

The occasional papers of the

Centre for Historical Analysis and Conflict Research

15

ARES & ATHENA

SEPTEMBER 2019



¹⁵ CHINA: FRIEND,
FOE OR NEITHER?

CONTENTS

- 02 Introduction
- 04 **The power of history in China today**
- 06 The challenges of a changing China
- 08 **Money, might and mindset: China's self-centred economic diplomacy**
- 10 China and Russia relations
- 12 **South China Sea**
- 15 How to understand China's defence expenditure



Published by:
Centre for Historical Analysis and
Conflict Research, Robertson House,
Slim Road, Camberley, Surrey
GU15 4NP.
Tel: 01276 412708/412660
chacr.org.uk

CHACR business partner:

NSC, River View, 2 Meadows Business Park, Camberley,
Surrey GU17 9AB
Tel: 01276 678867

CHACR

Director: Major General (ret'd) Dr Andrew Sharpe CBE

Assistant Director: Colonel Alistair McCluskey

Resident Fellows: Dr Ziya Meral; Dr Louise Tumchewics

Visiting Fellow: Dr Matthias Strohn

Associate Fellows: Maj Gen (ret'd) Mungo Melvin; Dr
Steve Tatham; Professor Gary Sheffield; Dr Oliver Lewis; Dr
Andrew Monaghan

Cover image: © Sergeant Paul Shaw LBIPP, Crown
Copyright

© CHACR 2019

The views expressed in this publication are those of contributing individuals and in no way represent the official views of the British Army, Ministry of Defence or any components thereof.

INTRODUCTION

The House of Commons Foreign Affairs Committee released a report on China in April 2019, with the name "China and the Rules-Based International System". It includes helpful insights on the complex nature of any UK policy conversation on China and its place in today's world. It observes that the UK does not have a clear and unified policy on China and makes the following recommendation:

The UK needs a single, detailed document defining a national strategy towards China, endorsed at Cabinet level. This will be an essential guide to all Government departments in shaping China policy, and will make sure that the Government is speaking with one voice. It will also send a clear public message to businesses, media, academia and civil society, to the UK's allies, and to China itself.

This is an important discussion that needs to continue both in policy and planning, but also public levels. The question of China – its regional and global ambitions, economic reach and defence posture is going to be one of the most defining questions of the next decade.

Currently, there seems to be a contradiction in views on the opportunities and threats posed by China's rise. On one hand, there is the worrying group of voices that see an inevitable clash between China and US, often arguing that China's visions and ambitions are unlimited, and its values are at odds with the US and its allies. On the other hand, there are voices, particularly in Europe, that acknowledge China's regional and global importance and the huge financial benefits that come with engagement, seeing China not as a direct threat but a benign competitor.

This highlights exactly why it is difficult for the UK to have a



singular clear policy on British engagement and responses to the question of China.

While it is true that China offers important economic opportunities for the UK, we must also acknowledge that China poses questions on counter-intelligence, intellectual property and cyber security. Similarly, there are clear worries over China's activities in the South China Sea and its implications for maritime security and access. Furthermore, engaging with China diplomatically and having good relations with an emerging super power is essential to resolve or manage a wide range of regional and global issues, which require Chinese participation and influence. This is challenged by Chinese ambitions which are, at times, not compatible with those of the UK and its allies. Likewise, while there are no reasons why European and North American countries cannot agree on basic premises and values that underpin global interaction – after all China, unlike Russia, does not see instability and conflict as positive areas to play for influence – we must recognise that there are serious human rights concerns over Chinese treatment of minorities and dissidents. These will always be incompatible with our aspirations and norms of the international humanitarian law and will be difficult points to reconcile.

Finally, and equally important, Chinese culture, its views of the world and its place in it, have deep historic roots and provide an overarching future-focused narrative. This underpins a commonly held assumption that China thinks in 'thousand-year' terms unlike European and US governments. However, analysis suggests that China is all-too-human

in how it conducts politics and governance, how limited and often hyped its mega-projects could be, and thus ultimately, that its assumed strategic policy advantage may be more limited in extent.

This edition of *Ares & Athena* draws from a workshop that we held at the CHACR. The day brought together China experts with a broad audience of British civilian and military personnel from the defence and security sectors, to reflect both on China but also ask what these issues mean for the UK. The talks and discussions during the day highlighted the need to think beyond sensationalist headlines on China, and to consider the balance between the risks and problems against opportunities for engagement with China.

The following articles written by leading China academics and analysts in the UK aim to provide a stimulating basis for further reflection on the issues relating to the country. These articles are strictly the views of the authors, not that of CHACR, or the British Army and Ministry of Defence. It is our hope that these will lead you to think further and beyond headlines as we all work towards peace and prosperity in the world and seek to tackle an important question for our future.

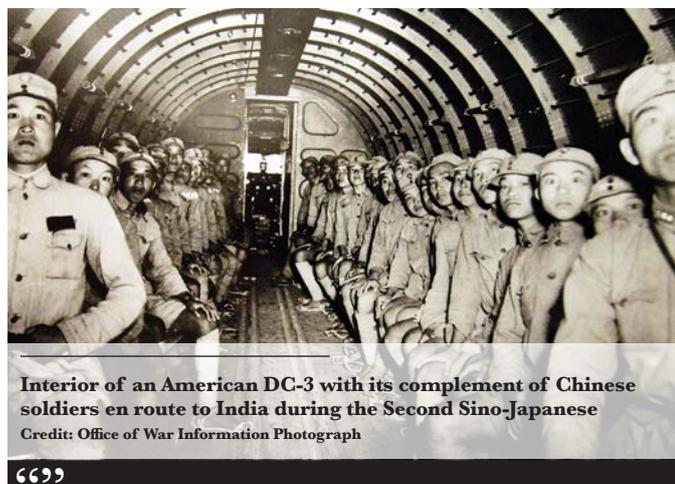


THE POWER OF HISTORY IN CHINA TODAY

Professor Steve Tsang
SOAS University of London

History matters everywhere but it matters more in China where the Communist Party is determined to control the future, for which it must dictate the narrative of the past. Indeed, the Party exercises a monopoly of both ‘the truth’ and history. It may be ironic but hardly exceptional that while the Chinese authorities criticise vehemently the adoption by a tiny minority of schools in Japan of revisionist history textbooks that deny Japan’s aggression against China during the Second World War, 100 per cent of Chinese school textbooks are untruthful about the same conflict.

The legitimacy of Communist Party rule requires history to show it led China through eight years of war (1937-45) to victory against Japan when in reality the Party systematically avoided combat and focused instead on expanding and preparing to seize power after the war. Chinese history text books do not acknowledge that it was the Kuomintang government, not the Communist Party, that fought ferociously against Japan, which was eventually defeated by the Allied Powers led by the United States in 1945. Nor do they record that the Communist Party did not come to power at the conclusion of a successful revolution in 1949 but did so after winning a civil war (1946-9) – with massive Soviet aid. Mao Zedong’s revolution happened mostly after the Party took power. Likewise, the Party ensures that Chinese citizens who did not live through the events do not know about the catastrophes the Party inflicted upon the country. Thus, most Chinese do not know that the Party brutally killed about two million in the land reform of the early 1950s, starved over 40 million to death in the Great Leap Forward (1958-62), persecuted nearly one-tenth of the population during the Great Proletarian Cultural Revolution (1966-76), and massacred a thousand or more unarmed student and other peaceful



Interior of an American DC-3 with its complement of Chinese soldiers en route to India during the Second Sino-Japanese War
Credit: Office of War Information Photograph

“”

Chinese history text books do not acknowledge that it was the Kuomintang government, not the Communist Party, that fought ferociously against Japan, which was eventually defeated by the Allied Powers led by the United States in 1945

demonstrators in Beijing in 1989 despite this being broadcasted live on global television news. Most Chinese citizens do not know the unvarnished history of their own country and only know what the Party would like them to know.

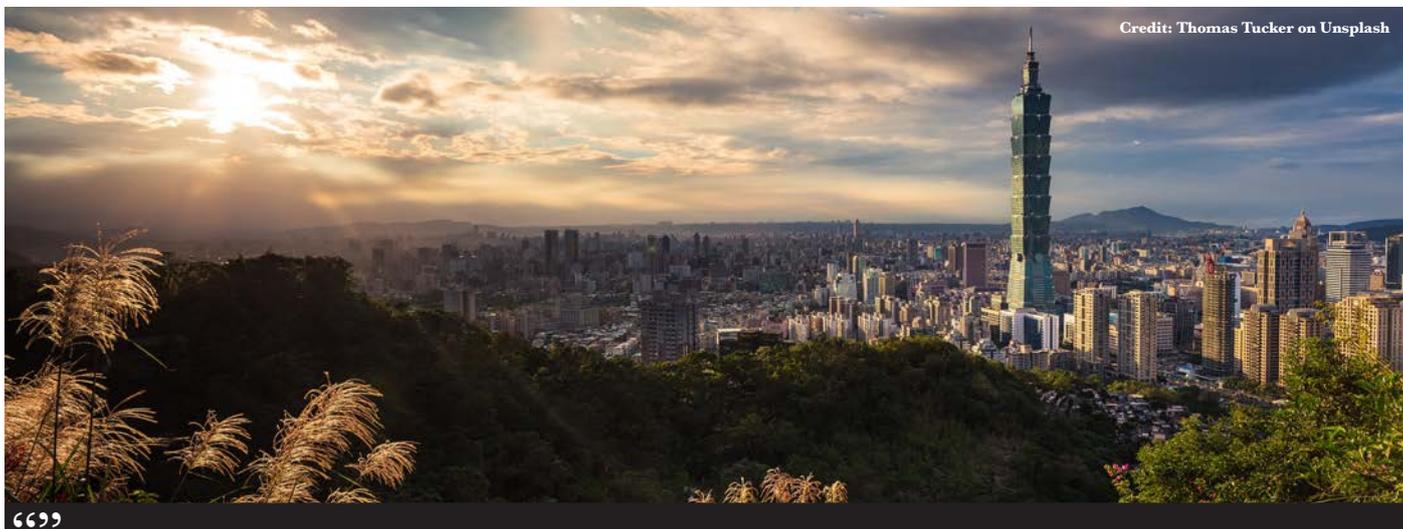
To understand the historical background to today’s China it is important to distinguish what happened from what most Chinese believe took place. We need to recognise that Chinese citizens generally act on what they believe, even if they are grossly misinformed. To them the Communist Party had made a few mistakes – the Party decreed that Mao was 70 per cent correct and 30 per cent wrong – but the Party transformed China from weakness to strength and restored national dignity, greatness and pride.

Traditional historiography in China is not so much Sinocentric as it is ‘Han-centric’. ‘China’ as we understand today is a modern construction. ‘Chineseness’ is whatever the Party says it is, so Marxism-Leninism is as Chinese as Confucianism. Han is the dominant ethnic group in China and is distinctly different from ethnic minorities like the Manchus, Mongolians, Tibetans or the Uyghurs who are now all deemed Chinese. The Han identity went back to the Han dynasty (206BCE-220CE) which was the first sustained empire whose boundary was generally accepted as the natural one by successive dynasties. The great dynasty of the Tang (618-907) was, in fact, part-Turkic, the Yuan (1271-1368) was Mongolian, and the Qing (1636-1912) Manchurian. These were the expansionist empires that took their imperial boundaries significantly beyond that of the Han. Their foreign nature has now all been ‘Sinicised’ in history and they are embraced as Chinese dynasties over two millennia.

History ‘serving the people’

Taking advantage of China’s traditional historiography, the Party presents a history that claims historical normality is when China is united – though by measure of unified jurisdiction exercised over the boundary as set by the Han this is not true. Above all the Party proclaims the imperial conquests of the Qing dynasty (the Manchu Empire), such as Taiwan, Tibet, Xinjiang and Inner Mongolia as long-standing sacred territories of China. To put it in context, the four named colonies of the Manchus, plus the Manchus’ vast ancestral homeland (the present-day provinces of Heilongjiang, Jilin and Liaoning) amount to nearly half of the total landmass of China today. They are also now being described as ‘core national interest’ for which other nations are required to respect China’s right to use force to defend or seize (as in the case of Taiwan).

In the Party’s historical narrative China is by definition never imperialist. As a result, the Chinese state does not see its relationship with the people of Tibet or Xinjiang as a colonial one, and cannot see the people of Taiwan who refuse unification as anything but unpatriotic. Taiwan is deemed a ‘renegade province’ even though it has never been a part of the People’s Republic of China. Taiwan was conquered by the Manchus and incorporated into its empire in 1683. It became a Japanese colony from 1895-1945 and remained, under



The Chinese state does not see its relationship with the people of Tibet or Xinjiang as a colonial one, and cannot see the people of Taiwan who refuse unification as anything but unpatriotic. Taiwan is deemed a ‘renegade province’ even though it has never been a part of the People’s Republic of China

international law, a Japanese territory under Allied occupation until the San Francisco Peace Treaty took effect in 1952. This notwithstanding the belief that Taiwan is a sacred territory of China will continue to guide Chinese policy making and public opinion.

Another lesson to draw here is how Beijing approaches territorial or maritime disputes generally. Once an area is claimed by the Party, ‘Chinese history’ will be made to support China’s historic ownership. This applies, for example, to China’s claim over the South China Sea, where reefs and rocks are deemed Chinese islands entitled to territorial waters, regardless of international law. They simply dismiss inconvenient historical facts like such reefs and rocks were not claimed by China until a government cartographer drew the infamous ‘nine dash line’ on a map in 1947; and the Chinese names of most disputed reefs and rocks are phonetic transliteration in Mandarin of their names in English. In China, history must ‘serve the people’ when required by the Party. The overwhelming majority in China does not know otherwise and embraces the Party’s interpretation.

China’s ‘rightful place’ in the world

In the officially approved history, China is generally presented as a victim of foreign imperialism in the 19th and 20th centuries, encapsulated in the description ‘century of humiliation’. It ignores the reality that it was the Nationalist Government led by Chiang Kai-shek that annulled the ‘unequal treaties’ of the 19th century and made China a founder member of the United Nations with a veto-holding permanent seat at the Security Council in the first half of the 1940s. There is, therefore, little doubt that the ‘century of humiliation’, the start of which was marked by the cession of Hong Kong to Britain after the first Anglo-Chinese War (1839-42), ended by 1945 when China, under Kuomintang rule, officially became one of the Big Five at the UN. The Party needs to sustain a sense of victimhood for its purposes. It thus disregards this historical fact and indoctrinates Chinese citizens that it was the Party that saved China from the ‘century of humiliation’. Consequently, they have a patriotic

duty to support the Party to assert China’s ‘rightful’ place in the world. Although it is not clearly articulated, in general terms this implies restoring China to the pre-eminent position enjoyed by the Qing Empire prior to the arrival of British gunboats on the China coast in the early 19th century. It was a world in which Qing accounted for a third of global output and accepted no other state as its equal.

Party-centric nationalism

The Party also glosses over the unprecedented scale of brutalities it imposed on Chinese citizens in its first quarter century of rule, under Mao. Instead of accepting a truth and reconciliation process to confront the tragedies of the Maoist period, the Party adopted a party-centric nationalism to give the Leninist system an ideological bind after the collapse of Communism as a state ideology in 1989. The core of this is that ‘without the Communist Party there would not be a new China’ and the Party is responsible for all the achievements of contemporary China. This is a nationalism that goes beyond ‘my country right or wrong’. It requires Chinese citizens to embrace ‘my party right or wrong’. The nationalistic history being taught in schools and transmitted through television programmes and social media instils in ordinary Chinese a sense that the dignity of China and the feelings of the Chinese people must be protected and only the Party can do so.

This party-centric nationalism is what underpins Xi Jinping’s China Dream of national rejuvenation. With the launch of Xi’s grandiose scheme, history has been made to keep pace. The previous narrative of the great transformation of China in the era of opening and reform led by Deng Xiaoping has now been ‘updated’. Xi is not contented to be presented as Deng’s successor. He sees himself as Mao’s successor as they both seek to make China great again. The four decades of Dengist reforms guided by the pragmatic principle of ‘hiding capabilities and biding for time’ are now presented as an interregnum between two great eras. But this does not imply Xi is attempting a Maoist restoration. He expects to do better than Mao. China under Xi is an era when he requires history to support him to reclaim China’s spot under the sun.

THE CHALLENGES OF A CHANGING CHINA

*Professor Kerry Brown
King's College London*

For all the uniformity imputed to its political system by the outside world, within the country China is anything but monolithic. Since 1978, the fracture lines and variations within society and in the economy have grown much more visible. At times they have looked stark, as the coastal part of the country has become almost a different economy to that of the middle and western parts, and where the wealthiest have seen their riches increase almost exponentially as those at the bottom have grown comparatively poorer compared to the rest of society.

As a farmer acidly quoted some years ago in a press report put it: “In Maoist China, everyone was equal. We all had an equal share of nothing.” In the era of Xi Jinping, there is plenty to fight over. Four decades of solid, and sometimes spectacular growth, have resulted in a country where there is seemingly a surfeit of everything – including people’s expectations. And while Xi Jinping has been called the Chairman of Everything because of the dramatic centralisation of powers under his rule since 2012, it would be more accurate to say that it is the aspirations of the great urbanised, service sector working, property owning emerging middle class that are the true new emperor of the People’s Republic (PRC). They, rather than the single political figure of Xi, are setting the agenda for the county. And it is to these people that Xi and his colleagues in the elite of the Communist Party have to aim their messages and deliver tangible things to in order to securely stay in power.

This group is a hard one to interpret. The Party State in the PRC today has, through innovations and research largely by actors in its non-state sector like Huawei and TenCent, a suite of technologies at its hands by which it can try to penetrate to the inner worlds of Chinese people. In the past as scholars like Michael Schoenhals and others have shown, there was a dense network of informers and human surveillance in society. Distrust was endemic and omnipresent. In such an environment, in the final year of the Maoist era up to the 1970s, China was a country where it seemed no one believed anyone else. The government certainly didn’t seem to believe it could trust its own people, with frequent use of mass movements, and the deployment – when things became really unsteady – of security forces and the army. This peaked in 1989, with the use of crack People’s Liberation Army (PLA) troops to shoot down protesters in Tiananmen Square that June.

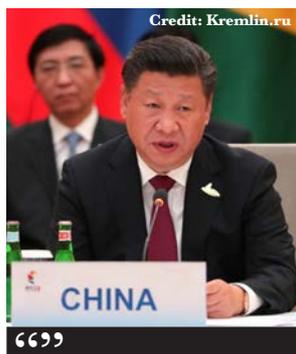
In the era of a PRC where there are 900 million smart phone users, where almost everyone seems to have WeChat

accounts and be online using services from Alibaba or Taobao (the Chinese equivalent of Ebay), far from being a means of holding government to account, the internet has in fact made the social dynamics and distributions of power within the country more complex. The state has access to massive amounts of information about the buying habits, networks and financial affairs of its citizens than ever before. Big data and the analytics around this has proved a treasure trove, finally allowing the Party State to peer into the recesses of people’s behaviour and get an idea of what it never really knew before – what they were really thinking. The question is whether in fact its analysis and understanding of the

aspirations of Chinese people, despite this vast amount of new insight and information, is really sophisticated and nuanced enough to capture the true radical changes happening in a perpetually transforming China where people have perhaps become even more adept at constructing a façade and concealing themselves and their true desires and ambitions.

The brutal imposition of face recognition and other forms of highly technical surveillance on the Xinjiang autonomous region in the North West of China is the most striking case which raises questions about just how capable the Party State in Beijing as it is currently configured really is in intelligently dealing with the immense data harvested from people’s online habits that, with the involuntary collusion of the non-party state, it now has access to. A million people in various forms of detention in so-called re-education camps in the area, almost 15 per cent of the entire Uighur population, has attracted international condemnation, some of the most fierce from Turkey, and the USA. The most one can currently say about the situation in the area is that this policy, with its ruthless uniformity, is one that carries the real and high risk of resulting in the very thing it is aimed to destroy – radicalisation of young Muslims in the region. The Party State has many smart systems and smart technologies – but this does not seem to have resulted in smart policy. The gap between formal analytics and truly intelligent interpretation and understanding by humans with all the complexity that entails has seldom been more starkly displayed.

Presiding over a country of such perpetual change and dynamism, on almost every front, how do the elite leaders centred on Xi Jinping manage to operate? Politicians in this context are no longer the technocrats of the recent past, simply ensuring that the economic machine of society in the country could pump out decent growth that was then convertible to political capital. We are making you visibly richer, leaders could say, and on the whole that placated all but the most fiercely principled of critics domestically. But that social contract in post-reform China from 1978 is now becoming harder to maintain as the growth model is changing to what



While Xi Jinping has been called the Chairman of Everything because of the dramatic centralisation of powers under his rule since 2012, it would be more accurate to say that it is the aspirations of the great urbanised, service sector working, property owning emerging middle class that are the true new emperor of the People’s Republic

has been called since 2013 the 'new normal' – lower rates, and higher quality. Here, the Party has to announce a more sophisticated legitimising message for its monopoly on power.

Under Xi, this has been constructed by two elements. The one is the overt and powerful declaration that in the age of story tellers, the China story is one in which a country which suffered injustice and humiliation in modern history at the hands of external oppressors is now finally able to enjoy its moment of moral and material renaissance. 2021 marks the hundredth anniversary of the foundation of the Communist Party. This will also see China achieve middle income status. It will be a major step on the modern dream of the country to be a 'rich, strong, powerful' one. Modernity with Chinese characteristics will involve the culmination of a moral narrative subscribed to by the Communist Party – one in which China's renaissance is something it is owed and has a moral right to. That makes it particularly difficult to contest this by the outside world, whose prime function as far as Chinese leaders are concerned seems to be as validators of this immense national resurrection.

The second is more complex. This is the idea of China being a power which has an exclusive set of values and an historic base for these which makes its vision of the world fundamentally different to others. At heart, despite the government being Marxist Leninist, Chinese thought is one characterised by hybridity, and by the absence of a single, orientating, dominating idea like those supplied by Judaic Christianity in the West, or the theocracy of Islam in the Islamic World. The complexity of patterns and traditions of Chinese thought over the last three millennium mean that the world is presented with an economically new power, but one with intellectual traditions that are as old, and in some cases older, than those in Europe or elsewhere. China's difference in this respect means that it does not occupy an easy niche in

the thinking of those outside the country. It is neither a friend, nor an enemy, in any straightforward sense. Its difference therefore, and the ways that that difference are interpreted, managed and received, are crucial.

There are many possible outcomes from the moment the world now finds itself in. Tensions between the US and China since 2018 might result in an outcome which sees pragmatic compromise, the granting of more space for Chinese action, but also more adherence to already extant global norms and rules by the PRC. The general lack of military actions beyond its immediate borders by China in modern history is striking. Apart from the key strategic issues of Taiwan and the South and East China sea, it does not seem minded to expend effort on capital on trying to enforce any kind of change on the world around it – just create a world that suits its purposes more.

There is every likelihood that a bipolar world order is what the current leaders of the PRC want from all of this – one in which they are able to have their cultural and strategic space, be free of onerous security and political obligations that do not suit them towards others, and exist in an era of tolerance. But faced with the universalising proclivities of powers like the US and its allies, this would be a world which is unexpected, unplanned for, and in need of perpetual balance. To achieve that will need levels of mutual understanding and flexibility which have simply never been apparent before. This is the core emerging challenge of the current era.

Kerry Brown is Professor of Chinese Studies and Director of the Lau China Institute at King's College, London, and Associate Fellow on the Asia Pacific Programme at Chatham House. His latest book is 'China's Dreams: the Culture of the Communist Party and the Secret Source of its Power' (Polity Press, Cambridge, 2018).

“““

The complexity of patterns and traditions of Chinese thought over the last three millennium mean that the world is presented with an economically new power, but one with intellectual traditions that are as old, and in some cases older, than those in Europe or elsewhere

Credit: Wu Yi on Unsplash



MONEY, MIGHT AND MINDSET: CHINA'S SELF-CENTRED ECONOMIC DIPLOMACY

Dr Yu Jie
Chatham House

China, or the Middle Kingdom, projects its power and secures its national interests in three ways: exercising might, spending money and expressing its own mindset. Each of these relates to one another, and each has somewhat inhibited China's pursuit of international order in its own vision.

A central challenge to any future Chinese leadership will be how to develop a global foreign policy and respond to concerns in regions that are historically little known in China, but will affect and be affected by the country's economic growth. In order to improve its global diplomacy, China needs to draw on policies that go beyond the simple purposes of securing China's own economic interests.

Might

In terms of might, China's sheer size and self-perception of its own interests will inevitably lead to expectations that the rules of international politics will change around China, even without President Xi in power. Deng Xiaoping's approach – to 'keep a low profile' and 'hide capability' – is being replaced by Xi's much more proactive approach, which seeks to promote China's core interests more forcefully while asserting its 'rightful' place in the global order.

Whether China's bureaucracy and government are yet fully equipped with the skills to meet the new challenges remains to be seen. Chinese foreign policy has expanded enormously in breadth and width since China joined the World Trade Organization in 2001. Certain policy domains, such as climate diplomacy and international financial governance, have only recently emerged as policy priorities for the Party leadership, and were irrelevant even during Deng's era. These expansions mostly correspond to China's rising international profile.

As a result, almost all institutions in both the central leadership and local government are now involved in foreign relations to different degrees, and it is almost impossible for the various ministries to see China's national interests the same way or to speak with one voice. These differences confuse outsiders as well as many Chinese people. It is important to remember that the main purpose of Beijing's foreign policy remains the maintenance of the Chinese Communist Party's absolute control and legitimacy to govern, and that economic and social stability is the paramount concern for the Party leadership.

The domestic politics of China and the interest of the Chinese Communist Party do not always correspond to China's global ambition, and sometimes even contradict one another. Those contradictions are either unintended consequences of economic reform or inherent paradoxes. The ruling Chinese Communist Party has raised incomes

dramatically and lifted millions of people out of poverty. But the modern China appears to have gone from being one of the world's most equal societies to one of the world's most unequal countries. Inequality is now a major concern for both Chinese elites and the wider public.

President Xi recognises that the economic miracle created by Deng Xiaoping's reforms has come at the expense of huge wealth inequality and severe environmental damage. The situation is so extreme that it could challenge the very survival of the Party leadership. The Party must look after those who have not prospered from Deng's reforms.

But this economic miracle has not benefited all segments of the population equally nor all the geographical regions across China. China has mostly eradicated the absolute poverty but still falls short in fighting relative deprivation amongst its populations.

The Party has yet to solve a puzzle that is key both to economic progress and for consolidating its power – how to manage the financial risks involved in debt-building economic stimulus packages without slowing the economy to levels that begin to reduce the incomes of millions of Chinese populations.

The emphasis on the centrality of the Party in delivering domestic economic adjustments surely disappoints free-market enthusiasts as President Xi switched away from improving economic efficiency via greater competition towards furthering Party control over the broader economy.

The Chinese government advocates market allocation of resources but invites the Communist Party to interfere in the market. He campaigns for reform of state-owned enterprises (SOEs) but strengthens Party committees' control of business decisions in both state and private sectors. It is an inherent contradiction which tries to reconcile the irreconcilable.

Money

In terms of money, China's extensive practice of flexing its economic power to gain political clout globally seems to win some friends, but serious backlashes have caused more troubles. The Belt and Road Initiative (BRI) has been the clearest illustration of that – the programme blending goodwill and bad practice.

Beijing believes that driving an economy through gigantic infrastructure investments, which leads to China's success in the past, is a panacea, and had worked well in the last 40 years. As a result, the BRI was Beijing's answer to bring inclusive growth globally.

China has to realise that it is vital to fully engage with countries whose sovereign land and infrastructure system are to be built, and this includes conducting far wider international consultation on projects under the BRI. The

often-used term ‘win-win’ cannot be China’s wins but others’ losses. Many BRI participant countries have doubts and fears about issues in sovereignty, autonomy, local employment, distribution of budgets, and the general returns on investments.

If China is serious about improving BRI, however, it will need to go beyond a change in rhetoric and take at least three concrete steps. The first, already implicit in Xi’s speech at the second BRI Forum in April 2019, is to choose its priorities. BRI cannot be a container that includes everything. Beijing needs to narrow down its objectives and focus on achieving them. Three priorities stood out at the 2019 forum: open consultation with third parties, clean governance, and greening BRI projects.

Along with narrowing its priorities, Beijing must take steps to clarify the scope of BRI. It should establish standards of quality, transparency, and accountability and issue an official and concrete list of BRI projects that meet these standards. China should seek to improve the quality of BRI by working with other countries to develop pilot projects. These pilots would test out policies on a small scale, generating lessons that can then be scaled up to larger projects. Back to the early 1980s, China has long used pilots to experiment with domestic policies, as it did in 1979 with the creation of a special economic zone in Shenzhen. In the context of BRI, such small-scale experimentation will allow Beijing to discover what works before showering money and diplomatic capital into more ambitious mega projects.

Beijing must be fully aware that it should not treat emerging economies and great powers as merely financial vehicles to advance China’s economic benefit alone. If China continues to do so, building resentments will further erode its path to becoming a true global power.

Mindset

In terms of mindset, China clearly does not share the same values and ideologies which the current world order is based upon. Instead, Beijing has forcefully promoted its world view through exercising might and spending money both at home and abroad.

China is now **A** major global power, if not yet **THE** major global power, with clearly announced ambitions to lead reform of global governance and increase what it calls its “discursive power” – its ability to shape the understandings of norms that are the starting point for many global governance initiatives. These ambitions have not been universally welcomed.

There is also a strong suspicion from the Chinese government that the often-proposed universal norms or the Western liberal norms are in fact the norms of a few. These norms are the result of the histories and cultures of a globally small

number of developed and relative wealthy Western liberal democracies. Such norms might not be applicable to China and other non-Western developing countries.

Chinese leaders repeatedly call for “the democratisation of international relations”, which is not about introducing civil societies and bigger voices for non-Governmental organisations. It is a demand made on behalf of all countries that feel that their voices are not adequately and fairly represented in the current international order.

China is just one of a group of rising powers that wants to have a greater say because of their newly acquired status.

The stated goal is not to replace one form of domination with another, but instead to create a system of equality where nobody dominates, and the international community settles problems collectively, respecting both the sovereignty and difference of individual members in keeping with the Five Principles of Peaceful Coexistence.

A dangerous mixture of China’s historical humiliation and its staggering economic success has bred a strong sense of complacency on one level and an equally powerful current of hubris on another. As Xi moves to shape China in his image, the lack of institutional constraints inside power corridors in Beijing creates a danger.

Conclusion

Judged by the increasing strong rhetoric from the rest of the world, China’s might and money have spread more fear than admiration. This too easily plays into developing fears in liberal democracies, as pundits and politicians increasingly blame China for global problems. The rest of the world still has a profound interest in a reform-oriented China. While many of the leadership’s recent decisions have disappointed some democratic purists, it is important to realise that China is still finding its own way and quite often it is about finding the path of least resistance. Even many of China’s most vocal critics appear to recognise that a more turbulent China may not be an easier or more cooperative partner.

The Chinese leadership must be cautious not to become too self-centred, and to retain a keen interest in what their partners want or fear from their interactions with China. The Chinese people themselves are watching their leader closely. So are foreign nations, not least the political and economic giant on the other side of the Pacific. Life as a great power with publicly-stated leadership aims and reform ambitions is not comfortable. Even without democracy, it involves ever-growing scrutiny, with consequences that are not always in Beijing’s favour.

Dr Yu Jie is Senior Research Fellow on China in the Asia-Pacific Programme of Chatham House and an associate fellow of LSE IDEAS



“““
President Xi recognises that the economic miracle created by Deng Xiaoping’s reforms has come at the expense of huge wealth inequality and severe environmental damage

CHINA AND RUSSIA RELATIONS

Bobo Lo
Independent Expert

The current level of Sino-Russian cooperation is unprecedented in the history of the relationship. In many respects, it has become the very model of a modern strategic partnership, an oasis of stability in a disorderly and increasingly unpredictable world. Beijing and Moscow agree on many things. They blame Washington for much of the instability in today's world, and seek to constrain American power. They oppose Western liberal interventionism, and are hostile to grassroots democracy movements. They hold similar views on issues ranging from missile defense to North Korea to 'cyber-sovereignty'. There are no serious disputes between them. And the personal chemistry between Xi Jinping and Vladimir Putin is very good.

China and Russia derive comfort from each other's support at a time when each is under pressure from the United States. Beijing hopes that the ongoing crisis in Russia-West relations will allow it greater scope to advance Chinese interests. Moscow views the Sino-Russian partnership as geopolitical leverage vis-à-vis the United States and a normative counterweight to the West. It also basks in a success by association with a rising China.

Economic ties are more developed than ever. Bilateral trade has boomed over the past 15 years. China is Russia's main country trading partner, while Russia has become China's leading source of oil imports. There have been several major arms deals, along with high-profile military exercises.

Yet despite these many achievements, the Sino-Russian relationship is no authoritarian entente, much less an alliance. It remains a partnership of strategic convenience shaped by individual national priorities, old-fashioned geopolitical calculus, and tactical expediency. China and Russia have been quite successful in expanding cooperation and managing their differences. But they are independent actors, and their perceptions of the existing international system and a future world order diverge significantly.

Attitudes towards the international system

Although Russia and China agree that the liberal world order is unsatisfactory in many respects, they draw different conclusions. Moscow's view of the so-called 'rules-based international order' is almost entirely negative. It sees a system that was imposed on Russia as the loser in the Cold War, and that has systematically deprived it of influence and status. It believes, however, that this order is now in decline, and that its demise should be expedited. To this end, it has sought to undermine the democratic process in the United States; made common cause with far-right parties in Europe; and intervened militarily in Ukraine and Syria.

Contrary to the prevailing view in Washington, the Chinese seek the reform rather than destruction of the international system. They recognise that US leadership and Western-

style globalisation have been very kind to China, helping to transform it from a regional backwater into an incipient superpower in just three decades. If Russia has been the biggest casualty of the liberal world order, China has been its largest beneficiary.

Beijing worries, too, about the anarchy that might arise from the collapse of the international order. It fears an escalation of tensions with Washington, and is keen to maintain functional engagement even in the face of serious policy differences. This is not a guarantee against confrontation. But it means that the Chinese default position toward the United States is one of accommodation, as reflected in its attempts to reach a comprehensive trade agreement.

Visions of a future world order

Moscow and Beijing also differ over how a putative new world order might look. The Kremlin identifies three independent centers of global power – the United States, China, and Russia. The relations between the 'big three' would shape the world and its governance. Russia would be the swing power, balancing between the United States and China, and bridging Europe and Asia. If Russia cannot play the part of balancer, then Moscow's Plan B is for a world in which Russia and China together counterbalance the United States.

Beijing, by contrast, subscribes to a bipolar-plus vision, in which the United States is still pre-eminent, but where China has emerged as America's only true counterpart. Sino-American interaction would be the fulcrum of global governance. Russia would remain a great power, but for Beijing it would be a second-tier player, along with the European Union, Japan, India, and others.

Russia would also be only one partner among many. Unlike Moscow, Beijing is not interested in forming a Sino-Russian condominium against the United States. This would not only be strategically very risky, but would also contradict its primary goal of sustaining a functional relationship with the United States, by far its most important partner.

It has been suggested that Xi's notion of a 'community of common destiny' is directed at creating a new world order in place of the current international system. Although this may eventually become Beijing's aim, its realisation is a very long way off, and faces enormous obstacles. There is little evidence today of such strategic purposefulness. A more plausible explanation for Beijing's resort to such bromides is to sanitise the pursuit of Chinese interests by portraying its intentions in as favourable light as possible. It did something similar during the 2000s, when its main theme was China's 'peaceful development'.

The contradictions in Russian and Chinese world-views have been blurred by the crisis between Moscow and the West. Nevertheless, there is a clear tension between Putin's view of Russia as a global power on a par with the United States and China, and Beijing's primary focus on the US-China relationship. These differences of perception are likely to



Credit: Kremlin.ru

«»»

The Sino-Russian relationship is no authoritarian entente, much less an alliance. It remains a partnership of strategic convenience shaped by individual national priorities, old-fashioned geopolitical calculus, and tactical expediency

become more significant as the gap between Chinese and Russian capabilities widens in coming years.

Threats to the liberal order

Much has been said about the threat Russia and China pose to the liberal world order. Some of their activities – cyber-attacks, political interference, territorial annexation, provocative military actions – are certainly worrying, and have undermined Western interests and global order.

However, the impact of Russian and Chinese behaviour needs to be put into proper perspective. While Moscow and Beijing have exploited the failings of the West, they did not cause them. For example, it was not Russian interference that got Donald Trump elected or that decided the outcome of the Brexit referendum. These were self-harming acts, reflecting widespread disillusionment in the West in mainstream democratic politicians, institutions, and values.

It is also wrong to see Russia and China as ‘partners in crime’. Although their bilateral cooperation is flourishing, they have shown little capacity or will to coordinate on grand strategy or establish post-Western norms and institutions. Each pursues its own agenda. Sometimes, their interests coincide; at other times, they do not. Disrupting the liberal world order is not a shared aspiration.

In fact, the principal dangers to the liberal world order come from within. They include:

- the failure of Western democracies to live up to the principles of this order. The United States, in particular, has been a serial rule-breaker during the administrations of George W. Bush and Donald Trump. Indeed, the latter’s ‘America-first’ realpolitik is antithetical to the very notion of a rules-based international system;
- the failed wars in Iraq and Afghanistan. These were not only regarded by many non-Western countries as illegitimate, but they also exposed the limits of US power;
- the global financial crisis. This undermined not just the economic, but also the political and moral credibility of Western-led institutions and norms; and
- the domestic policy failures of leading Western countries,

which have severed the long-time nexus between liberal democracy and good governance.

Outlook

The Sino-Russian partnership is resilient, and the likelihood of significant change in the next few years is low. Beijing and Moscow recognise the value of their relationship and are committed to making it last. In this connection, the assumption by some in the United States that an accommodation with Russia could help contain China is delusional. Moscow would scarcely be willing, let alone able, to perform such a role. The partnership with China represents the most stable achievement of Putin’s foreign policy, one he will not throw away for the sake of a US president whose erratic behaviour promises little for Russia. Likewise, Beijing has no reason to move away from a relationship that has been very good for China, and which it increasingly controls.

On the other hand, a bona fide alliance between Moscow and Beijing remains improbable. The risk of dangerous entanglements from Europe to the Asia-Pacific is a powerful disincentive to both sides. Putin will continue to position Russia as an independent and strategically flexible power. He has not moved away from the West to become a quasi-vassal of Xi Jinping. And he will resist the emergence of a potential new hegemon in China just as he has opposed US global leadership.

Xi will strive to ensure that China’s global rise is as smooth as possible, and will therefore keep his distance from Russian foreign policy adventurism. Beijing’s calculus could change in the event of a major and lasting Sino-American confrontation. However, in that case Moscow would take care not to be caught in the middle and risk damage to Russian interests in Asia and elsewhere.

In the longer term, Sino-Russian cooperation faces significant challenges – the growing inequality of the relationship; an increasingly globalist and assertive Chinese foreign policy; strategic tensions in Eurasia arising from the proliferation of the Belt and Road Initiative; and contrasting visions of global order. The biggest challenge will be how both sides, Russia in particular, manage the dynamics of a relationship conducted increasingly on China’s terms.

SOUTH CHINA SEA

Bill Hayton

Associate Fellow, Asia-Pacific Programme, Chatham House

In late May 2019, ships of the China Coast Guard harassed an oil platform in the South China Sea, about 160 kilometres off Borneo. The Sapura Esperanza was drilling a well near a group of coral reefs known as the Luconia Shoals when the CCG Ship 35111 sailed at high speed and at close range around the drilling platform. Chinese vessels continue to maintain a presence nearby. In March 2018, off the southeastern coast of Vietnam, the Spanish-owned energy company Repsol was prevented from drilling by Chinese threats of military action. The same company was blocked from drilling a different well in June 2017, also by Chinese threats. The Philippines is also being prevented by China from exploiting a major gas field in the South China Sea, despite an international tribunal ruling confirming that the marine resources there belong to the country.

In each case, the Chinese government has prevented Southeast Asian countries from exercising the rights granted to them by international law. Under the United Nations Convention on the Law of the Sea (UNCLOS), countries have the right to extract and manage the resources in their 'Exclusive Economic Zone' (EEZ) up to 200 nautical miles (around 400 kilometres) away from their coasts. China has never officially explained exactly why it objects to its

neighbours attempts to drill for oil and gas but it is generally assumed that it is derived from a line printed on Chinese maps since 1948 that encircles large parts of the South China Sea. China makes vague references to 'historic rights' but without explaining what they are.

There are two sets of disputes in the South China Sea. There are arguments about who owns the dozens of rocks and reefs and there are separate, but related, arguments about who sets the rules in the sea between the rocks and reefs. On top of these disputes are regional and global struggles for power involving the United States, China, Japan and many other countries. This is why the South China Sea is dangerous: the self-interested actions of a Philippine fisherman, for example, could, in the wrong circumstances, lead to a confrontation between the world's largest military powers.

Short and medium-term impacts

While the threat of major conflict is a theoretical possibility, China's actions in the South China Sea are also having very concrete impacts at the local level. Data from the UN Food and Agriculture Organization shows that the annual fish catch in the Philippines fell from an average 2.15 million tonnes in the years up to 2014, to 1.86 million tonnes in 2016. There are two main factors behind this 13 per cent fall: years of over-fishing by many countries' boats, but particularly those of China, and intimidation towards

“““

While the threat of major conflict is a theoretical possibility, China's actions in the South China Sea are also having very concrete impacts at the local level. Data from the UN Food and Agriculture Organization shows that the annual fish catch in the Philippines fell from an average 2.15 million tonnes in the years up to 2014, to 1.86 million tonnes in 2016



Philippine fishers by China Coast Guard ships operating in the Philippines' EEZ. As the fish catch falls, so will incomes in coastal areas. More inhabitants will become migrants in search of better jobs. The price of fish, and therefore other forms of protein too, will rise for everyone. Countries may have to import more food to replace the protein that was previously harvested from the sea. Government and household budgets will be stretched even tighter.

There are also immediate consequences from China's obstructions of oil and gas drilling. The Philippines generates 20 per cent of its national electricity supply from the Malampaya gas field in the South China Sea. That field is expected to run out within the decade. There is a huge field a bit further out in the South China Sea that could keep the lights on for many years. However, in May 2017, the Philippine president Rodrigo Duterte said that his Chinese counterpart, Xi Jinping, had warned him that there would be 'war' if the Philippines tried to develop the field. How will the Philippines power its cities in the future? At the moment it looks like a choice between imports of dirty coal and imports of gas.

In Vietnam, Brunei, Malaysia and Indonesia, governments are being forced to adjust their budgets because of falling incomes from oil and gas. They have been unable to replace declining fields because of China's objections. Vietnam's national oil output fell 12 per cent between 2014 and 2017¹. In April 2018 the government there said it expected a further 15 per cent fall from 2017 figures². Fields that were developed in previous decades are no longer producing at the rate they once did. Even the application of modern technology has not been enough to stem the decline in production.

According to the International Monetary Fund's 2018 'Country Report', the Vietnamese government's oil revenue fell from 3.4 per cent of GDP in 2013 (VND 120 trillion) to 0.7 per cent (VND 36 trillion) in 2018. This has not yet caused a crisis for the Vietnamese economy because other sectors continue to boom. However, those sectors do not deliver the same volume of revenues to the central state budget as the state-owned hydrocarbon industry. The actual amounts available for discretionary state spending have dropped, squeezing the government's ability to fund its budgetary commitments.

The consequences of falls in household income, damage to local economies and reductions in government income will all have effects upon domestic politics. There will be pressure for governments to support communities suffering hardship and the loss of livelihoods. At the same time the loss of tax revenue will force governments to cut spending or to raise taxation or borrowing. All of these second-order effects have the capacity to damage relations between citizens and their governments.

¹James Pearson, Greg Torode, 'Drilling down: Risky hunt for oil in Vietnam's South China Sea blocks'; Reuters, 23 May 2018 uk.reuters.com/article/us-vietnam-oil-southchinasea/drilling-down-risky-hunt-for-oil-in-vietnams-south-china-sea-blocks-idUSKCN1100QY

²Khanh Vu, 'In rare comment, PetroVietnam says South China Sea tension to hurt offshore operations'; Reuters, 3 April 2018 reuters.com/article/us-southchinasea-petrovietnam/in-rare-comment-petrovietnam-says-south-china-sea-tension-to-hurt-offshore-operations-idUSKCN1HA0QO



Coastal commodity: An oil platform off the shore of Vũng Tàu in Vietnam.

In Vietnam, Brunei, Malaysia and Indonesia, governments are being forced to adjust their budgets because of falling incomes from oil and gas. They have been unable to replace declining fields because of China's objections. Vietnam's national oil output fell 12 per cent between 2014 and 2017

Regional coercion

Southeast Asian governments are also concerned about the impact of China's behaviour in the South China Sea on their political and economic autonomy. They fear that the rapid, and on-going, increase in China's military capabilities, combined with its enormous economic power will become a tool of coercion. Such coercion might play out in specific crises: such as the oil-drilling incidents discussed above, or China's impounding of Singaporean armoured vehicles returning home by ship from exercises in Taiwan in 2016.

At least as concerning is a future where the ability of governments to make independent choices is quietly suffocated. If Southeast Asia becomes, in effect, part of a Chinese 'sphere of influence' in East Asia then the future of the international order appears bleak. A series of 'Finlandised' states lacking sovereignty over issues where China has interests is not good for the region or the world.

In September 2013, Chinese contractors began turning seven coral reefs in the Spratly Islands into enlarged military bases. Three of them now host three kilometre-long runways and large naval harbours. Four smaller bases are packed with radomes and sensor systems. All are equipped with point-defences and some host surface-to-air missiles. These bases are all in the southern part of the South China Sea, enabling China to project power into the heart of Southeast Asia. The new runways and radar already allow coverage over all the region's capital cities. Surveillance arrays give China the capacity to eavesdrop on its neighbours communications in ways not possible before.

All of this gives Southeast Asian states concerns. Several have increased their own weapons purchases in response. While it is not accurate to talk of an 'arms race' in the region (since no other country can keep up with China's military expansion), more and more militaries are trying to create, at the very least, viable 'asymmetric' capabilities that might deter any

South China Sea confrontation:
The *USS Decatur* – pictured during a combat demonstration in 2008 – was threatened by a Chinese destroyer last year.

Credit: U.S. Navy, Mass Communication Specialist Seaman Gary Prill



adventurism from Beijing. Vietnam has invested in shore-based anti-ship missiles, several countries are expanding their submarine fleets and all are working to improve their maritime domain awareness.

Since 1990, when the Cambodia conflict ended, Southeast Asian countries have enjoyed over a quarter of a century of relative peace and rising prosperity. However, their leaders are clearly concerned about the risks they see ahead. Three of the states are Commonwealth countries: Brunei, Malaysia and Singapore, and the UK has defence commitments to all three. Assisting them, and their neighbours, to preserve their autonomy, and to maintain free trade and all the other norms of the current international order is clearly in the wider strategic interests of the UK.

International order

China has several motivations for its behaviour in the South China Sea. It has legitimate concerns about national defence and the flow of commerce along international sea-lanes, and it also has the right to exploit and manage the resources within its own EEZ. However, over the course of the past century, a nationalistic narrative emerged within China that has led it to claim special rights for itself that go beyond international norms. This belief is based upon a misreading of historical evidence in order to claim that the sea and its islands have belonged to China ‘since ancient times’. The result is that the country and its leadership have developed a special sense of ‘righteousness’ in their approach to the South China Sea that, in their view, entitles them to behave in ways that violate international laws and rules.

At the moment, many of China’s actions appear to be aimed at reversing centuries of international consensus around maritime law by closing off access to the South China Sea for military vessels. We have seen several examples of this recently. In late August 2018, Chinese ships and aircraft harassed *HMS Albion* as it sailed through the Paracel Islands. About a month later, a Chinese destroyer, the *Lanzhou*, deliberately sailed in front of the *USS Decatur* as it sailed through the Spratly Islands, and threatened it with the warning, “if you don’t change course you will suffer consequences”.

It seems likely that one of the major motivations for China’s island-building and its hostile attitude towards the transit of

foreign warships is its desire to turn the South China Sea into a ‘bastion’ in which to hide its ballistic missile submarines. It seems determined, ultimately, to turn this vital international waterway into a ‘no-go’ zone for foreign warships and thereby make access for civilian ships subject to its approval. Chinese commentators connected with the government have previously said that the country’s ‘historic rights’ in the South China Sea give them the justification to control navigation in its waters³.

Taken together, China’s island-building, attitude to international law and recent actions suggest that its government is intent on turning the South China Sea into some kind of ‘special zone’ in which it sets the rules. This rule-setting might begin with limiting access to military ships but would ultimately extend much wider. If other states take similar views, for example Russia in the Black Sea, then we are looking at a future in which there is no such thing as ‘international’ law but a series of regional regimes exerting hegemonic power through spheres of influence.

Conclusion

What can be done? Most obviously, the UK along with its allies and partners need to take a concerted approach to defend the rules of UNCLOS. There should be a particular focus on assisting Southeast Asian states to protect their maritime rights and national security. All states with the capacity to do so should be encouraged to demonstrate their continuing interest in the peaceful international order by deploying naval vessels into the South China Sea to demonstrate that they regard a threat to the international order in one part of the world to be a threat to it everywhere.

While there is an understandable wariness about being seen to act in ways reminiscent of the old imperial order, it is clear that we now live in different times. Southeast Asian governments are actively seeking the engagement of international partners across the spectrum from defence to trade to culture. Sometimes, just showing up will be enough. If we abandon the region to the vicissitudes of great power competition, everyone will suffer. Stability requires that we stay in the game.

³Yicun Wu, Keyuan Zou, *Arbitration Concerning the South China Sea: Philippines Versus China*. Routledge, 2016 p132

HOW TO UNDERSTAND CHINA'S DEFENCE EXPENDITURE

Meia Nouwens

International Institute for Strategic Studies

The scale and pace of China's military modernisation has caught the attention of governments in the Asia Pacific region and more globally spurring at times frantic attempts to understand the role of the State, the Communist Party of China (CCP), the People's Liberation Army (PLA) and China's defence-related industry all at once. Chinese defence spending is often considered a proxy to better understand how China is modernising the PLA, and what that might mean for where modernisation is headed. However, analysis of China's defence spending frequently remains based on outdated assumptions and misunderstandings, and greater clarity is needed to more accurately inform debate about China's military rise. Two key questions have yet to be clarified: how do we accurately calculate China's defence spending and how should we contextualise it within Xi's wider ambition to accomplish the national rejuvenation of the Chinese nation?

China's two centenary goals set the greater context

Under Xi Jinping's rule, China is charting on a path to two centenary goals⁴. As outlined in his speech at the 19th Party Congress, these goals aim to restore China's rightful place as a leader in the international system. The first goal is to "build a moderately prosperous society in all respects" by

⁴HuaXia. CPC Q&A: What are China's two centennial goals and why do they matter?, Xinhuanet, 17 October 2017, xinhuanet.com/english/2017-10/17/c_136686770.htm

Credit: DoD, Army Sgt. Amber I. Smith

2021, thereby improving livelihoods and lifting more of the Chinese population out of poverty. The second goal is to "build a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious". In short, by mid-century, China should have tackled serious issues around poverty, pollution, supply-side structural reform and be a modern great power.

Almost in parallel to these goals are Xi's deadlines for reform of the PLA. By 2020, the PLA should have achieved basic mechanisation, and by 2035 the PLA should be a fully modern military. Ultimately, the PLA should be a world-class military capable of fighting and winning wars by 2049 – achieving this end-goal would support China's ability to be a great power. As Xi himself stated in 2017 at the 90th anniversary of the PLA's establishment: "To achieve the dream of the great rejuvenation of the Chinese nation, we must quick the pace of building the people's army into a world-class army."⁵

The shift from "people's army" to "world-class" military is not an inexpensive one. Since 2014, China has launched more submarines, warships, principal amphibious vessels and auxiliaries than the total number of ships currently serving in the navies of Germany, India, Spain, Taiwan and the UK⁶. In addition to its surface vessels, China has invested heavily in building up its arsenal of submarines, fighter jets, rumoured next-generation bombers, and long-range ballistic missiles to reach parity with the United States and outmatch its capacity to operate in a position of dominance in the Indo-Pacific arena.⁷

⁵Minnie Chan. What's driving Chinese President Xi Jinping's military modernisation push?, South China Morning Post, 1 August 2017, scmp.com/news/china/diplomacy-defence/article/2104915/whats-driving-chinese-president-xi-jinpings-military

⁶Nick Childs and Tom Waldwyn. China's naval shipbuilding: delivering on its ambitions in a big way, Military Balance Blog, 1 May 2018, iiss.org/blogs/military-balance/2018/05/china-naval-shipbuilding



China's officially declared defence budget

This year, China's officially declared defence budget is the second largest in the world. In just over a decade, China's publicly declared defence budget has nearly tripled, from US\$59 billion in 2008 to US\$168 billion in 2018. This year, at the Two Sessions meeting of the National People's Congress in Beijing, Premier Li Keqiang announced that China's defence budget would rise to 1.19 trillion yuan (US\$176.2 bn)⁸. This figure is yet to be confirmed by the Ministry of Finance. While dwarfed by that of the United States, it is four times higher than the total defence spending of all ASEAN countries combined. Taken at face value, the 2018 budget is larger than the combined total defence budgets of the EU Big Three – the UK, France and Germany⁹.

However, relying on the officially declared budget can be misleading. Indeed, looking at Chinese defence spending through other metrics paints a more nuanced picture. Firstly, the actual growth of China's defence budget changes depending on whether one looks at total spending in Chinese Yuan, or real term growth in US\$ 2010 constant. Compared to the 2018 defence budget, this year's figure represents a nominal growth of 7.5 per cent¹⁰. However, reviewing these figures in real term growth, the year-on-year growth is actually 5.1 per cent. This is lower than the growth from 2017-2018, which stood at 5.7 per cent in real-terms. While the upward trend of defence spending in China is evident when using either current US Dollars or US Dollars 2010 constant, the detail of the pace of China's defence spending is lost by using the former rather than the latter.

China's defence budget: what's missing?

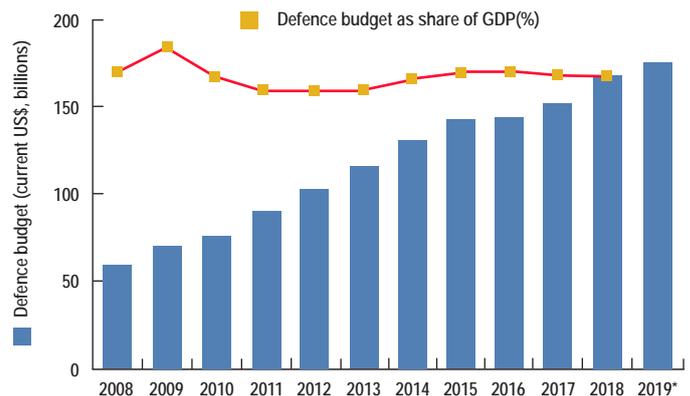
Central to the debate around transparency of China's military spending is that China's officially announced defence budget does not provide a detailed breakdown of defence-related line items. Indeed, the annually released figure by the Ministry of Finance does not state what China spends on personnel, procurement and construction, R&D, operation and maintenance. Regarding the latter, the IISS estimates that an extra third of the officially publicised defence budget should be added to the figure to account for defence spending on innovation and procurement. This methodology stems from the last time the Chinese government reported its military expenditure to the UN Office for Disarmament Affairs in 2013. In addition, the IISS has developed a specific methodology to calculate China's total military spending, to include additional defence R&D spending, the People's Armed Police, and arms imports. Applying this methodology today drives China's 2019 defence budget from US\$176.2 billion to US\$209 billion (for 2017, based on the latest data available).

However, this is an estimate. Since 2013, the PLA has



The shift from 'people's army' to 'world-class' military is not an inexpensive one. Since 2014, China has launched more submarines, warships, principal amphibious vessels and auxiliaries than the total number of ships currently serving in the navies of Germany, India, Spain, Taiwan and the UK

China's defence budget, 2008-19



*PRC announced defence budget 2019
Source: IISS Military Balance+

undergone significant reforms that varying methodologies of calculating defence spending across different organisations do not take into account. The PLA has reorganised and gained command over a range of new institutions. In 2015, a new military-service branch and a new agency were created: the PLA Rocket Force and the Strategic Support Force. Furthermore, in 2018, Chinese authorities integrated the Coast Guard, the People's Armed Police (PAP) and the maritime militias into the Central Military Commission's (CMC) command. Relatedly, the Ministry of Veterans Affairs was created within the State Council.

Though these changes are reflective of reorganisations of existing structures, it is not yet clear how these changes might have affected the defence budget. While the PAP falls under a subcategory of 'national security spending', its mission

⁷IISS, *The Military Balance 2018*.

⁸Michael Martina and Ben Blanchard, *Rise in China's defense budget to outpace economic growth target*, Reuters, 5 March 2019, uk.reuters.com/article/us-china-parliament-defence/rise-in-chinas-defense-budget-to-outpace-economic-growth-target-idUKKCN1QM03Y

⁹IISS, *The Military Balance 2019*.

¹⁰Meia Nouwens, *China's defence spending: a question of perspective?*, *Military Balance Blog*, 24 May 2019, iiss.org/blogs/military-balance/2019/05/china-defence-spending

¹¹Henry Boyd and Meia Nouwens, *China's People's Armed Police: reorganised and refocused*, *Military Balance Blog*, 14 June 2019, milbalplus.iiss.org/member/default.aspx

sets of supporting the PLA in times of war, internal security and maritime security would in Western systems at least partly fall under defence spending budget lines. Adding the 2019 allocated budget for the PAP raises the total of China's defence spending even higher by US\$26.6 billion, which is included in the IISS' higher estimate¹¹.

Lastly, current methodologies to calculate China's defence spending are based on the assumption that Chinese arms imports are financed via extra-budgetary funds. This may still be true. However, IISS research has shown that the capacity of China's defence industry has grown, and China's reliance on arms imports has decreased significantly. The amount estimated that China spends on arms imports may now thus be a much lower proportion of Chinese defence procurement. For example, compared to 2016 numbers of the Stockholm International Peace Research Institutes list of top global defence companies, three Chinese firms would rank in the Top 10 per arms sales revenue: CSGC would rank highest in fifth place, while AVIC ranked seventh and NORINCO ranked ninth. Four other companies (CASIC, CSIC, CETC and CASC) ranked in the top 18, while shipbuilder CSSC ranked in 22nd place¹². The strength and performance of the state-owned defence industry should therefore be taken into account when considering domestic procurement.

The impact of economic slowdown

This relative stability in defence spending as part of GDP and slowing down of year-on-year defence budget growth is important to bear in mind not least because of the current slowdown in China's economic growth. In 2007, GDP per capita growth stood at 13.6 per cent, but by 2017 it had fallen to 6.3 per cent¹³. The current tensions of the US-China trade war have had a particular effect on the Chinese economy in the third quarter of 2018, when Chinese economic growth slowed to its lowest in ten years. The e-commerce, electronics and real estate sectors all took significant financial hits because of weaker demand from consumers as the trade war continues¹⁴.

When looking at China's defence spending as a percentage of GDP, China's declared defence budget is modest. For example, China spent roughly 1.25 per cent of its GDP in 2018 on defence. Even if we take the IISS' higher estimates of China's defence spending, this is far lower than the 3.14 per cent of GDP that the United States budget represented in 2018. China's declared spending is slightly lower than the regional European defence expenditure of 1.37 per cent of GDP in 2018¹⁵. While China's overall defence budget has thus grown, the share of GDP has remained relatively stable over the past few years.

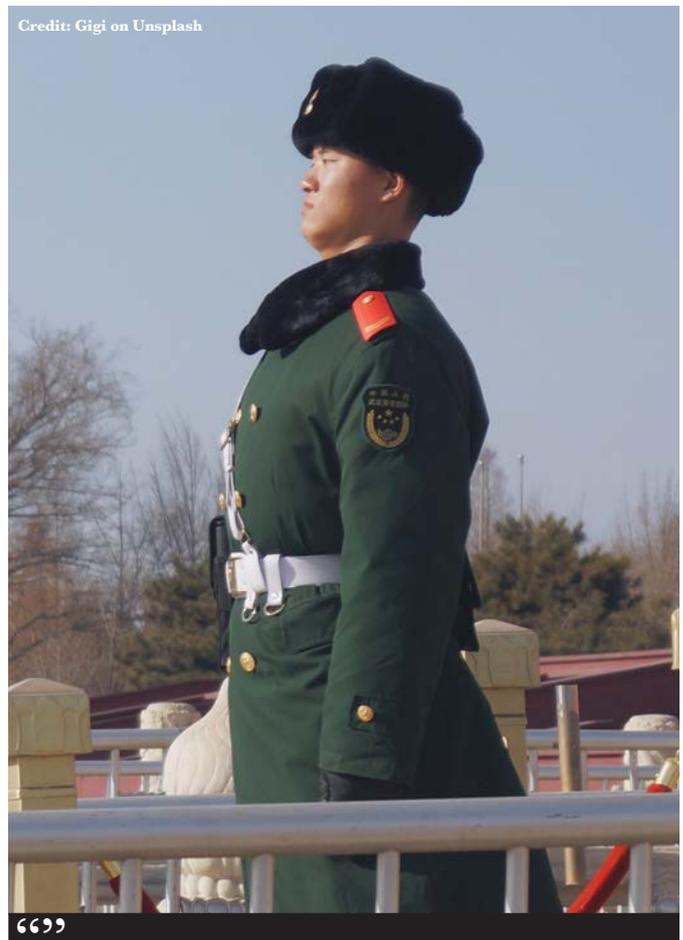
The slowing economy and impact of the trade war, if it

¹²Lucie Beraud-Sudreau. *Global defence-industry league: where is China?*, *Military Balance Blog*. iiss.org/blogs/military-balance/2018/08/china-global-defence-industry-league

¹³The World Bank

¹⁴Amanda Lee. *China data shows economic growth slowing as impact of trade war with US intensifies*, *South China Morning Post*, 23 November 2018, scmp.com/economy/china-economy/article/2174541/china-data-shows-economic-growth-slowing-impact-trade-war-us

¹⁵IISS, *the Military Balance 2019*



When looking at China's defence spending as a percentage of GDP, China's declared defence budget is modest. For example, China spent roughly 1.25 per cent in 2018 on defence

continues, could thus have an impact on the CCP's ability to justify spending higher proportions of China's GDP on defence. While China rises, it is easily forgotten that GDP per capita in China in 2018 stood at US \$9,608, roughly the same as that of Mexico, or Turkey¹⁶.

Placing China's defence budget in the context of other national ambitions

As mentioned before, China's national ambitions go beyond defence. The government under Xi must deliver on promises related to health and welfare, education, environmental protection, pollution and creating equality between rural and urban centres of the country. And this all must happen at the same time meaning the PLA will have to compete for resource allocation. Between 1992 and 2011, for example, China spent 8.5 per cent of its GDP on national infrastructure, including roads, power, rail, water, telecommunications, port and airports¹⁷.

At the Two Sessions, Premier Li also set out other targets that the government will aim to reach in 2019, including GDP

¹⁶IISS, *the Military Balance Plus*, milbalplus.iiss.org

¹⁷Yongang Chen, Stefan Matzinger and Jonathan Woetzel. *Chinese Infrastructure: The big picture*, *McKinsey Quarterly*, June 2013, mckinsey.com/featured-insights/winning-in-emerging-markets/chinese-infrastructure-the-big-picture



growth between 6-6.5 per cent, the creation of 11 million new urban jobs, the reduction of rural poor population by more than ten million and a reduction in tax burdens on enterprises and their social insurance contributions.

The slowing economy and ongoing trade war with the US will require careful allocation of resources. According to Xi, there are “three tough battles” that the Chinese government will need to fight in order to deliver on the promise of creating a moderately prosperous society by 2020: fighting a ‘war on poverty’, a ‘war on pollution’ and curbing local debt burdens. Considering the importance of economic growth to the legitimacy of the CCP’s rule, it is no certainty that defence spending will always remain the top priority for government expenditure¹⁸.

¹⁸Cheng Cheng, *China Focus: China in “three tough battles” for a moderately prosperous society*, Xinhuanet, 12 December 2018, xinhuanet.com/english/2018-12/12/c_137668670.htm

What could change this calculus?

The question then remains under what scenario the Chinese government would be forced to prioritise defence spending over allocating increasingly strained financial resources to other national reform initiatives. At the moment, China’s military modernisation is aimed at attaining regional dominance by 2035. As stated, delivering on this goal envisions building up China’s conventional capabilities close to par with those of the US in the Indo-Pacific region. Additionally, China will continue to leverage asymmetrical strategies and grey-zone warfare against its opponents in the region to attain dominance without instigating an actual war with the United States.

Despite its massive investment in defence, as a military that has not participated in active combat since the late 1970s the PLA will take longer to catch up in warfighting techniques than it will in acquiring military technology. Training



“““

China’s military modernisation is aimed at attaining regional dominance by 2035. Delivering on this goal envisions building up China’s conventional capabilities close to par with those of the US in the Indo-Pacific region. Additionally, China will continue to leverage asymmetrical strategies and grey-zone warfare against its opponents in the region to attain dominance without instigating an actual war with the United States.

personnel, the PLA’s greatest weakness, will take time. Until then, China will leverage any other capacity to its advantage, such as investing in emerging technologies that allow it to leapfrog US capabilities, and perhaps even become leaders in certain areas of future warfare. China’s ability to innovate in fields such as artificial intelligence, automation and robotics and apply new technologies with fewer regulatory burdens may count in its favour.

It would thus take a serious change in China’s external threat

perceptions, and challenge to its ability to achieve its 2035 ambition of creating a modern military for defence spending to be prioritised over other domestic priorities. Scenarios could include any change caused by external actors to the status quo of China’s ‘core interest’ of territorial integrity in the South China Sea or Taiwan.

Until then, defence spending will continue to grow but in relation to the health of the country’s economy and other national reform priorities.



CHACR MISSION STATEMENT

To conduct and sponsor research and analysis into the enduring nature and changing character of conflict on land and to be the active hub for scholarship and debate within the Army in order to develop and sustain the Army's conceptual component of fighting power.