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## Estimating Chinas Military Expenditures

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**United States Institute of Peace**  
**International Network for Economics and Conflict**  
**Estimating China's Military Expenditures**

February 6, 2012 | 10:53am

Rapid expansion of Asian economies has increased national funds available for government spending and enabled finances devoted to military spending to grow dramatically. Of particular concern for the national security of the United States is the military expenditure of China. A rising China poses a strategic challenge to the United States. China is modernizing its military and intends to become a significant power, prompting many analysts and policymakers to voice concern about the military intentions and potential of China. The sheer magnitude of China's expenditures and the perception that it will be a peer competitor to the United States within the coming decades imparts added urgency to the need for better estimates of the nature and size of Chinese military expenditures.

Military expenditures are an expedient and critical indicator of where national defense priorities, policies, strategies, and capabilities are concentrated. The size of a nation's military budget, the change in expenditure items and how a nation spends its defense budget can reveal much about a country's strategic goals and future military plans. There are two vital issues in thinking about military expenditures. The first issue is the process of generating the numbers and actual accuracy and completeness of the data that is used to generate a final national defense expenditure figure. Estimates of China defense expenditures usually start with the three categories and numbers reported officially by the Chinese in their defense white paper: Personnel - pay, food, clothing for military and nonmilitary personnel; Operations and Maintenance - training, construction and maintenance of facilities, and operating expenses, education and combat costs; Equipment - costs for domestic equipment including research and experimentation, procurement, maintenance, transportation and storage. However, the consensus of experts is that many categories are missing from the budget. In a study detailing the effort to modernize China's military, RAND suggests that while most personnel, operations and maintenance, and equipment costs are reported, the following items are excluded from the official defense budget: foreign weapons procurement; expenses for paramilitaries; nuclear weapons and strategic rocket programs; state subsidies for the defense-industrial complex; some defense-related research and development; extra-budget revenue that goes to the military.

The second issue is that of transforming the data into a measure that can be used for comparison with expenditures for other nations. Purchasing Power Parity (PPP) conversions and market exchange rates are usually used. PPP-based analysis must be used carefully and appropriately caveated, because it may overvalue or undervalue Chinese expenditures. Market exchange rates should also be viewed with skepticism especially since the Chinese government keeps the market exchange rate undervalued by fixing or pegging the renminbi against the dollar.

It may be necessary to go outside the military budgets for information from secondary sources to supplement military expenditure data. Data includes but is not limited to trade data and statistics, arms exports and imports, compensation, cost of living, benefits etc. Secondary sources may be used to verify and cross check the reliability of official military expenditure data in addition to generating new information. For example, labor and agricultural statistics may be used to supplement and check the growth in military personnel figures. The producer price index may be used to supplement equipment conversion data. In addition, economic data may be used as a reliability check and verification of government policy change. Changes in government expenditure can

be used as a check on policy statements. It is important to examine the implication of increasing government expenditures in categories that are not matched by similar changes in defense expenditures. For example, a change in the social benefit component of government expenditures should probably also be matched in the social benefit component of defense personnel costs. Finally, the entire issue of China's military expenditures needs a fresh look especially since analysts need to be candid and admit that there is a great deal that will never be known.

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