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Measuring Transparency in Military Expenditure: The Case of China

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Summary

This policy brief discusses the key dimensions of military expenditure transparency and assesses them in relation to China. While spending transparency relates most obviously to the availability, reliability, detail, and comprehensiveness of information, it cannot be completely separated from broader defense policy formation issues. China has a robust framework for developing, implementing, and monitoring defense policy, budgeting, and expenditure, and producing readily-accessible budget and expenditure data in English and Chinese; however, these processes are largely carried out behind closed doors.

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THE DIFFERENT DIMENSIONS OF DEFENSE TRANSPARENCY

Defense transparency has numerous dimensions and aspects (see, for example, Cheung 2011). First of all, defense transparency includes at least three key issue areas, relating to policy, to resources and capabilities, and to activities (each of which may have numerous sub-categories). Second, defense transparency relates to both internal and external transparency. Internal transparency relates to the amount and quality of information presented to the public, and the extent to which the public, civil society, and the legislature are able to meaningfully participate in discussion of defense issues. External transparency relates to information provided to neighboring countries and international bodies such as the UN. Clearly there are substantial overlaps between the two, but also key differences. Information freely available to the public is clearly also available to neighboring countries, but more detailed information may be presented to the latter for example in confidential exchanges. The extent of civil society participation in policy formation may be very important to citizens of a country, but for outside parties the outcome of policy formation is more relevant. For external transparency, the availability of material in translation is also relevant. Finally, there is a dimension of reporting mechanisms: these include public channels such as defense white papers, Ministry of Defense (MOD) websites, the media, and U.N. reporting mechanisms, as well as privileged information provided to the legislature (or the legislative committees) and to other countries.

Military expenditure transparency is one aspect of transparency in military resources and capabilities. It does not directly measure military capabilities, but has a relatively close relationship with it, and major changes over time will certainly have implications for capability. Moreover, while a total budget number gives little information on the extent of military capability acquired, the more detailed the information on military spending, the more it may be possible to link it directly to development of force structures and equipment.

Military spending transparency has both external and internal dimensions, but is perhaps especially pertinent for internal transparency as it is an important—and very often the most problematic—aspect of budgetary transparency more generally, and thus of the effective use of scarce resources by a government on behalf of its citizens. However it is also highly relevant to external transparency, as it gives an indication of the priority a country is giving to the military, while large increases in military spending may well be an advance indication of increasing capabilities, and may raise questions as to intentions.

Reporting mechanisms for military expenditure include national budget and financial expenditure documents, briefings to the legislature, reports by statistical offices, media reports, reporting via international organizations such as NATO, the IMF, and the Asian Development Bank, and reporting via the U.N. Reporting Instrument for Military Expenditures. Privileged reporting channels may include more detailed line-item budgets provided only to the legislatures; in some cases breakdowns of 'secret' budget lines provided only to a particular legislative sub-committee; and more detailed budget reporting provided to other states such as through the Organization for Security and Cooperation in Europe (OSCE) Vienna Document (which states may choose to make public but are not required to), or as part of NATO's internal planning processes (of which only the top line and a very broad category breakdown is published).

MILITARY EXPENDITURE TRANSPARENCY AND THE MILITARY BUDGETING PROCESS

It is hard to separate out the question of military expenditure transparency from the broader issue of the military budgeting process. This includes:

- The overall process of budget planning, implementation, monitoring, reporting, and auditing both for the military sector and the rest of government.
- The process of defense planning, programming, and budgeting whereby the strategic environment is assessed and threats and goals identified, different means for responding to these (military and non-military) consid-

ered, and thus desired forces and capabilities identified, allowing for prioritization within the overall framework of affordability.

- The process of the legislative oversight, both of the budget itself and the broader defense issues of which the budget ought to be a reflection.
- The process of performance evaluation and review, where an assessment is made of whether departments have achieved the goals set for them, whether money has been well spent and whether the results indicate either a resource gap or an inefficient use of resources.
- The role of oversight institutions, in particular internal and external audit institutions.

A model of an "ideal" budgetary process for the military sector, based both on general principles of budget management and the specific characteristics of the sector, is set out in Ball and LeRoux (2006). Within this framework, transparency—in the sense of the free availability of reliable and comprehensive information—is a relevant factor at every stage. Of course, all of the above processes could in principle be conducted behind closed doors by the government without revealing them to the public or the legislature (and in China this maybe the case). But for the latter to be able to participate meaningfully in decisions about their country's security and about the proper allocation and use of resources, a free flow of information is vital for all these processes.

It is beyond the scope of this brief to consider the full range of issues relating to military budgetary processes; however, in considering dimensions of defense transparency, it is necessary to understand the broader policy formation context, and to bring into play the most relevant aspects as they relate to the internal and external audiences for military expenditure information.

DEFINING MILITARY EXPENDITURE TRANSPARENCY

Our definition of transparency in military expenditure will therefore center on areas related to information—its availability, reliability and quality—but will also take into account some of the most critical aspects of the broader policy context. The categories proposed below are based on the issues raised in Omitoogun (2003), Omitoogun and Hutchful (2006), and on the author's own research into military expenditure transparency in different countries. They also overlap considerably with those proposed by Bauer (2003) as criteria for transparency in defense data more generally: availability (ease of access, timeliness, and clarity of presentation); reliability (quality of information); comprehensiveness (type and quantity); comparability (over time and between countries, requiring consistent methodologies); disaggregation (level of detail of information); and relevance (of data to stated purpose).

The Policy Framework

In Latin America, which has in recent years seen considerable improvements in defense transparency generally, it is sometimes said in relation to military spending, "We know what we spent, but not why we spent it" (Giraldo 2006). A meaningful assessment of whether defense budgets are justified or adequate is impossible unless there is a clear defense policy framework behind it, preferably one open to debate and scrutiny. Likewise, other countries may find assurances of peaceful intent more convincing if it is possible to link the resources devoted to the military to clear (non-aggressive!) defense goals—in each case, the more detail, the better. Some of the key questions for this dimension are:

- Is there a clearly-articulated defense policy (for example, in a defense white paper) on which budgeting decisions can be made and assessed?
- Is there a link between defense policy formation and budgeting? Is the link institutionalized in the budgeting process, so that budget programs and lines are justified in terms of the policy goal or goals to which they are linked?
- Is the link between policy and budget articulated to internal and external audiences? For example, is there a commentary to the budget explaining spending items in terms of policy goals?

- Who is responsible for defense budget formation? In particular, is forming the defense budget under the control of a properly staffed civilian Ministry of Defense (MOD)?
- Who else has input into the policy and budgeting process; for example, the legislature and civil society?

Information Availability and Accessibility

Insofar as information on military spending is produced, to whom is it available?

- Is the defense budget (at least in summary form) published and available to the general public?
- Is it easily available, for example in public libraries, in locations outside major cities and on the Internet?
- In relation in particular to external transparency, is it available in translation?[1]
- Is a more detailed version of the budget available to the legislature, or to a legislative Defense Committee?

Information Reliability

This dimension relates to whether spending figures report what they are supposed to report. It is crucially linked to the dimension of implementation of spending.

- Are budget data updated with estimated and final figures for actual expenditure, with explanations for deviations?
- Are changes in accounting and reporting methods over the years made clear?
- Does the Ministry of Defense and armed forces have in place proper systems for monitoring and reporting spending?
- Are spending figures honestly reported at all levels?

1. In fact, this bears some relation also to internal transparency. If international providers of military spending data such as SIPRI cannot practically access data, it makes it harder for citizens to properly compare their own country's spending with those of others, even if they can get hold of their own country's spending in the local language.

Information Clarity and Quality

- Is budget data reported according to both an administrative classification (for example, the budget of the MOD) and according to a functional classification in accordance with international standards?
- Is the definition used for military spending and the scope of the defense budget clear, with changes clearly signalled?
- What is the highest level of detail made available to the public? To the legislature? Is it:
  - Total figure only
  - Very basic classification; for example, recurrent and capital expenditure.
  - Basic classification by broad category (personnel, operations and maintenance, equipment, R&D, construction, and so on), and/or by armed service.
  - Classification by category and service (cross-tabulated).
  - Detailed breakdown by programs and sub-programs
  - Line-item budget.
- If a detailed budget is made available, is there also a good budget summary explaining the main points in non-technical language?
- What proportion of the budget consists of 'secret' items presented only in a highly aggregated form? (Of course, if the budget is only presented in basic detail, the answer to this is essentially 100 percent).

Comprehensiveness of Information

It is very common in many parts of the world for the defense budget not to cover all aspects of military spending, but for there to be sometimes very substantial areas of extra-budgetary or off-budget military spending. (This should be treated differently from definitional questions, for example, where military pensions might be included as military spending under some definitions but not others—provided the information is available elsewhere in the budget).

- Is all military spending included in the defense budget?

- Where it is not, is other military spending clearly identified and subject to the same policy framework?
- Are there extra-budgetary sources of military spending; that is, items of spending within the state budget but not classified as military/defense spending? These could be:
  - Contained within the budget of other ministries; for example, R&D, military education, welfare.
  - Contained within highly aggregated, non-transparent budget lines; for example, the presidency budget
  - Credit payments from the Ministry of Finance for arms purchases.
  - Transfers from other ministries to the MOD (which may or may not be reported).
- Are there off-budget sources of military spending, from outside the state budget, for example:
  - Special funds from natural resource revenues.
  - Payments from local government for operations in their areas.
  - Self-generated income; for example, sale of property, equipment, security payments from private sector, military-run businesses.
  - Funds from parastatal businesses channelled into the ministry.

More examples of extra-budgetary and off-budget sources of military spending are discussed in Ball and Hendrickson (2002).

Implementation of Spending

A key prerequisite for reliability of information, and for being able to assess how money is actually spent as opposed to how it is theoretically intended to be spent, is a robust system for implementing and monitoring spending. In many cases, the military may receive privileged treatment that exempts it from regular oversight practices.

- Who controls the implementation of the budget? The MOD or the armed forces?
- Does the MOD have sufficient staff and technical capacity for properly implementing its budget?
- Robustness of internal budgetary controls for distribution and monitoring of spending.
- Robustness of systems for dealing with overspends and unspent funds.
- Quality of record-keeping and information systems.
- Is military spending subject to robust internal and genuinely independent external audit?
- Are audit reports of the military made available to the legislature and the general public? Does the government act on audit reports?
- Does the national anti-corruption agency have the legal power and the practical political will and ability to investigate the military? Does the military have in place strong internal anti-corruption measures?

The Role of the Legislature

While not relating directly to transparency in the sense of the availability of information, the question of legislative involvement and oversight is crucial to whether spending information can be properly scrutinized and compared with stated policy goals and defense outcomes.

- Is the legislature involved in the formation and debating of defense policy?
- Is there a dedicated legislative defense committee?
- Does the legislature have input into the budgeting process? Is it able to properly scrutinize the defense budget? This relates both to its formal role and to the availability of sufficient capacity and expertise within the legislature or through the legislative staff.
- Does the legislature have access to more detailed budgetary information than is publicly available, such as the detailed line-item budget?
- Does the legislature or a legislative committee receive some information on secret budget items?

- Is the legislature able to exercise a role in monitoring the implementation of spending, including audit reports on spending?

Procurement

While procurement might be considered just one aspect of all stages of the budgetary process, it is worth pulling it out as a category in itself, due to the particularly problematic—and frequently corrupt—nature of military procurement. Relevant questions include:

- What are the links (or lack thereof) between military procurement and the defense policy framework?
- Is procurement controlled by the civilian MOD or by the armed forces directly?
- Is procurement spending (in particular arms imports) included in the defense budget, or is it funded by extra-budgetary or off-budget means? (The latter is very common for arms imports).
- Is procurement linked to both short- and long-term budgetary planning, so that procurement decisions will be affordable within the overall budget framework?
- Are major programs included in the published defense budget?
- Is the procurement process subject to open and competitive bidding, so far as security considerations allow?
- Are major procurement projects subject to independent audit?
- Are there strong anti-corruption measures in place in relation to military procurement? (This last point could be the subject of an entire essay in itself.)

Clearly these dimensions interact. Detailed, comprehensive information is a prerequisite for assessing the link between policy and budgeting, for example. Sound systems for implementation are necessary for reliable data to exist in the first place, and so on. But arguably these eight categories represent the key tests for whether a country is transparent in its formation, implementation, and reporting of military budgets and spending.

CHINA: A CASE STUDY

As China's military spending and capabilities increase rapidly, so do concerns both about its ultimate intentions and about the limited transparency in its military affairs, and especially its military spending. While transparency has undoubtedly increased over the past decade or so in many ways, there are some suggestions (for example, see Saunders and Rustici 2011) that it has "plateaued" over the past few years in many respects. On military expenditure, a regular pattern of reporting to the UN Instrument for the past few years is one welcome trend, but otherwise there is little sign of an increase in transparency. In particular, overseas observers (and, in some less public sources, Chinese officials), are unanimous in the assessment that the officially-published defense budget does not include all Chinese military spending. (See Wang 1999 for SIPRI's methodology, and Blasko et al. 2007 for a more recent discussion, albeit without specific figures). Estimates of the true level of Chinese military spending vary widely and do not always make clear their methodology.

This lack of transparency reflects a general lack of budget transparency in China—the 2010 Open Budget Survey gave China a score of 17 percent in terms of the amount and quality of budget information provided to the public, placing China in the bottom category of countries that provide "Scant or no information."[2]

In this section, I assess the Chinese military budgeting and spending system against the dimensions outlined above.

The policy framework: China publishes biannual defense white papers, but there is insufficient detail in either these or in the budget to assess whether budget decisions relate to policy goals.[3] However, some indication of the reasons for military spending increases are articulated, in particu-

2. International Budget Partnership, Open Budget Questionnaire, China, September 2009, from Open Budget Survey 2010. Available at <http://internationalbudget.org/what-we-do/open-budget-survey/country-info/?country=cn>.

3. Most recently Information Office of the State Council, the People's Republic of China, "China's national defense in 2010," March 2011, available at <http://news.xinhuanet.com/english2010/china/2011-03/31/c_13806851.htm>.

lar "improving the pay and conditions of troops" and the "informatization" of the PLA. Both of these are, in very broad terms, both plausible and clearly observable in practice. Internally, it is likely that there is a far closer link between policy and budgeting, given the strong institutional capacity for both within the Chinese military apparatus, but this is not articulated to a wider audience. Defense policy formation is under effective civilian control, in the sense of being under the control of the Communist Party.

Information availability and accessibility: Such very limited information on Chinese military spending as is made available is freely available on the Internet and in Chinese government publications, in both Chinese and English.[4] In addition, some key documents for understanding the Chinese military budgeting process, are publicly (though not widely) available in Chinese, for example, the PLA's *Practical Encyclopedia of Chinese Military Finance* (Sun 1993).

Information reliability: Given the PLA's robust budgetary control systems, there is no reason to doubt the reliability of official military spending figures, to the extent that they measure what they purport to measure (although they do not cover all aspects of Chinese military spending). In recent years, actual expenditure figures have been reported in official reports of government spending and budget, available online in English and Chinese, and before this, long time-series of actual expenditure have been available in official government printed publications.[5]

Information clarity and quality: The defense budget is reported only according to an institutional and not a functional classification. While it is certain that the budget does not cover all military spending, fairly detailed information is available from Chinese sources as to the different elements that are included, although there are gray areas surrounding some extra-budgetary items (Sun 1993; Blasko et al. 2007). The level of detail given publicly is, however, very limited, with the official budget broken down only into three major categories: personnel, training and maintenance, and equipment. No breakdown by service is available.

Comprehensiveness of information: There are numerous extra-budgetary and off-budget sources of Chinese military spending (see Wang 1999; Blasko et al. 2007). These are, in declining order of probable importance:[6]

1. *Extra-budgetary military research, development, test and evaluation spending.* The size of this is the subject at present of at best educated guesswork, but is generally thought to be quite large.
2. *Spending on the paramilitary People's Armed Police.* Although this may be considered to some extent a definitional question, as while they have a military role, their primary role is internal security. Spending figures for the PAP are available, with a two-year lag, from the China Government Finance Yearbook, but the current year's budget is not publicly available.
3. *Extra-budgetary military construction spending from the capital construction budget.* These figures are not publicly available.
4. *Demobilization expenses for soldiers and officers from the Ministry of Civil Affairs.* These figures are publicly available with a two-year lag.
5. *Possibly, additional local government spending on the PLA.* While some local government spending is reported in official figures, Blasko et al. (2007) suspect that this does not cover the full amount of local government subsidy to the PLA.
6. *Off-budget spending on arms imports,* from unknown sources.

4. See China Ministry of Finance, "Report on the implementation of the central and local budgets for 2010 and on the draft central and local budgets for 2011," 5 March 2011, available at <http://www.chinadaily.com.cn/china/2011npc/2011-03/18/content_12193633_2.htm>.

5. In particular, the *China Government Finance Yearbook* and the *China Statistical Yearbook*. See Blasko et al. 2007 for a discussion of China's budgetary mechanisms and processes.

6. Details of SIPRI's current estimate are presented in Perlo-Freeman et al. 2011.

7. *Subsidies to the Chinese arms industry.* These are likely to have declined substantially as the efficiency of Chinese industry, both military and civilian, has improved. Figures for overall subsidies to loss-making industries are available, but this is not disaggregated.
8. *Residual earnings from military-run businesses.* The Chinese government decided in 1999 that the PLA should divest itself from almost all commercial activity, but some small-scale business interests remain.

Implementation: The PLA has very robust distribution, reporting, and monitoring systems for expenditure under the PLA General Logistics Department, with financial control cascading down from the center to individual units. The PLA is subject to audit by a dedicated PLA Audit Unit, according to the Open Budget Survey 2010, but these reports are not published.[7]

The role of the legislature (the National People's Congress) in military budgeting, and in budgeting in general, is essentially nil, beyond giving formal approval to the Executive's proposed budget.[8]

Procurement: Domestic procurement spending is included in the official defense budget, but not arms imports (Wang 1999). Procurement appears to be subject to a strong policy framework for developing the PLA's capabilities, but this is not publicly articulated beyond the broadest generalizations such as the "informatization" of the armed forces. It is not clear what anti-corruption mechanisms are in place in relation to military procurement.

CONCLUSIONS

Military expenditure transparency forms part of a broader picture of defense policy formation, and how budgetary processes relate to policy processes and goals. While spending transparency relates most obviously to the availability, reliability, detail, and comprehensiveness of information, it cannot be completely separated from these broader policy issues, if data is to be useful in enhancing understanding of the meaning of expenditure figures for both domestic and foreign observers. Meanwhile, issues such as legislative and audit scrutiny cannot be ignored from the point of view of whether money is being well spent and achieving its stated goals.

This analysis has not attempted to score China against the various dimensions of transparency identified, but rather to give a qualitative picture. The development of such a scoring system is a goal of future research, and will require considerable methodological work: to identify a list of potential questions across the different dimensions considered; to select a subset of questions to capture as efficiently as possible the key issues, avoiding redundancy and balancing items across the dimensions; and to consider appropriate weightings. The questionnaire would also need to be tried out on a suitable sample of countries, and refined based on the results. However, the range of issues identified in this paper may help form a basis on which such work can be conducted.

In summary, China has a robust framework for developing, implementing, and monitoring defense policy, budgeting, and expenditure, and producing readily-accessible budget and expenditure data in English and Chinese that may be considered highly reliable—so far as it goes. However, these processes are largely carried out behind closed doors within the Executive and the PLA, with little or no role and only very basic information supplied to the public and external parties. The role of the legislature in military matters is essentially non-existent. Military spending information is provided in only the most basic detail, and with significant omissions.

There are several implications from this assessment:

- The Chinese government has a reasonably clear idea of what it is spending and why, and has the capacity and will to match expenditure to policy goals.
- The scope for Chinese citizens and legislators to have input into these decisions, or even to make a meaningful assessment of these decisions, including the actual level of spending, is very low indeed.

7. Open Budget Survey 2010.
8. Ibid.

- It is hard for neighboring countries and other external actors to get more than a very broad picture of the true level of Chinese military spending, the direction of spending, or the implications for future Chinese capabilities and intentions.

This lack of clarity promotes exaggerated estimates of Chinese military spending and negative assumptions about its implications.

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