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China's defence spending: settling in for slow growth?

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China has announced that it will increase military spending by 7% this year to 1.04 trillion yuan (US\$151 billion). While most militaries would kill for this kind of increase, this represents the smallest boost in China's defence budget in more than 25 years.

Moreover, this increase (a record in terms of its parsimony) came on top of last year's budget increase of only 7.6%, or 954.4 billion yuan (equal to US\$147 billion at the time), which itself was the lowest increase since 2010.

Two such modest increases prompt questions: Is China entering a long-term phase of belt-tightening when it comes to its ambitious military modernization plans? Or is this just a temporary blip?

The past as prologue

These smallish increases are significant when one compares them with the previous hyper-growth in defence spending since the late 1990s. Beginning about 1997, China experienced

double-digit real growth (after adjusting for inflation) in defence spending nearly every year. Even according to its own official national statistics (which expert observers believe substantially understate spending levels), China's defence budget from 1999 to 2008 expanded at a rate of 16.2% per year.

This trend remained basically unchanged throughout much of the second decade of the 21st century. From 2009 to 2015, for example, Chinese military expenditures grew to about 886.9 billion yuan (US\$141.45 billion) from 481 billion yuan (US\$70.3 billion). Overall, from 1997 to 2015, military expenditures grew by at least 600% after inflation.

As a result, China has moved from having a military budget smaller than Taiwan's to being the second-largest defence spender in the world, outstripping Japan, France, Russia, and the United Kingdom. Today, only the United States spends more than China on defence. In fact, these increases became so embarrassing for the Chinese that they eventually dropped all discussion of them from their biannual defence white papers.

Fueling the Chinese war machine

These steady, sizable defence budget increases have been crucial to the tremendous and sustained growth of Chinese military power during the last 20 years. This explosion in defence spending has allowed the People's Liberation Army to acquire new weapons systems, including submarines, advanced fighter jets, air-to-air refueling aircraft, satellites, unmanned aerial vehicles, and a multitude of new ballistic, cruise, and tactical missile systems.

In turn, increased procurement has bankrolled the modernization of China's military-industrial base. New machine tools, computer-assisted design and manufacturing, modern management and manufacturing processes — all were funded by an ever-expanding defence budget.

Finally, increased defence expenditures have allowed China to sponsor new research and development projects, including fifth-generation fighters, anti-ship ballistic missiles, armed drones, and nuclear submarines (both attack and ballistic-missile-carrying). In fact, China could be spending up to US\$10 billion a year on R&D, second only to the United States.

Are the good times over ...

Obviously, this steady expansion in Chinese military expenditures during the past two decades has financed the modernization of the army and its military-industrial complex. With defence spending stalled at about 7% for the past two years, however, does this signal a new phase of slow-growth and subsequent economizing?

For years, China sheltered its defence budget from economic volatility. Increases in military expenditures have outstripped economic growth in China for more than 20 years, and even when GDP growth contracted Beijing continued to spend lavishly on defence.

With its last two defence budgets, however, Beijing could be signaling that it is time for the military to share the pain. At least for a while, the army may have to join the rest of the country

in a bit of belt-tightening. This could mean reduced procurements and slower increases in soldiers' pay. It might also mean a pause in some of China's more controversial military manoeuvres, such as its militarization of the South China Sea (including more island-building in the Spratlys).

... or just a pause?

That said, do not expect China to totally pull back from its long-term commitments to build a modern, 21st century military-industrial complex. Two years of reduced growth in military expenditures do not necessarily make for a long-term trend. Beijing could easily reverse course next year and resume double-digit increases in military spending (President Donald Trump's recent call for a 10% increase in the US defence spending could be the prod China needs).

In any event, the military — and therefore military spending — will continue to enjoy preferential treatment from the Chinese government. Beijing will likely do all it can to ensure that the modernization of the military continues on a steady upward trajectory.