on development has not been lost. China probably has learnt some lessons from the late Soviet experience where defence accounted for over 20 per cent of the GDP at the height of the Cold War. This money was being used to maintain a huge and sprawling military-industrial complex. Economically, it was unsustainable and, was one of the factors for the Soviet collapse. While they dream of a 'rich country and strong army', the Chinese leaders do not want defence spending to serve as a brake on economic growth.⁴² The process of economic empowerment is still far from achieved, China's long-term goals of raising the gross GDP and the per capita income to a respectable level will take time and there are many under-developed segments in China. During the 16th Party Congress, it was evident that the crux of modernization is still economic development. Jiang Zemin, in his report to the Congress, said, "China will uphold the principle of coordinated development of national defence and the economy and push forward the modernisation of national defence and the army on the basis of economic growth".⁴³

China's balancing act is evident in the fact that while the PLA budget has been raised, this has not been at the cost of budgetary allocation for economic construction, society, culture and education.⁴⁴ The PLA generals are also supportive of primacy to economic modernisation.⁴⁵ Meanwhile, the diplomatic elements in China's defence strategy are being positioned carefully. China continues to promote a peaceful international and regional environment by preaching 'positive, passive, cooperative, benign and peaceful themes' in international relations. The diplomatic engagements between China and its neighbours are more cultured and finely tuned than they were in the 1980s. In its foreign policy, China continues to observe what once Deng Xiaoping directed: "Keep cool-headed to observe, be composed to make reactions, stand firmly, hide (our) capabilities and bide time, never try to take the lead, and be able to accomplish something".⁴⁶

Issues in the PLA Budget and Modernisation Process

In the last one-and-a-half decades, the PLA budget has been criticised on several grounds. To begin with, the PLA budget is not based on a standard accounting format. In the annual central government budget, PLA budget is shown under a single head. Further category-wise division is not available. Though the defence White Papers published every two years have started giving a rough breakdown of official defence expenditure, it is still a broad division and not a detailed one. This creates space for confusion and doubts. For example, the 2004 White Paper talks of introducing a new defence budgeting system but does not elaborate on it.⁴⁷ In the absence of details, it is difficult to understand how China's defence funds are calculated and managed. China is yet to adhere to the internationally recognized templates of defence spending.⁴⁸ While it has reported to the SIPRI about its military expenditure in 2004,⁴⁹ it is yet to report to the UN Department for Disarmament Affairs (DDA) in the prescribed format.⁵⁰ Also, as Richard Bitzinger argues, "many goods in Chinese defence spending basket cost much less than they would be in the West: conscription and lower living standards in the PLA save money on personnel, while lower wages at defence factories reduce the cost of arms procurement". In the Chinese case, as Bitzinger complains, "...we do not know how much funding goes to the army, air force, or navy; how much is spent on which particular R&D and procurement programmes; the amount and types of weapons (aircraft, ships, tanks, or missiles) being procured annually; or how much support is specifically accorded to

categories such as training or logistics, or towards improving soldiers' living standards".⁵¹ The absence of a proper account makes it difficult to use standard purchasing power parity method (PPP) to bring out the actual cost. Further, the official data is vague and intentionally obfuscated. It is very difficult to make an estimate of revenue and expenditure base of the PLA. There is no matching in composition of defence finance and budgetary allocation. Though the defence budget is in two parts, central and local, it is not clear as to how the local funds are utilized. Finally, the defence finance department in China, responsible for maintaining all accounts of the PLA, is powerless, as it has to compete with many other bodies in receiving central funds. Professional weakness and declining recruitment through the Military Economics Academy are also making its account keeping task a difficult one.⁵²

The lack of transparency by China in its defence budget administration further complicates the problem. Even after the publication of defence White Papers, China still maintains a veil of secrecy over its defence budget. This has led to variable estimates of China's defence expenditure. A recent RAND publication has put China's defence expenditure anywhere between 1.4 to 1.7 times the official numbers.⁵³ The SIPRI estimates are similar: for the year 2004, it was \$ 35.4 billion.⁵⁴ Estimates by David Shambaugh and Shaoguang Wang project China's actual military expenditure between 2-2.2 times⁵⁵ and 1.7-1.8 times⁵⁶ respectively. The CIA predicts a range of \$ 46-65 billion. The US Department of Defense makes an estimation of China's military expenditure between \$ 65-80 billion.⁵⁷ Some estimates go up to \$ 100 billion also.⁵⁸ Finally, there are also a group of experts who view that the Chinese military expenditure is around three times than official figures. The reasons for this varied estimates is that the Chinese official budget does not cover the provisions for many essential items. Provisions for military research and development (R&D), weapons and technology imports, expenses for the People's Armed Police (PAP) and other militia/reserve forces, and allocation for defence industries are made under civil heads.⁵⁹ Also, the earnings from the domestic military-industrial complex and the PLA enterprises are not taken into consideration for budgetary purposes. One problem with these higher estimates is that they are not verifiable and they have been sharply refuted by Chinese sources. In the absence of any accurate figures, one has to compare figures from all sources. Accordingly, China seems to be spending almost twice the official

figure, i.e., \$ 60 billion for the year 2005-2006. This makes China the highest military spender in Asia.

Besides, there are some issues that should cause increasing financial worries to China. One of them is the high cost involved in the import of technologies and weapons. Foreign arms purchases averaged \$ 700 million during 1991-2000 but rose to \$3 billion on an average during 2000-2003 due to its purchase of high-cost weapons systems from Russia such as the Kilo- class submarines and the Sovremenny-class destroyers.⁶⁰ Although global arms sales have declined of late, China's purchases are showing an upward swing. During 2000-2003, China emerged as the largest arms importer,⁶¹ primarily because China is getting weapons at a competitive rate from Russia, its biggest supplier. China is willing to purchase many items that Russia has to offer.⁶² Although on the basis of its burgeoning economy and huge foreign reserves, China can afford to pay more money for imports (and in fact, China has been doing that), it does not augur well for a prospective great power to depend on others for critical technologies and weapons as it can lead to vulnerability in times of crisis. After all, the Chinese do have a bitter memory of failed military cooperation with the Soviet Union after 1960. The Chinese attempts to induce its domestic military-industrial complex to come out with advanced technologies and weapons have not been that successful. Until recently, most of these military enterprises were reported to be running in losses. Similarly, China has not been reaping much from its arms sales in recent years. Though it is still a major global arms exporter, its sales are mostly of lower-end conventional weapons and the total volume of sales is very small (around \$ 0.5 billion). The customers are mostly its neighbours, Pakistan being the most important. Foreign policy considerations and not monetary considerations have been among the principle motives behind the Chinese arms sales.⁶³ Apparently, the Chinese are faltering on production strategy, pricing, and profitability factors⁶⁴ and in addition, have to compete with Western higher quality supplies.

Another concern to China was the involvement of the PLA, until recently in business enterprises.⁶⁵ Though the PLA had some business experience during Mao's days, post-1979, it gained currency as the PLA was looking for some additional revenues. The initial process of 'defence conversion' soon sprang to a huge business empire where the PLA was producing virtually everything. The leadership had no problems. In fact,

Deng Xiaoping openly encouraged it.⁶⁶ However, by the mid-1990s, there was a realisation that this urge for extra-budgetary resources was leading to 'commercialisation' and 'localisation' of the PLA; encouraging factionalism and military indiscipline within the ranks, and erasing the traditional contours of civil-military relations.⁶⁷ The combat capability of the PLA had become questionable⁶⁸ and it was more interested in making money than defending the country. In many ways, it had become an entrepreneurial army. What irked the leadership was the rampant corruption within the PLA followed by some open defiance. In his speech to the 15th Party Congress in October 1997, Jiang offered a dire warning against corruption in the PLA, and urged to preserve "the nature, true colour, and work style of the people's army". It was followed in July 1998 by a terse order whereby Jiang Zemin called for the dissolution of the military-business complex. This divestiture, since then, has drained some of the potential swamp in which military corruption previously festered.⁶⁹ To compensate for the financial losses, the PLA was promised liberal budgetary grants. Thus, during the period 2000-2005, the official defence budget rose by more than two times.

Present Status of PLA Modernisation

The economic achievements of China in the last two decades have led to an overall improvement in the modernisation and combat capability of the PLA. After 1985, the PLA has been trimmed time and again, in 1987-89, in 1997 when its strength was further reduced by 500,000, and another reduction of 200,000 was announced in 2003. Simultaneously, the military regions have also been reduced from 11 to 7. Apparently, these steps are aimed at transforming the PLA from a numerically superior to a qualitatively superior military, and from manpower-intensive to a technology-intensive force. The PLA's motto seems to be 'fewer but better, combined and efficient'.⁷⁰ There is a broad agreement that China is militarily more confident today than it was in 1979. While Beijing seems committed to full military modernisation as a long-term goal, for the time being, China's intention is to use the available resources in order to create 'pockets of excellence'.

Money has been spent to buy Sukhoi fighter aircrafts and missile systems; tactical and special purpose (such as aerial refueling tankers, airborne early warning and collection, and electronic countermeasure) aircrafts.

Money is also being invested in more modern and combat – capable surface combatants, submarines, and amphibious vehicles. Beijing is advancing its military space capabilities across the board, including reconnaissance, navigation, communications, meteorology, small satellite technology, and manned space. Beijing is also pouring money to make its defence industries self-sufficient and competent in the next 5 to 10 years. But most importantly, China's desire to fight and win 'local war under modern high- tech conditions' has led it to concentrate on command, control, communications, computers, and intelligence (C4I) modernization and automation for the last 25 years.⁷¹

There have been some restraint areas as well. The nuclear arsenal has been kept to a moderate level; the purchase of an aircraft carrier has been deferred for the time being; the navy is still not commensurate to China's stature; and the air force still has in its service a larger number of fighters of the Soviet Union days. Above all, China has refused to compete with the United States in the nuclear missile defence (NMD) race.

However, given the budgetary generosity, the Chinese Navy and Air force are likely to acquire killer capacity in the near future. The military reforms and modernisation have helped China in gradually enhancing power projection.⁷² This is not comparable to the power projection capability of other major powers such as Britain, France, and Russia who still have formidable presence in some select areas. Nevertheless, within their limited resources, the PLA Air Force and Navy are making their presence felt in the South China Sea. China has also participated in some major military exercises with the other countries in the Asia-Pacific region.⁷³ Perhaps, the best example of China's enhanced military confidence is its position vis-à-vis Taiwan. While it may still be not possible for China to wage an all out limited war against Taiwan and win it,⁷⁴ it has put Taiwan under tremendous pressure by stationing massive ground forces in Nanjing area and positioning some 730 missiles targeting Taiwan. At the same time, China has also developed formidable area denial capabilities in the region.⁷⁵ With China's military modernisation becoming a big issue in international relations, even big countries like India may come under pressure.⁷⁶

In addition, China's defence expenditure is also propelled by its desire to resist American hegemony in the region and ensure its own regional predominance. However, this seems to be a long-term goal. China's economic modernisation is still far from over and it is not in a position to compete with the US.⁷⁷ Hence its emphasis on diplomacy and cooperative security. China has become a new convert to multilateral diplomacy and

cooperative security efforts in Asia-Pacific region.⁷⁸ The Chinese claim that “as security threats become increasingly globalised, the pursuit of security becomes more and more cooperative and multi-dimensional and, in an age of increasingly transnational threats, China’s security is dependent on the security of others in unprecedented ways”.⁷⁹ Chinese positions however, have always changed with time and been a factor of relative power.

Future Prospects

In its official statements and publications, the Chinese leadership has been emphasising on two ‘trends’. *First*, China is presently obsessed with development and this is likely to continue as long as China does not achieve the development goals set for it.⁸⁰ In the 2005 budget, once again priority has been given to agriculture, rural areas and farmers. Total budget for this sector was 15 per cent higher than the 2004 figures.⁸¹ China’s grand strategy is still to attain its long-term targets. While the first phase was successfully completed by 2000 when China quadrupled its 1979 GDP; the second phase is likely to get over by 2020 when China plans to again quadruple its 2000 GDP. By 2049, the 100th anniversary of the PRC, China aims to become an intermediate developed country and outstrip Japan as the world’s second largest economic power.⁸² Presently, China’s growth rate is growing at an average rate of 7-8 per cent and at this rate China should be able to achieve its developmental goals. *Second*, China’s defence expenditure by its own standard is still low, accounting for less than 10 per cent of the central government’s total expenditure and less than 2 per cent of the GDP. In the Chinese perspective, China’s defence expenditure is very low in comparison to what other countries are spending in its neighbourhood.

One need not accept the humble submissions by the Chinese about their defence expenditure. They are certainly spending far more than that projected in their official figures. However, it is also true that China still officially regards ‘peace and development’ as a prime goal and is determined not to repeat the mistakes in allowing excessive military spending to hamstring economic development.⁸³ The PLA is expected to give its full support to the developmental efforts. At the same time, China would continue to position military build-up (such as opposite Taiwan) along with new tools of diplomacy. Its formulation of the new security concept (NSC) in the late 1990s for the conduct of international relations was a

new strategy to provide a moral shield to China. Similarly, the new concept of 'peaceful rise' wherein China claims a moral objective, i.e., rise for peace, is in fact, China's attempt to 'rise in peace'.⁸⁴ However, as the Chinese economy grows, China would have less hesitation in allocating more funds to the PLA, as it will only be in recognition of the fact "that the PLA has made substantial sacrifices for the nation's economic construction over a fairly long period".⁸⁵

The demand for replacement of a 'gradual growth model' by a 'leaping model' for the defence budget is rising in Chinese military circles.⁸⁶ While supporting 'development' as a key element of its grand strategy, China is worried about the technological gap resulting from revolution in military affairs (RMA) and is hence talking of "local wars under informationalized conditions". As revealed by the 2004 defence White Paper, the PLA will be "striving to comprehensively push forward informationalization with military systems and informationalized main battle systems as the mainstay". To achieve these objectives, the Chinese have gone on a shopping spree. eighty five per cent of China's foreign procurements have come from Russia alone. The Russian purchases have advanced the lethality of every major category of weapons systems under development in China. If the European Union's embargo on arms trade with China goes – as it nearly did in mid-2005 – overcoming technological gaps should not be a problem for China. In fact, this might lead to greater foreign competition to sell advanced technology and weaponry to China.⁸⁷ In August 2003, the Chinese Central Military Commission (CMC) began to implement a "strategic project for talented people". The project proposes that in one or two decades, the PLA will possess a contingent of command officers capable of directing informationalized wars and of building informationalised armed forces.⁸⁸ Further, the CMC has put forward a three-step development strategy for national defence and modernisation up to 2050. The first two stages will be executed up to 2020; the third stage will be completed by 2050. It is in the third stage that the modernisation of the PLA is expected to assume a serious proportion.⁸⁹ Actually, this phase could come much earlier than expected. China's ambition to play a great power role in the Asia-Pacific region might prompt it to fund the PLA liberally in the coming years.

Before 1979, China was allocating around 6.5 per cent of its GDP to PLA. An official revival of this proportion will mean a lot for the PLA given the expected large future size of the Chinese GDP. In other words, the PLA

will have more teeth and combat capability. While there would be many factors affecting the security environment in Asia-Pacific region, there is no denial that a powerful military may induce China to adopt a general assertive and even aggressive posture in its foreign policy. Historically, China is said to have used an aggressive foreign policy posture whenever its resources allowed it to do so.⁹⁰ China's foreign policy behaviour during the period 1949-1979, when military expenditure was high, was aggressive and conflictual. There are already apprehension that China, once it becomes very powerful, might be tempted to give up its 'active defence' in favour of 'offensive defence'.

Conclusion

Any estimate of China's defence expenditure will always raise some debates as not much is known about China's defence finance. What can be said with certainty is that the Chinese approach to defence modernisation has added empirical evidence in the defence versus development debate. China never compromised either on its defence or development; rather it had a grand strategy for both. The Chinese experience shows that investments in development can provide an expanded economic base, which can take care of defence needs subsequently. Post-1979, when development became the first priority and China had little funds for the PLA, it allowed the military to raise resources through defence conversion and business enterprises. Dwindling funds could have led to a breakdown in PLA's confidence and increased China's vulnerability in the volatile Cold War context. Paucity of funds, however, was not allowed to imperil China's defence.

China also compensated for its weak defence by a judicious management of its foreign relations. Diplomacy emerged as an alternative tool in China's dealings with its neighbours (with the exception of Taiwan). The decade of the 1980s was a period when China improved its relations with virtually all its neighbours, redefined the international and regional environment and established new linkages with the outside world. The emphasis on ideology and aggressive foreign policy of the Maoist days was noticeably absent. Through the 1990s, China resolved most of its outstanding border disputes with its neighbours, barring the 'complex ones'. These steps allowed the PLA to function in a relieved strategic atmosphere and supported its development efforts. Since 1989, relative

economic prosperity has enabled China to maintain a double-digit growth for PLA. In absolute terms, official military expenditure grew nearly ten fold in the 1989-2004 period, while the GDP grew about two-and-a half-fold. Thus the period when China had a very high economic growth also coincided with high growth in defence expenditure.

While there are many countries where rapid development and high defence expenditure have gone hand in hand, China stands out with a distinction. Here is a country that did not enjoy a superpower umbrella (as was the case with Japan, South Korea, and Taiwan) after 1960. Mao had bungled both with the economy and the military. The post-Mao leaderships made reforms and modernisation their highest priority but simultaneously stressed the development and modernisation of the military as an important national mission. China's experience carries an important lesson, i.e., defence and development cannot be treated as two different issues. Rather, they have become conjoined in contemporary international relations discourse. The initial investments in development have a potential to provide proportionately more resources for defence at a subsequent stage. At the same time, defence need not be through military means. Diplomacy and statecraft can also reasonably secure the nations provided they are put to good use. This is what China did. It emerges as a useful model for security building in an environment of resource crunch and scarcity.

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