China’s Arms Race

Where the Region’s Military Modernization Is Headed

While East Asia has stood out in recent history for its exceptional 70-year period of peace, it would be wrong to assume that policymakers in the region aren’t worried about, or aren’t gearing up for, future conflict. Numerous potential flash points exist, from the Korean Peninsula, the Taiwan Strait, the East and South China Seas, and South Asia. Those worries are fueling Asia’s push to modernize their military forces, thus risking an arms race.
Is Southeast Asia’s Military Modernization Driven by China? It’s Not That Simple

By Evan A. Laksmana

Military spending by Southeast Asian nations is collectively among the highest in the world, and some policy-makers in the region cite the rise of China as a principal reason. But a close analysis of the patterns of spending and their development over the years suggests that explanation is, at best, too simple, writes Evan A. Laksmana.

SOUTHEAST ASIA has been among the biggest global defense spenders over the past decade. Expenditure in the region has risen by almost 10 percent annually on average since 2009. Regional nations have also been acquiring new war-fighting capabilities, including in standoff precision strike; long-range airborne and undersea attack; stealth, mobility and expeditionary warfare; and new control, communications, computing and reconnaissance networks — not to mention new fighter jets, surface warships and submarines.

Why are Southeast Asian states aggressively arming themselves? Many identify China’s behavior as the primary driver of Southeast Asia’s military modernization and rising defense spending. For almost two decades, the concern over China’s military rise has been accompanied by uncertainty over America’s strategic commitment to the region, as exemplified by the Global War of Terror, the Iraq and Afghanistan wars and the rise of President Donald Trump.

China’s militarization of the South China Sea, for example, has been credited with driving Vietnam’s rapid capability development: its arms imports in 2011-15 were eight times those of the previous five years. By 2016, it had bought eight combat aircraft, four fast-attack craft and four submarines with six more frigates and two submarines on order. The Philippines, Indonesia, Malaysia and Thailand are reported to be following a similar trajectory. While very few believe they could militarily balance China in a tit-for-tat fashion, the arms spree might nonetheless impose a higher cost for China should it decide to engage in conflict over disputed waters, for example.

But the China threat is only part of the story. We should not take regional officials’ rhetoric at face value when they hint that their arms spending is a response to China’s military rise. After all, they may simply use the growing regional tension to justify pre-existing military development plans. The Indonesian military (TNI), for example, has recently called for a military buildup around the Natuna Islands by citing the growing maritime crises in its waters, although the plans were issued in the mid-2000s. Also, as we shall see in the following sections, the historical budgetary and technological contexts of regional force structure suggest that China is not the sole driver of military modernization. The size of defense budgets alone or recent high-profile procurement plans masked the long-term structural challenges of human capital development and technological import dependence. In other words, we need to locate Southeast Asia’s recent military developments and procurement plans in a broader context.

UNPACKING DEFENSE BUDGETS

The size of a defense budget alone is not a very useful indicator to measure the development of defense capabilities. Various domestic, economic, bureaucratic or historical reasons could shape the size of the defense budget. So a budgetary spike is rarely a simple equivalent to an external military threat response. Figure 1 shows how Indonesia, Malaysia, Singapore, the Philippines, Thailand, Myanmar and Vietnam allocate their defense budgets. It compares four spending categories — operations & maintenance, personnel, research and development, and procurement — as measured in 2012-16 and projected for 2017-21.

The data in Figure 1 underscore that in Southeast Asia, most of the defense budget is allocated to routine expenditures, particularly personnel (e.g. salaries, benefits, education and training) as well as operations and maintenance costs. All seven countries spent, on average, almost 80 percent of their 2012-2016 budgets on these routine expenditures, particularly personnel. They spent less than 20 percent of their 2012-2016 budgets on new capability development. So a budgetary spike is rarely a simple equivalent to an external military threat response. Figure 1 shows how Indonesia, Malaysia, Singapore, the Philippines, Thailand, Myanmar and Vietnam allocate their defense budgets. It compares four spending categories — operations & maintenance, personnel, research and development, and procurement — as measured in 2012-16 and as projected for 2017-21.

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The latest technology, then most Southeast Asian countries are way behind the curve. While procurement trends will keep rising, their real value remains comparatively small; with Indonesia (US$2.1 billion), Singapore (US$1.9 billion), and Vietnam (US$1.2 billion) possibly leading the way by 2021. These are significantly lower than the amount Japan, India, South Korea and certainly China will spend on procurement in coming years (possibly more than US$100 billion by 2024).

**FORCE STRUCTURE AND OPERATIONAL DEMANDS**

Since the post-Cold War era, most arms imports to Southeast Asia have been for several key types of platforms, particularly aircraft, ships and sensors or for C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) capabilities, as well as missiles, as Figure 3 below suggests. The overall focus of the major imports seems to be on sensory, air and naval capabilities. In fact, the region’s naval forces have had a relatively constant force structure over the past few decades, especially for Indonesia, Malaysia, Vietnam and Singapore. These maritime states have naturally emphasized surface combatants and amphibious assault assets. These patterns largely persist, even as Singapore, Malaysia and Vietnam recently joined Indonesia as submarine operators (with possibly Thailand as well). Recent procurement of new frigates and patrol ships, for example, seems to reinforce existing force structures centered on naval capabilities.

These trends do not, however, necessarily reflect a preoccupation with China’s potential threat in the maritime domain. There are two other possible interpretations of the pattern. First, Southeast Asia’s force posture reflects concerns over a wide range of challenges, from maritime disputes and territorial incursions to countering piracy, trafficking and illegal fishing. Southeast Asian states have also traditionally tried to follow or mimic their neighbor’s capability acquisitions, particularly in the maritime domain.

Second, when we consider the region’s complex strategic environment and the organizational history of its maritime security governance — where navies compete with other domestic maritime law enforcement agencies — unsurprisingly, naval assets, even frigates, are often used for day-to-day patrols and security operations rather than “reserved” for high-end naval battles. This “multi-use” of naval vessels is, of course, not unique to Southeast Asia. But inferring operational demands and utility from the broad categories of naval force posture alone cannot take us very far in evaluating whether Southeast Asia’s military modernization has been directed explicitly, consistently and systematically against China.

**REJUVENATING OLD EQUIPMENT**

Procurement budgets have also been allocated for the replenishment of old equipment. As most of Southeast Asia’s weaponry is imported, we could reasonably focus on the age of imported military technology as a measure of the overall age of existing platforms. Figure 4 overleaf describes the average age of all imported military technology into Southeast Asia by 2016. Vietnam, Laos and the Philippines appear to have the oldest weaponry (more than 35 years on average). Figure 4 is based on over 2,500 items (categorized into more than two dozen platforms, from aircraft to engines), imported at different times between 1950 and 2016. Some countries may have “younger” platforms, but have more urgent operational demands, which pushes them to modernize their platforms more quickly than others.

Given the heavy reliance on imports, the modernization process remains structurally dependent on a highly diverse set of foreign suppliers. This matters because the more foreign suppliers a state has, the higher the cost for platform interoperability, education and training, as well as maintenance, repair and overhaul systems. Given the already small budget space allocated to procurement and R&D, radically or fundamentally reducing foreign dependence is difficult. These problems are path-dependent because of the initial start-up cost when countries first imported plat-
forms requiring expensive and often sprawling supporting systems. This sunk cost often means there is little incentive to change suppliers — at least for complex systems such as fighter aircraft — because that would require also changing the supporting infrastructure.

Unsurprisingly, the number of suppliers for each Southeast Asian state has been almost constant since the 1950s, as Figure 5 opposite shows. In total, there have been 55 different weapons suppliers to 10 Southeast Asian states between 1950 and 2015 — on average each country has 19 different suppliers, ranging from nine in Laos to 32 in Indonesia. One interpretation is that the bipolar Cold War context in which Southeast Asian states “locked in” suppliers made it harder over time to switch due to budgetary constraints, sunk cost and import dependence.

This supplier diversity also helps explain why a handful of countries have come to dominate the Southeast Asian market over time, even if individual recipients add one or two new suppliers (for a select few platforms), or even if each supplier’s market share fluctuates over time. In this regard, the United States far outstripped any other supplier in terms of value of imports, although China and the USSR/Russia combined would overtake this position. After China and Russia, Western European suppliers have dominated the remaining market share.

The persistence of such structural dependence is expected given that replacement of most aging equipment or weaponry is easier and/or more affordable if purchased from the original supplier or its network. This dependence is again exacerbated by the persistently small procurement or R&D budget in Southeast Asia (with the exception of Singapore).

The structure of foreign domination also is not evenly spread across Southeast Asia. The USSR/Russia and China, for example, have been primary suppliers in a few countries like Vietnam. Meanwhile, the US seems to control most of the market share in the Philippines and Singapore (despite a drop from around 83 percent to 56 percent and from 62 percent to 56 percent, respectively, during the post-Cold War era, per data from the Stockholm International Peace Research Institute). European suppliers seem to be more prevalent outside of Vietnam with smaller shares of the market.

In short, it appears that: 1) there is a variation in each foreign supplier’s market share within individual Southeast Asian states, but not necessarily the number of suppliers overall, and 2) the relatively constant number of suppliers means that when Southeast Asian states publicly justify their arms imports in defense autarchy terms, they could simply reduce the market share of one existing supplier and increase the share of another.

CONCLUSIONS AND IMPLICATIONS

The preceding sections offer several findings. First, Southeast Asia’s defense budgets have largely gone to routine expenditures, especially personnel spending, rather than new capability development. While new warfighting capabilities might gradually arrive, especially in the maritime domain, the scale of such activities remains limited and only applies to a small number of countries such as Singapore and Vietnam. Regional countries also do not appear to historically tailor their entire procurement plans or warfighting strategies to China, except perhaps for Vietnam. Instead, they are often more hard-pressed to meet their daily operational demands such as maritime patrol or border security. Furthermore, many countries still import their weaponry from China, the region’s third-largest supplier. As such, there is little evidence that Southeast Asia is systematically preparing to or capable of balancing China in military terms.

Second, as the budget space for capital expenditures remains historically and comparatively low, Southeast Asian states have relied, and will continue to rely, on the same set of foreign suppliers for their imported arms and weapons systems. While each of these suppliers’ market share varies over time, the inability of regional defense industrial bases to provide the next generation of complex weaponry means that the structural import dependence will persist. This trend is reinforced by the increasing need of regional states to replace their aging platforms to meet pressing day-to-day operational demands.

Finally, these findings do not imply that the region isn’t concerned with China’s aggressive behavior. They simply show that the concern has not been translated into a military response. Military assistance programs from the US, for example, may be presented as additional help to “counter China,” but there is no solid evidence to suggest they are sufficient to change Beijing’s calculus. As the preceding sections show, the structural challenges facing Southeast Asian militaries, from human capital development to budget allocation and import dependence, are too challenging for any foreign assistance programs.

Consequently, aside from continuing economic engagement, some say to the point of allowing Beijing to raise its stake in the region’s welfare, Southeast Asian states still prefer to deal with China through diplomacy, multilaterally through the Association of Southeast Asian Nations or bilaterally through strategic partnerships. After all, for many regional states, bilateral ties with China are often a polarizing domestic political issue. Any expectations that Southeast Asian states are willing and able to militarily balance China — and just need a little help from the US or other major powers to do so — need to be tempered.

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