

# Chapter 6

## China's Military Modernisation

China persists in taking the road of peaceful development and unswervingly pursues a national defense policy defensive in nature. China's national defense is the security guarantee for the survival and development of the nation.<sup>1</sup>

6.1 China is modernising its national defence and armed forces as an 'important guarantee for safeguarding national security and building a moderately prosperous society'.<sup>2</sup> This chapter examines China's defence policy, its underlying principles and key objectives. It looks at the response of other countries to China's military modernisation and its implication for regional security. Finally, it considers the information that China provides on its military spending and ambitions and assesses whether this helps to build greater trust between China and the outside world.

### China's defence policy

6.2 China's major goals of economic growth and political stability are, to a large extent, reliant on the maintenance of regional security and stability. As China continues to engage as a major participant in the global economy and becomes increasingly reliant on overseas energy resources, it has a growing stake in regional peace and stability.<sup>3</sup> In December 2004, Beijing released *China's National Defense 2004* (the 2004 White Paper). This report stated that the key objectives of China's national defence are:

...to step up modernisation of its national defence and its armed forces, to safeguard national security and unity, and to ensure the smooth process of building a moderately prosperous society in an all-round way.<sup>4</sup>

6.3 The White Paper noted that 'the role played by military power in safeguarding national security is assuming greater prominence'.<sup>5</sup>

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1 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 2, 'National Defense Policy', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

2 Premier Wen Jiabao, *Report on the Work of the Government*, 5 March 2004.

3 DFAT, *Submission P19*, p. 15.

4 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 2, 'National Defense Policy', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

6.4 Australia's Department of Defence concurred with this representation of China's broad military objectives. It recognised that increasing military capability was important to China and that it would:

... continue to view military strength as a key component of comprehensive national power, vital to securing its territorial claims, protecting its economic interests and building political influence.<sup>6</sup>

6.5 The following section outlines the approach and priorities that China is taking to modernise its armed forces.

### ***Building a modern military force***

6.6 China's military policy is guided by two goals: the 'historic objectives of ensuring that the army is capable of winning any war it fights and that it never degenerates.'<sup>7</sup>

6.7 In 1985, with an emphasis on increased competency and training rather than the size of its armed force, China decided to downsize its military personnel by one million. According to its White Paper on Arms Control, by 1987 the size of the People's Liberation Army (PLA) had been reduced from 4.238 million to 3.235 million and by 1990, the number of armed forces had been cut back to 3.199 million, downsized by an overall total of 1.039 million. Since 1990, China's armed forces have undergone a series of adjustments and their size has continued to shrink with the decision to downsize its military by 500,000 within three years. In 2003, China decided to further cut the number by 200,000 within two years and to reduce its military size to 2.3 million.<sup>8</sup> In 2005, China announced that it would complete the task of reducing the size of the army by 200,000.<sup>9</sup>

6.8 As part of its modernisation program, China is using science and technology to build strong armed forces by investing in developing new and high technology weaponry and equipment. This is intended to foster a new type of highly competent military personnel and promote the modernisation of its armed forces, with IT

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5 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 1, 'The Security Situation', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

6 *Submission P9*, p. 3.

7 Premier Wen Jiabao, Part VI, *Report on the Work of the Government*, 5 March 2005, <http://www.china.org.cn/english/2005lh/122817.htm> (accessed 17 February 2006).

8 State Council Information Office, Section IV, 'China's Endeavours for Arms Control, Disarmament and Non-Proliferation', 1 September 2005, reprinted in *China Daily* as Full Text of White Paper on Arms Control, 1 September 2005.

9 Premier Wen Jiabao, Part VI, *Report on the Work of the Government*, 5 March 2005, <http://www.china.org.cn/english/2005lh/122817.htm> (accessed 17 February 2006).

application as the main content.<sup>10</sup> Indeed, improved competency and high technology are central to China's modernisation process. China wants to build a strong military through advances in science and technology and aims to have qualitative efficiency instead of relying on quantitative force: 'to transform the military from a manpower-intensive one to a technology-intensive one'.<sup>11</sup> While the streamlining of the PLA is designed to reduce the number of ordinary troops that are 'technologically backward', China is also strengthening its Navy, Air Force and Second Artillery force. It wants to ensure that the make-up of troops and the size of the services and arms are most effective, with an increased proportion of new and high-tech units.<sup>12</sup>

6.9 The Australian Department of Defence also noted that the PLA's military modernisation program emphasises the exploitation of technology and quality over quantity:

Key aspects of the program include: foreign acquisition and indigenous production of modern weapons and defence systems; organisational reform and the promotion of a joint approach to strategy and operations; logistics reform, including a growing emphasis on commercialisation of support functions; and personnel reforms such as improved training and education. The bulk of the modernisation efforts and resources are focused on naval, air and missile forces.<sup>13</sup>

6.10 In keeping with the goal of achieving a high technology defence force, the 2004 White Paper emphasised that the PLA wants to build an informationalised force: that its objective is to 'win local wars under conditions of informationalisation'.<sup>14</sup> Informationalisation is defined by analysts as 'the PLA's ability to use the latest technologies in command, intelligence, training and weapon systems'.<sup>15</sup> China is

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10 Premier Wen Jiabao, *Report on the Work of the Government*, 5 March 2004, [http://www.chinadaily.com.cn/english/doc/2004-03/16/content\\_315302.htm](http://www.chinadaily.com.cn/english/doc/2004-03/16/content_315302.htm) (accessed 17 February 2006).

11 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 2, 'National Defense Policy', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

12 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 3, 'Revolution in Military Affairs with Chinese Characteristics' [http://english.people.com.cn/whitepaper/defense2004/defense2004\(3\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(3).html), (accessed 23 November 2005).

13 *Submission P9*, p. 5.

14 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 2, 'National Defense Policy', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

15 International Assessment and Strategy Centre, 'Top Ten Chinese Military Modernisation Developments', 23 March 2005, [http://strategycenter.net/printVersion/print\\_pub.asp?pubID=65](http://strategycenter.net/printVersion/print_pub.asp?pubID=65) (accessed 27 November 2005).

seeking to achieve a gradual transition from mechanisation and semi-mechanisation to informationalisation.

6.11 As for weaponry and equipment, China has indicated that it is accelerating the modification of old and outmoded weapons. The 2004 White Paper noted that:

By embedding advanced technology, developing new munitions, and integrating command and control systems, the PLA has restored or upgraded the tactical and technical performance of some current main battle weapons.<sup>16</sup>

6.12 China hopes to develop its defence-related science, technology and industry to ensure the 'production and supply of military equipment to meet the needs of national defense'. Its objective is to raise China's 'capability for weaponry and equipment research and production, and accelerate the research and production of new and high-tech weaponry and equipment'.<sup>17</sup> This development is to complement and promote the growth of the national economy and improve the overall strength of the nation.<sup>18</sup>

6.13 In its 2004 White Paper, China stressed that its defence-related science, technology and industry 'takes a prudent attitude toward the export of military products and related technologies, and strictly complies with the policies and laws of the state on non-proliferation'.<sup>19</sup> It added that China has invariably adhered to three principles concerning the export of military products. They are that such exports:

- should only serve the purpose of helping the recipient state enhance its capability for legitimate self-defence;
- must not impair peace, security and stability of the relevant region and the world as a whole; and

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16 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 3, 'Revolution in Military Affairs with Chinese Characteristics', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(3\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(3).html), (accessed 23 November 2005).

17 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 7, 'Science, Technology and Industry for National Defense', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(7\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(7).html), (accessed 23 November 2005).

18 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 7, 'Science, Technology and Industry for National Defense', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(7\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(7).html), (accessed 23 November 2005).

19 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 7, 'Science, Technology and Industry for National Defense', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(7\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(7).html), (accessed 23 November 2005).

- must not be used to interfere in the recipient state's internal affairs.<sup>20</sup>

6.14 In keeping with its foreign policy, China maintains that its defence policy also looks to develop strong, amicable and mutually beneficial relations with other countries. China's 2004 White Paper explained that:

...the PLA conducts military cooperation that is non-aligned, non-confrontational and not directed against any third party. The PLA takes part in the UN peacekeeping operations and international counter-terrorism cooperation. While promoting military exchanges in various forms, the PLA works to establish security dialogue mechanisms in order to create a military security environment featuring mutual trust and mutual benefit.<sup>21</sup>

6.15 According to the White Paper, China has stepped up its bilateral and multilateral strategic consultation and dialogues with countries concerned in security and defence areas which 'contribute to better mutual trust and mutual exchange and cooperation'.<sup>22</sup> China's foreign and defence policy seeks to promote 'international security dialogues and cooperation of all forms'.<sup>23</sup>

6.16 The Australian Department of Defence submitted that China's expanding military capabilities are likely to be complemented by an expansion in its cooperative international engagement with foreign forces, and even possible participation in UN peacekeeping activities.<sup>24</sup>

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20 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 7, 'Science, Technology and Industry for National Defense', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(7\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(7).html) (accessed 23 November 2005).

21 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 2, 'National Defense Policy', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

22 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 9, 'International Security Cooperation', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(9\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(9).html) (accessed 23 November 2005).

23 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 9, 'International Security Cooperation', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(9\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(9).html) (accessed 23 November 2005).

24 Department of Defence, *Submission P9*, p. 6.

## Priorities in China's defence policy

6.17 China is at pains to stress that it will rely on its own strength for development and 'poses no obstacle or threat to any one'.<sup>25</sup> Although China's defence policy places a high priority on cooperating with other countries to create a peaceful international environment, some countries remain concerned about the direction China is taking to modernise its military forces. The following section looks at two aspects of China's military modernisation process that trouble some countries (the U.S. in particular): firstly, it considers China's military build-up and the likelihood of it using force, especially against Taiwan, and secondly, the lack of transparency in China's military capability and future plans. The section then considers the shifting balance of power in the East Asian region.

### *China—'We have never forsworn the use of force'*

6.18 In its National Defence White Paper, China stated that one of its basic goals and tasks in maintaining national security is to 'stop separation and promote reunification, guard against and resist aggression, and defend national sovereignty, territorial integrity and maritime rights and interests'. As discussed further in Chapter 7, pro-independence developments in Taiwan are of great concern to the Chinese government. China maintains that Taiwan is 'part of the sacred territory of the People's Republic of China'. It stresses that it is 'the sacred responsibility of the Chinese armed forces to stop "Taiwan independence" forces from splitting the country'.<sup>26</sup>

6.19 The White Paper stated that relations across the Taiwan Straits were 'grim':

The separatist activities of the 'Taiwan independence' forces have increasingly become the biggest immediate threat to China's sovereignty and territorial integrity as well as peace and stability on both sides of the Taiwan Straits and the Asia-Pacific region as a whole.<sup>27</sup>

6.20 It made clear that China would:

...never allow anyone to split Taiwan from China through whatever means. Should Taiwan authorities go so far as to make a reckless attempt that

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25 Foreword, Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Beijing, December 2004, <http://english.peopledaily.com.cn/whitepaper/defense2004/defense2004forward.html> (accessed 10 January 2006).

26 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 1, 'The Security Situation', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(1\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(1).html) (accessed 23 November 2005).

27 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 1, 'The Security Situation', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(1\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(1).html) (accessed 23 November 2005).



constitutes a major incident of 'Taiwan independence', the Chinese people and armed forces will resolutely and thoroughly crush it at any cost.<sup>28</sup>

6.21 In its 2005 Report on the Work of the Government, Premier Wen stated that strengthening national defence and developing the army constituted 'a task of strategic importance to our modernisation drive and an important guarantee for safeguarding national security and reunification'.<sup>29</sup> This reference to reunification again clearly showed China's resolve to ensure that Taiwan does not separate from China.

6.22 The passing of the Anti-Secession Law in March 2005 was a further demonstration of China's determination to prevent Taiwan seceding from China. Mr Wang Zhaoguo, vice chairman of the Standing Committee of the National People's Congress (NPC), told the NPC that:

No sovereign state can tolerate secession and every sovereign state has the right to use necessary means to defend its sovereignty and territorial integrity.

Using non-peaceful means to stop secession in defence of our sovereignty and territorial integrity would be our last resort when all our efforts for a peaceful reunification should prove futile. The draft legislation provides that in the event that the 'Taiwan independence' forces should act under any name or by any means to cause the fact of Taiwan's secession from China should occur, or that major incidents entailing Taiwan's secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China's sovereignty and territorial integrity.<sup>30</sup>

6.23 The Chinese government has stressed that should they employ non-peaceful means and other necessary measures to prevent secession:

...such means and measures would be completely targeted against the 'Taiwan independence' forces rather in any way against our Taiwan compatriots.<sup>31</sup>

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28 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 2, 'National Defense Policy', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(2\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(2).html) (accessed 23 November 2005).

29 Premier Wen Jiabao, *Report on the Work of the Government*, 5 March 2005, <http://www.china.org.cn/english/2005lh/122817.htm> (accessed 23 November 2005).

30 Wang Zhaoguo, Translation of the explanation on the draft Anti-Secession Law, *Third Session of the Tenth National People's Congress*, 8 March 2005, [http://english.people.com.cn/200503/08/eng20050308\\_176017.html](http://english.people.com.cn/200503/08/eng20050308_176017.html) (accessed 31 October 2005).

31 Wang Zhaoguo, Translation of the explanation on the draft Anti-Secession Law, *Third Session of the Tenth National People's Congress*, 8 March 2005, [http://english.people.com.cn/200503/08/eng20050308\\_176017.html](http://english.people.com.cn/200503/08/eng20050308_176017.html) (accessed 31 October 2005).

6.24 Following the passing of the law, Premier Wen reportedly warned foreign interests against interfering over Taiwan:

Solving the Taiwan question is entirely an internal Chinese affair and brooks no interference by any outside forces...We do not wish to see any foreign interference, but we do not fear foreign interference should it occur.<sup>32</sup>

The anti-secession law is discussed further in the following chapter.

6.25 Many in the U.S. believe that China is shaping its military modernisation and increasing its fighting capability with a conflict over Taiwan in mind. A U.S. Department of Defense report has noted that:

In the short term, the PRC appears focused on preventing Taiwan independence or trying to compel Taiwan to negotiate a settlement on Beijing's terms. A second set of objectives includes building counters to third-party, including potential U.S., intervention in cross-strait crises. PLA preparations, including an expanding force of ballistic missiles (long-range and short-range), cruise missiles, submarines, advanced aircraft, and other modern systems, come against the background of a policy toward Taiwan that espouses 'peaceful reunification'. China has not renounced the use of force, however. Over the long term, if current trends persist, PLA capabilities could pose a credible threat to other modern militaries operating in the region.<sup>33</sup>

6.26 It concluded that although the use of force against Taiwan would be costly, Chinese leaders 'might use force if they believed they had no other way to prevent Taiwan independence or, as implied in its 'anti-secession law', to guarantee reunification over the long term'.<sup>34</sup>

6.27 A report to Congress from the U.S.–China Economic and Security Review Commission found that:

China is in the midst of an extensive military modernisation program aimed at building its force projection capabilities to confront U.S. and allied forces in the region. A major goal is to be able to deter, delay, or complicate a timely U.S. and allied intervention in an armed conflict over Taiwan so

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32 Cited in 'China's top legislature enacts historic law for peace', *China Daily*, 15 March 2005, [http://www.chinadaily.com.cn/english/doc/2005-03/15/content\\_424828.htm](http://www.chinadaily.com.cn/english/doc/2005-03/15/content_424828.htm) (accessed 19 January 2006).

33 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, Executive Summary.

34 US Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, p. 39.



China can overwhelm Taiwan and force a quick capitulation by Taiwan's government.<sup>35</sup>

6.28 Some analysts maintain that China's military build-up 'is tilting the balance of power in the Taiwan Strait' and that its improved capabilities threaten U.S. forces in the region.<sup>36</sup> Vice Admiral Lowell E. Jacoby, U.S. Navy Director in the Defense Intelligence Agency, stated:

We believe China has adopted a more activist strategy to deter Taiwan toward independence that will stress diplomatic and economic instruments over military pressure. We believe Chinese leaders prefer to avoid military coercion, at least through the 2008 Olympics, but would initiate military action if it felt that course of action was necessary to prevent Taiwan independence.

Beijing remains committed to improving its forces across from Taiwan. In 2004, it added numerous SRBMs to those already existing in brigades near Taiwan. It is improving its air, naval and ground capabilities necessary to coerce Taiwan unification with the mainland and deter US intervention. Last fall, for instance, a Chinese submarine conducted a deployment that took it far into the western Pacific Ocean, including an incursion into Japanese waters.<sup>37</sup>

### ***Committee view***

6.29 China has put Taiwan and the world on notice that it will not tolerate an independent Taiwan and is prepared to use non-peaceful means to prevent its secession. It has also made clear that Taiwan is an internal matter of national sovereignty and it would not brook outside interference. Consequently, China's military modernisation takes close account of developments in Taiwan and is geared, if needed, to prevent Taiwan from splitting from China. It provides a powerful deterrent against any move by Taiwan toward asserting its independence. China has, however, stressed that the use of force would be a last resort.

6.30 The following section looks at a range of views from outside China on China's military modernisation.

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35 United States–China Economic and Security Review Commission, *2005 Report to Congress*, One Hundred and Ninth Congress, First Session, November 2005, p. 9.

36 Porter J. Goss, Director of Central Intelligence, Central Intelligence Agency, Testimony, United States Senate Select Committee on Intelligence, *Statement*, 16 February 2005, p. 16. In evidence he noted that in 2004 China increased its ballistic missile forces deployed across from Taiwan and rolled out several new submarines.

37 Vice Admiral Lowell E. Jacoby, U.S. Navy Director, Defense Intelligence Agency, *Testimony*, United States Senate Select Committee on Intelligence, 16 February 2005, p. 7.

### ***China's defence policy beyond Taiwan***

6.31 Some analysts believe that Chinese military acquisitions indicate that the PLA is building military capabilities that could be used beyond a conflict over Taiwan. In July 2005, the U.S. Department of Defense released its annual report to Congress titled *The Military Power of the People's Republic of China 2005*. While indicating that presently 'China's ability to project conventional military power beyond its periphery remains limited',<sup>38</sup> it noted:

All of China's SRBMs, although garrisoned opposite Taiwan, are mobile and can deploy throughout the country to take up firing positions in support of a variety of regional contingencies. China is also developing new medium-range systems that will improve its regional targeting capability. There are corresponding improvements in intercontinental-range missiles capable of striking targets across the globe, including in the United States.<sup>39</sup>

6.32 On this issue, the U.S. Department of Defense report observed:

Similarly, China's air and naval force improvements—both complete and in the pipeline—are scoped for operations beyond the geography around Taiwan. Airborne early warning and control and aerial refuelling programs for the PLA Air Force will extend the operational range for its fighter and strike aircraft, permitting extended operations into the South China Sea, for example. Naval acquisitions, such as advanced destroyers and submarines, reflect Beijing's pursuit of an 'active offshore defense' to protect and advance its maritime interests, including territorial claims, economic interests, and critical sea lines of communication. Over the long term, improvements in China's command, control communications, computers, intelligence, surveillance and reconnaissance (C4ISR) capability, including space-based and over-the horizon platforms, could enable Beijing to identify, target and track foreign military activities deep into the western Pacific and provide, potentially, hemispheric coverage.<sup>40</sup>

6.33 The report warned of the consequences of the PLA's continuing modernisation. It contained the following assessments:

China does not now face a direct threat from another nation. Yet, it continues to invest heavily in its military, particularly in programs designed to improve power projection. The pace and scope of China's military build-up are, already, such as to put regional military balances at risk. Current trends in China's military modernization could provide China with a force capable of prosecuting a range of military operations in Asia—well beyond

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38 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, Executive Summary.

39 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, p. 12.

40 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, pp. 12–13.

Taiwan—potentially posing a credible threat to modern militaries operating in the region...

6.34 It added:

...as China's military power grows, China's leaders may be tempted to resort to force or coercion more quickly to press diplomatic advantage, advance security interests, or resolve disputes.<sup>41</sup>

***Australia's response to China's military modernisation***

6.35 Generally, evidence before the committee assumed a far less alarming tone. Air Power Australia's submission to the committee, however, argued that China's military advancements are for less benevolent purposes than simply maintaining order or deterring attack. They indicated that the PLA is undergoing a 'deep transformation' from an essentially defensive force to one capable of long range projection'.<sup>42</sup>

6.36 In contrast, Professor Stuart Harris from the Research School of Pacific and Asian Studies at the Australian National University (ANU), told the committee that the PLA's modernisation process has not been overtly threatening:

What surprises me is that the defence modernisation program is so lacking in a sense of urgency in the response to the threat that they see. Ten years ago we were talking about 20 ICBMs going to go to solid fuel so that they could be mobile and less vulnerable. The Americans gave them the MIRV technology anyway and they have never used it. They have had their submarines sitting in the harbour—they cannot fire a missile—for 10 or 15 years and they are gradually getting around to seeing if they can find out how to do it properly one of these days. There is no sense of urgency except on the east coast, which is where all the jewels are and where Taiwan is. So they want a defensive military that can tackle the American military...and they want to be able to sink an aircraft carrier. Sooner or later everybody is going to be able to sink aircraft carriers and aircraft carriers are going to go out of business anyway.<sup>43</sup>

6.37 Professor James Cotton from the Australian Defence Force Academy also questioned the level of anxiety over China's current military capability, stating that their missile systems still rely on liquid fuel and are 'enormously cumbersome and difficult to operate and are uniquely vulnerable to interdiction'.<sup>44</sup> He noted:

Go back to the United States capability 20 years ago: it is going to be a long time before the Chinese even have that capability.<sup>45</sup>

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41 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, pp. 13–14.

42 Air Power Australia, *Submission P39*, pp. 5–7.

43 Professor Stuart Harris, *Committee Hansard*, 13 September 2005, p. 27.

44 Professor James Cotton, *Committee Hansard*, 13 September 2005, p. 24.

45 Professor James Cotton, *Committee Hansard*, 13 September 2005, p. 24.

6.38 Professor Cotton suggested that increased military spending in China related in large part to domestic political priorities:

...it is still an unaccountable, self-elected and self-promoting group of people who are in charge of the country. When you are in that position you stay in power by cultivating interests and one of the most important interests in China currently is the Chinese military. To some extent these people are given generous resources, simply in order to maintain their loyalty and their role in the internal political dynamics. This is not a question of an external threat; it is a question of maintaining control over the domestic constituency.

Also, we need to bear in mind that that military is required to ensure the loyalty of some parts of China where that loyalty has sometimes been in question. In Xinjiang and in Tibet there are significant populations who are still unhappy with being part of the People's Republic of China. Both of these factors would explain why more munificent provisioning of the military might be necessary than would otherwise makes sense in terms of China's external situation.<sup>46</sup>

6.39 Professor William Tow, Director of International Relations at the University of Queensland, also commented to the committee on the perceived China threat:

China has a real problem in its long-term military capabilities. They know what they have to do: to develop niche capabilities, particularly in network warfare and the other areas where they have looked at US military behaviour and essentially said that this is work we have to become good at in order to become a peer competitor strategically down the line with the United States. The bottom line is that they are not very good in many of these sectors. For example, we are still uncertain to what extent they have mastered the solid fuel capabilities in order to move towards a fully fledged SSBN nuclear submarine force. They have had problems with it for years. They are perhaps better than we are, because of their Soviet heritage, in mobile ballistic missile systems.

Frankly, they are still hamstrung. It does not really matter what their budget is to a large extent until they are able to come to terms with some of the types of issues that Western defence departments or defence ministries come to terms with every day—interoperability, procurement and so forth.<sup>47</sup>

6.40 Professor Tow stressed, however, that China should not be discounted as a peer competitor down the line. He stated:

It is just going to be much harder for them and it is going to take a long time. So they have sensibly said, 'Periphery warfare is the way to go. We can develop fairly credible and formal capabilities by pursuing that

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46 Professor James Cotton, *Committee Hansard*, 13 September 2005, p. 23.

47 Professor William Tow, *Committee Hansard*, 13 September 2005, p. 23.

particular doctrine.' Within that context the Taiwan thing is obviously the priority.<sup>48</sup>

6.41 In answer to a question about the reasonableness of China's military spending given its perceived security threats, Professor Paul Dibb, Director of the Strategic and Defence Studies Centre at the ANU, told the committee:

...it is like most countries; you could ask the same question of us, if you are a regional power—that it is a mixture of both. China has a long history, as you well know, of being humiliated, divided and occupied. In that sense, there is some understanding that they have a sense of vulnerability and a history that they have not forgotten. Since the creation of the People's Republic of China, they have not been attacked. In that sense, I think it is fair to say that—except for the early period, including the seventies, which we should not forget—Chinese revolutionary warfare and the export of communism were still a central and active part of the ideology.<sup>49</sup>

6.42 The former Minister for Defence, Senator the Hon. Robert Hill, has stated that China's modernisation is not a concern:

...we certainly accept the right of China to modernise its armed forces. As the economy grows, as China plays a more forward role in the world, it's not surprising it wishes to improve its defence capabilities, so I understand that.<sup>50</sup>

6.43 Even so, the uncertainty about the direction of China's modernisation process and the amount it is spending on its military build-up gives rise to unhelpful speculation about China's intentions.

### **China's defence budget**

6.44 In June 2005, U.S. Defense Secretary Donald Rumsfeld asserted that China's defence expenditures were much higher than Chinese officials had admitted. He stated that the U.S. estimates that China has the 'third-largest military budget in the world and now the largest in Asia'.<sup>51</sup> The U.S. Department of Defense's Annual Report to

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48 Professor William Tow, *Committee Hansard*, 13 September 2005, p. 23.

49 Professor Paul Dibb, *Committee Hansard*, 13 September 2005, p. 24.

50 Senator the Hon. Robert Hill, *Transcript of press conference*, Beijing, 8 June 2005.

51 See for example, The International Institute for Strategic Studies, Press Coverage—Economist, 3–5 June 2005, Pakistani Defence Forum, 'China's build-up puts military balance in region at risk: Rumsfeld', 4 June 2005; Matt Kelly, *Associated Press*, 4 June 2005; and Spokesperson Liu Jianchao's Comment on US Defense Secretary's Accusation of China's Constant Military Build-up, 8 June 2005.

Congress on China's military power repeated the assertion that China was the third largest defence spender in the world after the United States and Russia.<sup>52</sup>

6.45 In response to Mr Rumsfeld's suggestion that China's actual military expenditure 'has been the top of Asia and the third world', a Chinese government spokesman reiterated that China's military expenditure was used largely to 'improve the living conditions of military officials and soldiers'. He went on to state that assertions claiming China's military spending ranked first in Asia were 'totally groundless'. He added:

China has neither intention nor capacity to drastically develop a military build-up. In fact, compared with other big countries, China's defense expenditure always remains at a fairly low level.<sup>53</sup>

6.46 He also asserted that 'any words or actions that fabricate and drum up the China's military threat are detrimental to regional peace and stability'.<sup>54</sup>

### ***China—reporting on its defence budget***

6.47 Analysts complain that the lack of transparency in China's defence reporting is a major problem for them in assessing China's military intentions.

6.48 China maintains that its National Defence Law ensures that 'the necessary funds for national defence, incorporates the entire expenditure in the state budget and exercises management over it in accordance with the Budget Law of the People's Republic of China'. It argues that 'examined and approved by the National People's Congress, China's defence budget is open and transparent'.<sup>55</sup>

6.49 Every March, as part of its annual state budget, the Chinese government releases a single overall figure for national military expenditure.<sup>56</sup> The table below shows stated expenditure for the past five years.<sup>57</sup>

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52 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005. In testimony before U.S. House of Representatives Armed Services Committee, Mr Peter Brookes referred to China's military build-up as disconcerting — 'a defense modernization program that is raising eyebrows in both Washington and across Asia'. He claimed that some estimates indicate that China now has the world's third largest defense budget after the United States and Russia, ranging from \$70–90 billion a year. Testimony of Peter T.R. Brookes, Senior Fellow for National Security Affairs and Director, Asian Studies Center, The Heritage Foundation, before the House Armed Services Committee, United States House of Representatives, Washington, D.C., 27 September 2005.

53 Spokesperson Liu Jianchao's Comment on the U.S. Defense Secretary's accusation of China's constant military build-up, 8 June 2005.

54 Spokesperson Liu Jianchao's Comment on the U.S. Defense Secretary's accusation of China's constant military build-up, 8 June 2005.

55 Section IV, Full Text of White Paper on Arms Control, 1 September 2005.

56 GlobalSecurity.org, 'China's Defense Budget', <http://www.globalsecurity.org/military/world/china/budget.htm> (accessed 27 November 2005).



Budget year	RMB Yuan (billion)	\$USD (billion)
2000	121	14.6
2001	141.04	17
2002	166	20
2003	185.3	22
2004	200	24
2005	247.7	29.9

6.50 On military spending, China's 2004 defence White Paper indicated that China's defence expenditure has 'long been lower' than major western countries. It stated that in the past two years, the percentage of China's annual defence expenditure to its GDP and to the state financial expenditure in the same period has remained basically stable.<sup>58</sup>

6.51 It reported that the increased part of the defence expenditure has primarily been used for increasing the salaries and allowances of the military personnel, further improving the social insurance system for servicemen, supporting the structural and organisational reform of the military; increasing investment in the development of high-calibre talents in the military; moderately increasing equipment expenses.<sup>59</sup>

6.52 The Embassy of the PRC's submission also emphasised the relatively small proportion of China's GDP that was spent on defence; less than two per cent in 2004.<sup>60</sup>

6.53 In evidence to the committee, Dr Rosita Dellios, Head of International Relations at Bond University, told the committee that China's defence spending was relatively limited:

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57 Table data taken from *China Today*, 'Military and Armed Forces' accessed at <http://www.chinatoday.com/arm> on 27.10.05 and Global Security.org, 'China's Defense Budget', <http://www.globalsecurity.org/military/world/china/budget.htm> (accessed 27 November 2005).

58 *China's National Defense in 2004*, quoted in *People's Daily Online*, 27 December 2004, [http://english.people.com.cn/200412/27/eng20041227\\_168799.html](http://english.people.com.cn/200412/27/eng20041227_168799.html) (accessed 27 November 2005). It stated that in 2003, China's defence expenditure amounted to only 5.69 per cent of that of the U.S.; 56.78 per cent of that of Japan; 37.07 per cent of that of the United Kingdom; and 75.94 per cent of that of France.

59 *China's National Defense in 2004*, quoted in *People's Daily Online*, 27 December 2004, [http://english.people.com.cn/200412/27/eng20041227\\_168799.html](http://english.people.com.cn/200412/27/eng20041227_168799.html) (accessed 27 November 2005).

60 Embassy of the PRC, *Submission P66*, p. 12. His Excellency, Zhou Wenzhong, Ambassador of the People's Republic of China to the United States, *Address*, 'The Future of China–U.S. Relations', 22 September 2005. The Ambassador stated that China's defense budget for 2005 was 'some 29.56 billion U.S. dollars, far less than all the major powers of the world in both aggregates and per capita terms'.

China's modernisation of the military occurs from a very low technological base of development, so there would be increases expected there. It occurs within the context of the first priority of funding being given to the civilian economies—agriculture, industry, science and technology. Defence is then only the fourth priority.

...defence definitely has a lower priority than the economic development side of things. For a country with such a low technological base in the military, I think the level of military modernisation that has been occurring is appropriate.<sup>61</sup>

6.54 A number of commentators have, however, questioned the reliability of the figures produced by China on its military expenditure. One suggested that because China's stated budget does not include defence acquisitions and other significant categories, 'there is a cottage industry of analysts who attempt to assess the true size of the budget'.<sup>62</sup>

6.55 The U.S. Department of Defense is critical of the opacity of China's reporting on the state of its military forces and its military budget, including China's White Paper. In its Annual Report to Congress, the Defense Department claimed that China's leaders continue to guard closely basic information on the quantity and quality of the Chinese armed forces. Although it welcomed the publication of China's White Paper, it stated:

The paper explains China's public views on security and provides information on military-related policies, organization and regulations. Although a modest improvement over previous years, this newest Defense White Paper provides only limited transparency in military affairs.<sup>63</sup>

6.56 The report indicated that the U.S. Department of Defense does not know the full size and composition of Chinese government expenditure on national defence. It noted that 'secrecy envelops most aspects of Chinese security affairs', further stating:

The outside world has little knowledge of Chinese motivations and decision-making and of key capabilities supporting PLA modernisation. Hence, the findings and conclusions are based on incomplete data. These gaps are, of necessity, bridged by informed judgment.<sup>64</sup>

6.57 It cited a number of perceived weaknesses in the reporting system that results in opacity and prevents serious analysis by outsiders. They include the wide variation

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61 Dr Rosita Dellios, *Committee Hansard*, 1 August 2005, pp. 59–60.

62 Testimony of Roy Kamphausen, Director of National Security Affairs, the National Bureau of Asian Research, Statement before the House Armed Services Committee hearing on China's Military Modernisation, 4 November 2005.

63 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, p. 1.

64 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, Executive Summary.

in methodologies such as calculations based on market exchange rates, purchasing power parity, or a mixture of the two in varying proportions. The report noted that:

According to some estimates, the official budget does not include foreign weapons procurement (up to \$3.0 billion annually from Russia alone), expenses for the paramilitary People's Armed Police, funding to support nuclear weapon stockpiles and the Second Artillery, subsidies to defense industries, some defense-related research and development, and local, provincial, or regional contributions to the armed forces.

Combined, these additional monies could increase actual defense expenditures by two to three times the publicly available figure, suggesting the defense sector in China could receive up to \$90.0 billion in 2005, making China the third largest defense spender in the world after the United States and Russia, and the largest in Asia.<sup>65</sup>

6.58 One group of analysts suggested that the inadequate accounting methods used by the PLA is one reason for China's low published spending figures:

Budgeted functions are hidden under construction, administrative expenses, and under state organisations such as the Commission on Science, Technology and Industry for national defense, which mix PLA and other state activities. Further sources of income outside the national defense budget include official local and regional government expenses for local army contributions, pensions, militia upkeep and off-budget income from PLA commercial enterprises and defense industries, as well as income from international arms sales and unit-level production (e.g. farming).<sup>66</sup>

6.59 Given the problems in assessing China's military expenditure, the actual level of spending is frequently debated, but is probably not known with certainty. U.S. Department of Defense studies indicate that the published budget figures understate China's defence expenditure by about one-half.<sup>67</sup> Most analysts estimate the real figure is at least three times more than the public figure,<sup>68</sup> with some suggesting that Chinese military expenditure has reached or exceeded \$100 billion.<sup>69</sup>

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65 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, pp. 21–22.

66 GlobalSecurity.org, 'China's Defense Budget', <http://www.globalsecurity.org/military/world/china/budget.htm> (accessed 27 November 2005).

67 GlobalSecurity.org, 'China's Defense Budget', <http://www.globalsecurity.org/military/world/china/budget.htm> (accessed 27 November 2005).

68 GlobalSecurity.org, 'China's Defense Budget', <http://www.globalsecurity.org/military/world/china/budget.htm> (accessed 27 November 2005).

69 International Assessment and Strategy Center 'Top Ten Chinese Military Modernization Developments', 23 March 2005, [http://www.strategycenter.net/printVersion/print\\_pub.asp?pubID=65](http://www.strategycenter.net/printVersion/print_pub.asp?pubID=65) (accessed 27 October 2005).

6.60 The committee also received evidence highlighting the confusion surrounding China's military spending. In evidence, Professor Cotton commented on the lack of transparency:

China is in the unhappy position of not having democratic legislature to scrutinise and restrict defence spending. It is simply not reviewed in a transparent political process—the kind of process we are familiar with.<sup>70</sup>

6.61 Professor Dibb stated:

What do we know about China's defence spending? What we do know is that, like all communist countries, what it publishes as an alleged defence budget is, to be polite, not true. Let me tell you what they do not include in their defence budget. It does not include expenditure on military acquisitions, which in Australia would account for one-third of our total budget. It does not account for heavy subsidies to state owned defence industry. Almost all defence industry in China is still state owned, not private. It does not include military exports. It does not include its expenditure on space, a significant part of which, including overhead satellite capabilities, is to do with military precision capabilities. It does not include other covert programs. It does not include military research and development. It does not include military pensions, which we do.<sup>71</sup>

6.62 He emphasised:

You see the things we publish for the parliament of Australia—volumes that would fill this room several times over every year—on defence matters. China does not publish its military order of battle. It does not say how many tanks it has got or how many aircraft. You can argue that some of this is due to its sense of vulnerability but, if it wants it to come into a multilateral community of nations, it better start to cough on transparency.<sup>72</sup>

6.63 Regarding the true level of expenditure, Professor Dibb told the committee that:

The best estimate that we currently have is not to accept necessarily the inflated estimates of the Pentagon but in my humble view the figures put out by the International Institute for Strategic Studies in London. It estimates that China in the last year spent \$US56 billion on defence. That

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70 Professor James Cotton, *Committee Hansard*, 13 September 2005, p. 23.

71 *Committee Hansard*, 13 September 2005, p. 25. Professor Dibb has also stated 'Its published figures do not include expenditure on military acquisitions, subsidies to defence industry, military sales, space and other covert programs, and research and development. The best estimate is that China spends more than \$US56 billion (\$74 billion) annually on defence. That makes it the largest defence spender in our region and the third largest in the world, after the US and Russia. China has by far the largest armed forces in the world, with 2.25 million regular troops and about 800,000 thousand reserves'. Professor Paul Dibb, 'Don't get too close to Beijing', the *Australian*, 2 August 2005.

72 Professor Paul Dibb, *Committee Hansard*, 13 September 2005, p. 25.

makes it the largest defence spender in our region, larger than Japan, and the third largest in the world after the United States and Russia.<sup>73</sup>

### ***Improving transparency***

6.64 The uncertainty of the nature and extent of China's military build-up, coupled with China's growing defence budget, has raised concerns regarding the U.S.–Chinese military balance in Asia. The United States is particularly concerned about China concealing military developments. For example, the Annual Report to Congress on China's military power stated:

One might expect some secrecy in technological and weapon system development and tactical deception about location of units. China's practice encompasses this and more. In recent years, for example, China rolled out several new weapon systems whose development was not previously known in the West.<sup>74</sup>

6.65 When the U.S. Defense Secretary Donald Rumsfeld visited China in October 2005 he urged China to provide more information about its military spending to clarify its intentions. He said that China's improvements in its strategic strike capability, with its missile forces capable of reaching many areas of the world beyond the Pacific region, has made the U.S. and many regional countries question China's intentions. He added: 'greater clarity would generate greater certainty in the region'.<sup>75</sup>

6.66 Mr Rumsfeld commented:

To the extent that defense expenditures are considerably higher than what is published, neighbours understandably wonder what the reason might be for the disparity between reality and public statements.<sup>76</sup>

6.67 In October 2005, the *Australian* reported that Mr Rumsfeld would press the Chinese authorities for:

...greater transparency, greater discussion, so that we, the United States, and perhaps the neighbours in the immediate region, would have a much clearer understanding of what the Chinese intent was in developing the capabilities they're developing.<sup>77</sup>

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73 Professor Paul Dibb, *Committee Hansard*, 13 September 2005, p. 25.

74 U.S. Department of Defense, *Annual report to Congress: The Military Power of the People's Republic of China 2005*, July 2005, p. 16.

75 defenseLINKNews, 'Rumsfeld Urges More Transparency from Chinese Military', 20 October 2005, <http://globalsecurity.org/military/libraty/news/2005/10/mil-051020-afps05.htm> (accessed 27 October 2005).

76 defenseLINKNews, 'Rumsfeld Urges More Transparency from Chinese Military', 20 October 2005, <http://globalsecurity.org/military/libraty/news/2005/10/mil-051020-afps05.htm> (accessed 27 October 2005).

77 Quote attributed to a senior Defence Department official, Geoff Elliot, 'Rumsfeld bid for answers on Chinese arms', the *Australian*, October 19 2005, p. 12.

According to the report, the U.S. is concerned about a 'lack of transparency and our ability to appreciate and understand and predict what China's intent will be'.<sup>78</sup>

6.68 Officials from the Australian Department of Defence told the committee that Defence would 'like China to be more transparent in its capability development and to explain the reasons for the sorts of capabilities it is pursuing'. It noted that there are a variety of views on China's defence spending, but emphasised that transparency in the PLA's activities was a more important issue than overall military expenditure:

Generally speaking, our sense is that it is not out of proportion to China's size, to its perception of its interests and to its economic growth. I think that it is a difficult area when you are talking about a country's defence spending as a measure of its intent. The real issue is: what is it spending on and what is it doing with those forces? That is where you get the uncertainty and the ambiguity. So for us the level of expenditure is less of a concern than the issue of transparency.<sup>79</sup>

6.69 The department added:

...transparency is more likely to create stability than nontransparency because it reduces the possibility of misunderstanding.<sup>80</sup>

6.70 As noted above, Professor Dibb stated that some countries—including China—have a long way to go to improve the transparency of their military capabilities. He noted that there is information regarded as state secrets by China that are publicly accessible in many other countries, such as Japan, South Korea, Taiwan, some ASEAN countries, and Australia and New Zealand. He stated: 'You receive them in Senate estimates inquiries'.<sup>81</sup>

6.71 The committee considered the role of the ASEAN Regional Forum (ARF) in Chapter 3 and found that this forum plays an important role in facilitating dialogue between countries and promoting a cooperative approach to regional security. Recognising the potential to use the ARF to encourage greater openness on security matters, Professor Tow recommended that:

...if you have got white papers coming out each year in the ASEAN Regional Forum context for the purposes of getting greater transparency on strategic intentions, why not extend that to a process where you get white papers published by a combined Australian DFAT-DOD interagency team, a commensurate team in the United States and a commensurate team in China, with consultations, blessed tacitly by the Chinese, between the Americans, the Australians and the Taiwanese

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78 Quote attributed to a senior Defence Department official, Geoff Elliot, 'Rumsfeld bid for answers on Chinese arms', the *Australian*, October 19 2005, p. 12.

79 Department of Defence, *Committee Hansard*, 13 September 2005, p. 36.

80 Department of Defence, *Committee Hansard*, 13 September 2005, p. 39.

81 Professor Paul Dibb, *Committee Hansard*, 13 September 2005, p. 14.



are not going to feel totally marginalised in the process. It is not going to be a perfect process, but at least 'jaw-jaw is better than war-war', as Churchill once said.<sup>82</sup>

6.72 Mr Peter Jennings, Director of the Australian Strategic Policy Institute, has argued that 'Australia must do what it can to stop the U.S. and China from allowing suspicion to generate threatening military postures'. He suggested that Australia assist with the statement on Chinese military power that the Pentagon is required to produce every 12 months. He told the committee:

...as a close and respected ally, we should be talking to the Americans much more deeply about how the Pentagon chooses to write that document. We should ask ourselves what we can say to the Americans about how to think intelligently about Chinese military power.<sup>83</sup>

6.73 He added:

In Washington, we should ask defence planners what they would consider a reasonable military posture for the Chinese. We should seek early access to US thinking about their forthcoming Quadrennial Defence Review...and we should offer to share views on drafts of future Pentagon reports on Chinese military power.

In Beijing we should redouble efforts to encourage the Chinese to be more open about their defence planning, to reveal true defence budget figures and to participate in substantive bilateral strategic dialogues, for example, on force development plans and strategic perceptions.<sup>84</sup>

### ***Committee view***

6.74 Transparency from the Chinese government, or a perceived lack thereof, was a major issue raised during the course of this inquiry. This was particularly the case with respect to the scope and intent of China's ongoing military modernisation. Many analysts agree that increased transparency would assist to develop greater trust between countries in the region and that measures to encourage open discussion and reporting, such as initiatives taken by the ARF, would be a positive step toward regional security.

6.75 The committee recognises that as China's economy grows, the Chinese authorities will inevitably seek to update the capabilities of the PLA. China's growing investment in military capability has attracted a great deal of attention from its neighbours and those concerned about regional security. Some view the modernisation of China's military as a threat to regional stability, while others note that the improvements in overall military capability need to be set against the very low-

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82 Professor William Tow, *Committee Hansard*, 13 September 2005, p. 11.

83 Peter Jennings, *Committee Hansard*, 13 September 2005, p. 29.

84 Peter Jennings, 'Australia's Chinese challenge', *Australian Financial Review*, 7 October 2005, p. 11.

technology starting point of China's armed forces.<sup>85</sup> Transparency and detailed information about China's military budget and its current military capability, together with a clear understanding of its future defence plans, is necessary for the rest of the world to be able to assess accurately the implications of China's modernisation.

6.76 Clearly there are very different interpretations on China's military spending, its military capability and its long-term projections, as well as on matters such as China's commitment to non-proliferation. The U.S., in particular, has been highly critical of China's lack of transparency and from the tone of the 2005 report to Congress on China's military power, a disturbing level of distrust exists. This lack of mutual confidence increases the risk of misjudgement and miscalculation and increases the likelihood of heightened tensions, misunderstanding and disagreement, especially in a crisis. It is important that both China and the United States build trust between them.

6.77 The uncertainty about China's military budget and the capability of its forces creates an atmosphere of mistrust and conjecture. Any steps taken by China to make its reports on military spending and capability more informative, accurate and comprehensive will at least remove the tendency for other countries to indulge in speculation.

6.78 As a political force, Australia has little if any influence over China's overall defence policy and over how the United States will respond to what it believes are military developments in China. That is not to say that Australia cannot take a constructive role in helping China to open up further its military activities to greater scrutiny, to encourage China and the United States to improve the level of trust between them and to assist to create a climate in the region where countries work together toward a safe and secure environment.

6.79 The committee believes that Australia has an important role in encouraging both countries to work together to create an atmosphere that supports open discussions about military and strategic planning in the region.

### **Recommendation 3**

**6.80 The committee recommends that the Australian government work with countries, which have a common interest in regional stability and security, in the ARF, APEC and EAS to promote confidence building measures, such as increased transparency in reporting on military spending and capability, that will contribute to greater regional stability.**

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85 Frank W Moore, Institute for Defense and Disarmament Studies, 'China's Military Capabilities', June 2000, <http://www.comw.org/cmp/fulltext/addschina.html> (accessed on 27 October 2005).

## China–Australia Defence Relations

6.81 Australia's defence relationship with China could provide a suitable pathway to encourage China to be more open and transparent in its military modernisation. The Department of Defence noted that 'Australia's defence relationship with China contributes to the strength of Australia's broader bilateral relationship with China'.<sup>86</sup> It submitted that:

China's importance as an interlocutor on strategic and defence issues is increasing...The defence relationship between Australia and China, which has experienced a period of unprecedented growth in recent years, is now better than it has ever been.<sup>87</sup>

6.82 The department also noted:

The maintenance of the Australia-China bilateral defence relationship will remain an objective of the Australian Government in recognition of China's current and future strategic significance.<sup>88</sup>

6.83 Australia's defence relationship with China appears to be entering a phase of consolidation where existing areas of engagement will be developed further. The department's submission noted that 'nurturing senior officer ties is the centrepiece of Australia's defence engagement program with the PLA and will continue to be so in the coming years'.<sup>89</sup>

These activities allow Australia and China to exchange views and to improve our understanding of each other's respective strategic assessments and policies and build personal contacts at the senior level.<sup>90</sup>

6.84 Details of recent senior PLA visits to Australia and senior Australian Department of Defence visits to China are listed at Appendix 5.

6.85 Chinese leaders are proud of China's active military exchange programs and its cooperation with other military forces. In their view, China is creating a military diplomacy that is 'all-directional, multi-tiered and wide-ranging'.<sup>91</sup> China's defence White Paper recorded that China has established military relations with more than 150 countries, has over the past two years sent high-level military delegations to over 60 countries and hosted over 130 delegations of military leaders from 70 countries. It has

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86 *Submission P9*, p. 6.

87 *Submission P9*, p. 3.

88 *Submission P9*, p. 3.

89 *Submission P9*, p. 7.

90 *Submission P9*, p. 7.

91 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 9, International Security Cooperation, Beijing, December 2004, <http://english.peopledaily.com.cn/whitepaper/defense2004/defense2004forward.html> (accessed 10 January 2006).

invited military observers from overseas countries to observe military and naval exercises and has sent delegations to observe military exercises in Russia, Japan, the United States, Thailand and Singapore. It engages in friendly naval visits and pursues active military academic exchanges with foreign militaries.<sup>92</sup>

### **Committee view**

6.86 The committee notes China's increasing importance as a dialogue partner on strategic and defence issues and the growth in the defence relationship with Australia in recent years. It notes further China's enthusiasm for military exchanges and for greater cooperation with countries on military matters. China's willingness to participate in military exchanges and joint exercises provides an ideal starting point for countries such as Australia to encourage China to be more open and transparent in its military modernisation and defence budget.

6.87 The committee believes that Australia, as a country that has an open and accountable system for reporting on government spending that enables both the Parliament and the public to scrutinize defence expenditure, is well placed to encourage China to adopt a more transparent reporting system.

### **Recommendation 4**

**6.88 The committee recommends that the Australian government use its good relationship with China, and its defence links in particular, to encourage China to be more open and transparent on matters related to its military modernisation such as its objectives, capability, and defence budget.**

### **Arms control in the region**

6.89 China has stated that it attaches great importance to non-proliferation:

It pursues a policy of not supporting, not encouraging and not assisting other countries to develop WMD. It resolutely opposes the proliferation of WMD and actively participates in the diplomatic efforts of the international community to deal with non-proliferation issues.<sup>93</sup>

6.90 The 2005 U.S.–China Economic and Security Review Commission's report to Congress had a different viewpoint. It found that:

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92 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 9, 'International Security Cooperation', <http://english.people.com.cn/whitepaper/defense2004/defense2004.html> (accessed 10 January 2006).

93 Information Office of the State Council of the People's Republic of China, *China's National Defense in 2004*, Chapter 10, 'Arms Control, Disarmament and Non-Proliferation', [http://english.people.com.cn/whitepaper/defense2004/defense2004\(10\).html](http://english.people.com.cn/whitepaper/defense2004/defense2004(10).html) (accessed 17 February 2006).

China's proliferation activities are broad ranging; it continues to provide equipment and technology, including dual-use goods and technologies, related to WMD and their delivery systems to countries such as Iran as well as conventional armaments to countries like Sudan.

6.91 It told Congress that:

As China improves its nuclear and missile capabilities, the potential damage from its proliferation action increases. Given China's poor track record on preventing proliferation, the presumption is that it will continue to allow transfers of improved WMD-and missile-related technology to countries of concern.<sup>94</sup>

6.92 Professor Tow noted the 'singular lack of arms control' activities in the region. He stated:

If you want to modify the threat or the perceived threat of Chinese military modernisation, you start talking the language of SALT in an Asian context. You kickstart, if you will, the learning process. I think you will find that the process of China having learned in so many other dimensions of Asian security politics over the past decade or two will be repeated in this sector.<sup>95</sup>

6.93 Mr Peter Jennings also referred to the absence of effective arms control in the region. He was not, however, in favour of the Strategic Arms Limitation Talks (SALT) model.<sup>96</sup> He preferred instead the model of 'the conventional armed forces agreement that was signed in 1990, which really became a mechanism for NATO, in the Warsaw Pact, to start negotiating on the number of conventional weapons, tanks and so forth'.<sup>97</sup>

### ***Committee view***

6.94 The committee notes that there are regional fora, such as the ARF, that could start serious discussions on, and lay the groundwork for, an arms control arrangement for the region. The potential exists to promote such an agreement but the leadership and initiative of a group of like-minded countries is needed to achieve results.

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94 United States–China Economic and Security Review Commission, *2005 Report to Congress*, One Hundred and Ninth Congress, First Session, November 2005, p. 153.

95 Professor William Tow, *Committee Hansard*, 13 September 2005, p. 22.

96 The Strategic Arms Limitation Talks (SALT) refers to two rounds of bilateral talks between the Soviet Union and United States on the issue of armament control. The first round (1969–1972) froze the number of strategic ballistic missile launchers at existing levels: the second round (1972–1979) sought to curtail the manufacture of strategic nuclear weapons.

97 Mr Peter Jennings, *Committee Hansard*, 13 September 2005, p. 29.

### **Recommendation 5**

**6.95** The committee notes the suggestions by Professor Tow and Mr Jennings for a regional arms control agreement and recommends that the Australian government work with like minded countries in the region to promote such an agreement.