

# Measuring China's military rise and implications for Australia

**Speaker:** Professor Peter Robertson, Professor of Economics, University of Western Australia

**Moderator:** Professor James Laurenceson, Director, UTS:ACRI

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## **Professor James Laurenceson:**

Good afternoon all. Before we begin the proceedings today, and on behalf of all those present in the room and many, nearly 200 people joining us online, I'd like to acknowledge the Gadigal People of the Eora Nation upon whose ancestral lands, the beautiful UTS city campus, now stands. I'd like to pay my respects to the Elders past and present, acknowledging them as the traditional custodians of knowledge of this land.

Welcome to all our audience. As I said before, some joining us in the room and many, many more joining us online. Today, we are going to be discussing China's military rise and reflecting on the implications this has for Australia. Not a small topic, definitely not a shy and retiring one.

And on that note, let me just make a quick level set question to begin with. We all know, and we can all agree, that China's military rise and the challenges it poses for a country like Australia can't simply be captured by the total number of dollars or yuan that Beijing is spending.

The political statements coming from Beijing matters, because that signals intent. The specific capabilities being acquired by the People's Liberation Army, that matters too, because that reflects an ability to deliver on Beijing's political intent and so on.

So, today, we're not going to be discussing everything associated with China's military rise, but the research our speaker today has undertaken in recent years does shed light on one very, very important part of the assessment's picture, the scale of resources that Beijing is mobilising.

Just before introducing our speaker, I do want to flag that UTS:ACRI research has touched on some of those other topics. In particular, I would point to some work done by Michael Clarke, our Adjunct Professor who's now with Deakin University, and also by Greg Austin, also another Adjunct Professor with us who's just recently stepped down from a role at the National University of Singapore.

Now, let's get onto it. Let me introduce our speaker. Peter Robertson is a Professor of Economics and Dean of the UWA Business School. He's long had an interest in the Chinese economy. I actually remember attending conferences of the Chinese Economic Society of Australia with Peter. It must have been around 20 years ago.

So, Peter has written on the structural changes in Chinese economy, the impact that the Chinese economy has internationally. And more recently, he really has become the leading global expert in putting a value on China's military spending.

We often imagine that folks who work in the intelligence and security agencies have access to privileged information relevant to some of these questions, but I'm pretty convinced that there will be a lot of those folks who keenly digest Peter's work and cite it in the briefings that they are providing to government.

Peter is also one of those rare scholars who has an unimpeachable academic track record. If you look at his publication profile, it's extensive, but he also regularly ventures into commentary aimed at a broader section of the public, writing in outlets such as *Foreign Policy* in the US and *The Australian Financial Review* here.

Peter, we are delighted to have you with us today. Welcome to the lectern. We're going to kick off with about a 15, 20 minute presentation. Peter will then join me on stage for some questions, and then we're going to some questions from our audience after that.

Peter, all yours.

**Professor Peter Robertson:**

Well, thank you very much, James. Thanks everyone for coming.

It's a real pleasure to be here and just share some of my thoughts. Hope we get plenty of time for discussion. I've got a presentation here, a few slides. I'm going to whip through them because we don't want to dwell on any of these things too much. We'll come back to them if you need to. So, I'll just get right into it straight away.

Now, the military rise of China, we're going to be looking at things in the numbers point of view. So, James said, well, we can't measure everything by the numbers. But I guess the question is, if you could measure everything by numbers, or to the extent we can measure things by numbers, what are the right numbers to use? So, let's sort of look at that subset of questions.

Now, James already mentioned the interest in this topic. The US report on China recently was sort of – expressed amazement of how fast it had developed new capabilities in its navy. So, it's now by some sort of simple counts of number of ships, it's got the world's largest navy. Of course it's always had, for a long time, the world's largest number of soldiers. And more than that, it's also sort of leading in some technology areas such as AI and things like this.

So, the US has become – you see this sense of alarm or amazement from US, just how quickly things have matured in China in terms of its capabilities. But also, as James alluded to, what politicians say matter. And China's politicians have been making statements, particularly around Taiwan, and actions in South China Sea have caused alarm, and we're seeing a lot of developments as a result of that. AUKUS and the Quad are direct results of those kind of activities. We're talking about decoupling, which is the idea of putting up trade barriers to try and contain China, I suppose, would be one way of putting it.

And, of course, we saw our own defence review now is really aimed at sort of the new risk that's perceived in the region from China's rise. And they describe this as the largest and most ambitious of any military rise of

any country since the end of World War II, which may or may not be true, but the rhetoric, certainly, is what's important here.

So, we look over in the US side, you see statements like this. This is General Mark Milley, and he's made the statement: 'Combined, the Russian and Chinese budgets exceed our budgets if all the cards are put on the table.' So, he's saying that China is very, very big and comparable in size to the USA. It's a new level of threat for the USA.

And it's kind of odd if you think about it, because China's official budget is only \$209 billion. That's what they say it is when you convert it at market exchange rates. According to SIPRI, the Stockholm International Institute for Peace Research, it's about \$293 billion, and that's just because when SIPRI do their numbers, they redefine things. So, it can compare across countries on a like-to-like basis. So, some things are included in defence spending in some countries, they're not in other countries.

So, when they look at the same sort of things, what's in and what's out, they get a number of about \$293 billion. So, there's some spending, paramilitary forces, which they include, which China doesn't include in their defence budget. And that's a bit bigger, but it's not a huge amount bigger. But the USA's budget is \$900 billion, so nearly a trillion. So, it's still quite small compared to the US if we look at these official figures.

And here's another graph showing the US defence budget and the next 10 largest countries. So, there's China, it's quite large, but it's still quite small compared to the USA. And we've got Russia, India, UK, Saudi, France, Germany, Japan, and Korea, and all those countries don't even add up to the USA.

And so, you get statements like this from – this is going back a bit, but the statement has been repeated. It's still getting repeated – even last week there was an article in the well-known – in *Foreign Policy*, talking about this: we're actually bigger than the next 10 countries combined. It could be 10 or 11 or eight depending on which year it is, but it's still very, very big.

So, the question would be, are the hawks too hawkish? Are they worrying too much? Is China really quite small? Is the threat exaggerated? And so, I'm going to talk about that for a minute. If I get time, I'll go just look through how fast the defence budget of China is going.

So, the first question is, how big is the defence budget compared to USA? Second question is, how fast has its grown? [Mobile phone alarm]. Someone told me how to turn this off. Sorry, I've just got my stopwatch on, that's why. It's because I'm going to try and keep the time. All right. So, turn that off. Move on.

So, the actual number for China is about two trillion yuan. So, then where this 293 number comes from is you just multiply by the exchange rate to get that in dollars. So, why would you do that? Well, it sounds like a natural thing to do and that's what people are saying. But these monetary values only really have meaning in terms of what they actually buy.

Now, if you think of what we're doing here, if you're taking a two trillion yuan number and you're saying, 'Well, what's that equivalent to in US dollars?' Literally, what you're doing is saying, 'Well, if Xi Jinping took his two trillion yuan and he went along to the airport exchange desk and he said, 'How many US dollars will he give me for this?' They'll say, '\$293 billion, sir.' And he's got \$293 billion, and he's going to spend that in the US. But if you did that, you wouldn't buy very much. And that's a problem. So, when you compare this \$293 billion with the US figure, you're looking at how much China's budget could buy if it was converted to US dollars and spent in the USA. Well, that's not what happens, of course, what matters is how much it buys in China. Okay?

And so, to compare with the USA, we really need to say, 'Well, how much kit in soldiers and operations does the budget buy in China and compare that with what USA's budget buys in the USA?' And that's a number we can actually make a meaningful comparison with. And that's the problem with using these exchange rates.

So, I'll give you one example of that, a very concrete example. Let's just look at the components of the budget and let's look particularly at the personnel component of the budget. So, here's the breakdown of the two numbers. There's about one-third, one-third, one-third, and each country has spent on these components of military spending, equipment, operations, and personnel. So, USA is much bigger, but it looks fairly similar. They've got a bit more operations going in the USA because they've got bases all around the world. So, that looks similar.

You can see, even if you just look at the personnel component, China is about one-third the size of the USA. All right? So, if you look at that number, converted to US, it's all in US dollars. You say, 'Well, it looks like when we use US dollars, Chinese personnel budget is only about one-third as big as the USA.'

Well, we know that's not true. We know that China has 2.7 million soldiers or active military personnel compared to the USA, nearly twice as many. So, that simple number is saying, 'Oh, China is only spending this much on its budget, and the USA is spending this much.' It doesn't translate into real boots on the ground at all. And that shows you the problem with using the market exchange rates.

And the problem with market exchange rates is it hasn't taken into account the fact that personnel are much, much cheaper in China. So, how much cheaper? Well, just take a truck driver, for example. A truck driver earns 55,000 renminbi, about \$8,000 at market exchange rates, compared to USA truck driver, \$40,000.

So, if you were just taking your salary, if you're a company, you're taking a salary for truck drivers and saying, 'How many truck drivers do I get with this salary in China when I convert it at market exchange?' It would be five times more truck drivers in China. So, your dollar is going to go much, much further.

And if you're buying truck drivers, that's true. If you're hiring a nanny, that's true. If you think of living in the US and you've got to move to Beijing, you've got a budget of four nannies for my kids, look at my kids. You get a lot more hours of nanny service in China for the same money. And every tourist sees this effect as well. When you go there, sometimes your dollar goes a lot further.

And so – there's a typo there – so, employers only need about one-fifth, it should be, not 1.5. One-fifth of a market exchange rate to employ the same number of truck drivers. And likewise, there's only about one-fifth of the market exchange rate to purchase the same number of soldiers.

So, we can do this not just for personnel, we can do it looking at the relevant cost of equipment in China, but out of cost of operations in China, and work out a new number which tells us in US dollars roughly how much is China getting for its budget in US dollars, and compare that with the USA. We'll skip with this one. When you do that, you get a graph a bit like this one. This is showing the evolution over time. The blue is the USA defence budget. The lower bars there are the Chinese defence spending in US dollars at market exchange rates. And the other line there is measured at what I call military purchasing power parity, taking account the cost of things, how much that China's budget buys. And so, it's about the equivalent of \$470 billion US dollars. So, quite a lot bigger than the \$200 billion that we started with, and still a lot larger than the SIPRI's estimate of \$290 billion. So, in this sense, General Milley's assertion seems somewhat accurate. If you look at things and budgets, what they actually buy, then when you add China and Russia together is actually quite large. Because China itself is more than half of the US.

So, rather than this figure, the true figures is something like this. There's USA compared to, in this case, we've got China, India, and Russia in real terms, just showing. Because that's kind of a sense of how much real resources each country is putting into it when you measure it in US dollars as well.

But note that this is an important point which is often missed, right? So, here's the numbers again, the right is USA, it's the same number, it's the 800 billion number. Over on the left is the Chinese SIPRI number, just under 300 billion. In the middle is the number that I've just generated, the \$460-odd billion. But look at the two China numbers, see how it's changed. The proportion of personnel in the middle one is much larger. That's because this new budget, what it's doing is it's saying, well, all these personnel in the Chinese PLA, we've got to evaluate them more in US dollars. And so, of course, that costs a lot more. And so, one of the reasons why the Chinese budget gets a lot bigger is because of this large number of people. When you evaluate them at US wages or something closer to US wages, you get a much, much larger number. So, China's big, but it's different to the USA. It's a much, much more labour-intensive military.

All right, so, that's important to note. I mean it's quite labour-intensive to USA. The equipment budget, as we'll see, is still only 37 percent of the USA. So, if you've just looked at how much kit they've got, then China's still relatively small compared to the USA. And that might have implications to how you think about actual capabilities.

All right. So, let's just move on to the next one and look at this. How fast has the Chinese defence budget grown in real terms? Again, it requires a little bit of economics here. This is, again, what you get if you just go to SIPRI or some of the other websites and just say, 'Well, give me China's defence spending in renminbi over time.' And it looks like this. So, it's getting up towards the two billion renminbi number there, two trillion renminbi number there. And I've broken it down by its components. And you see it's all the time, it's about one-third, one-third, one-third, and say, 'Well, it doesn't look like much happening. It's just growing again, bigger.' That's completely not true because if you think about this, what's happening here, there's two components there. Let's focus on equipment and personnel.

So, this is nominal spending and personnel, you can see it's growing there. Now who knows what's actually happened to the number of personnel in the PLA over the last 20 years? Bates would know – put him on the spot. It's actually gone down. They've actually cut back the number of soldiers they've had. And so, the reason that line's going up is because they've got to pay their soldiers more. The reason they've got to pay their soldiers more is because the economy's growing and they've got to compete with the manufacturing sector and other places where people get good jobs. So, those soldiers don't produce any more military services, they've just got to pay them more. It's actually just costs going up.

But the equipment, if we look at equipment, well that's going up too. So, have equipment prices been going up the same as wages? No, they haven't, equipment price have been relatively constant. So, most of that equipment growth is real. So, this graph actually hides what's going on in real terms. Personnel is going down, but equipment is going up in real terms.

And so, there's the number of personnel going down over time. These are the price indices. So, you can see that the wage growth prices have been much faster than the prices of GDP, overall economy, and price of investment. So, you use this kind of data to deflate those series and you get something like this, let's put the two together. So, on the right-hand side, you've now got deflated spending in constant dollars. And you can see there the personnel numbers are going down because the number of personnel has gone down because you're measuring it in a constant 2,015 RMB.

And you can see there the real growth in equipment being quite rapid. So, when we look at what's happened over time, really the interesting part of the growth in the Chinese budget has been in the equipment side.

It's been massively, massively investing in equipment. In fact, the growth of real equipment has been over 10 percent per year for 20 years. So, double-digit growth in real equipment, inflation adjusted, for 20 years.

So, if you just index these to one and compare with the USA, then you've got the two blue lines show USA growth of its defence budget and USA growth of its equipment in real terms. And then you compare that with the two red lines, which is Chinese's overall budget growth and China's equipment growth. And you'll see it's all been in equipment and the equipment's been rapidly catching up with the USA. So, although it's only 37 percent of the USA's equipment now, it's come from nowhere. It's got to 37 percent very, very quickly and it will very soon catch up if it carries on growing at the same rate.

Just to give another perspective on that equipment growth, just comparing China with a bunch of other countries. So, we got France, Germany, Italy, Russian Federation, Turkey, and the United Kingdom. When we look at them in 2000, they're all about the same. And this is equipment, real equipment spending in each country. Look at them in 2021, you can see China's actually just about as large as all those other countries put together, including Russia. So, China's equipment budget is absolutely massive. Not as massive as the USA yet, but it is absolutely massive in global terms.

So, that's what changed. The story of China's rise has not really been one about increasing defence spending all over, and just sort of more of the same, it's been about cutting back the number of personnel and investing very heavily in equipment. And it's catching up, closing that gap with the USA, but it's still only 37 percent of the USA in terms of equipment. The rest of the gap, the sort of 49 percent of the USA, I think, is all its personnel, which is not really strategically that important anymore for China.

Okay. So, a massive increase in equipment per person and significant catch-up in China. So, that's where I stop. James, back to you. Thank you.

**Professor James Laurenceson:**

That was incredible.

Peter's landed on a few very important findings there. So, the first one is this, that China's defence budget is buying a heck of a lot more capability than is commonly understood. And the second is that the big increases in China's spending haven't been on bodies, number of soldiers, it's actually been in the equipment that's being purchased. So, think China's military modernisation, not the expansion of its forces. So, if you're sitting in Canberra, both of those findings, you can't pretend away, right? They are real issues that you have got to respond to. So, I think Peter's done everyone a service there.

Now, Peter, I just want to start off with a couple of questions digging into the numbers a bit and making sure we're just putting them in context. And I'm sure you'll be supportive of this as well. Because my own view is that one of the problems with Australia's discussion of China is not that people lie, it's just that you get a certain section of facts or findings presented, some other facts and findings obscured, and all of the facts are not set in very relevant context. So, I want to make sure that we get our context right.

Peter, here's the first question. In an international comparative context, so when you compare China with other countries, can you just clarify, is there anything unusual about China's cost-adjusted military spending being significantly greater than its spending when valued at market exchange rates? I think your numbers are, to do those cost adjustments, it works out at \$476 billion. When you don't, when you just value it at market exchange rates, it's \$292 billion, so not quite 2x.

Now, if I remember correctly, you had an article in the *Review of Income and Wealth* in 2021, and you looked at a whole bunch of countries. And when you look at India, which came in at third in terms of total military



spending, and Russia, which came in at fourth, when you do that adjustment for India and Russia, actually there's a 3x or more than 3x difference, right? So, that's the first question. Is there anything unusual about this big jump when you value it in cost-adjusted rather than market exchange rate terms?

**Professor Peter Robertson:**

Yeah. Thanks, James.

Is the mic on?

**Professor James Laurenceson:**

Yep.

**Professor Peter Robertson:**

So, the answer's no. So, China's, and every other country that has a very large labour-intensive military, you'll find a larger adjustment. So, it tends to be mostly on the cost of labour, but if equipment's cheaper, then you'll get that as well. It's very interesting for Russia because Russia, people looked at Russia's defence, if you look at Russia's spending in US dollars, is not that big. If you look at Russia's economy in US dollars, it's absolutely tiny, but they've got lots and lots of soldiers and they've got lots and lots of tanks. And this is kind of a big debate at the time of the Ukraine war, how big actually is Russia? And actually how big is Ukraine? Because Ukraine also had a lot of soldiers. And if you value them compared to Russian soldiers, the gap looked smaller compared to Ukraine and Russia than what people were saying, just looking at market exchange rate numbers.

So, India's another one that's also quite a large military, when you make these adjustments. Interestingly, what's happened, is over time as these countries develop, wages go up. And this, what I call the military PPP, or even just any kind of purchasing power parity measure, tends to coincide better with the market exchange rate. So, the poorer the country, the bigger the adjustment you'll get because labour's cheaper, right?

**Professor James Laurenceson:**

Yeah. Okay.

So, two key findings there, our audience should keep in mind. So, one, this increase in Chinese military capability is real, right? Let's not pretend it's not. But also remember that that big increase isn't unusual. It happens for India and it happens for Russia as well. That's fair to say?

**Professor Peter Robertson:**

Well, it depends on what you mean by increase. So, we can talk about increase over time, in real terms. Or we can say how much do we need to adjust this number by to get a bigger sense? The amount you adjust the number by will be similar for other countries that have similar level of development to China. But one other thing is the US senator from Alaska, I think it was, came out and released a number from the Pentagon saying that they think the Chinese budget is \$900 billion or \$700 billion, almost as big as the USA. And so, that's another type of adjustment, which is how much of China's military spending is off the books. So, when people try and do this, they're taking out two things is off the books spending, that's not really being reported, and that might be civilian-military fusion stuff. And then, also, well, getting the numbers right in terms of the stuff that I do. They're two separate things.

**Professor James Laurenceson:**

Sure. Okay, thanks.

Now, the second point I just wanted to clarify the context on. It seems to me, and push back if you think I've got this wrong, if we're going to express China's military spending in cost adjusted terms, it seems to me pretty appropriate to also contextualise that with a denominator that's also in cost adjusted terms. So, to make this a bit more concrete, according to your estimates, China's military spending, cost adjusted, is 59 percent of that of the US level. Now, according to the latest estimates from the International Monetary Fund, China's economy, its GDP, is actually 128 percent of the US level. So, despite being nearly one third bigger than the US, its spending on its military is actually just a little over half. And as I understand it, as a proportion of its economy, China actually spends less on its military, not just on the United States, but on Australia, India, Vietnam, a host of countries in the region. So, the question is this, and I'll deliberately put it a bit provocatively, has China's sin really been just to rapidly grow its economy?

**Professor Peter Robertson:**

What you say is absolutely correct. So, if you look at China's total defence spending, as a fraction of its GDP, it's not excessively large. In fact it's been slightly declining, it's around about two percent and getting a little bit less. So, China's been able to build up a big military at constant percent of GDP, much smaller than the fraction than the US has, which has ranged between three percent and nearly five percent. So, that's absolutely true.

And why would it do that? Why would it not take advantage of its growth to reduce its military spending? Well, it's got real needs. It's got oil imports from the Middle East, it's become far more important. That's a very long supply chain. So, it's got to protect its economy by having strategic interests all the way from the Middle East through to China. That means naval capacity in the South China Sea, as well as right around into the Indian Ocean. That means aircraft carriers, that means air support and so forth. So, there's legitimate reasons why you'd expect China to continue investing in its military. But what I've tried to show there is the change. And so, whether the interests are legitimate or not, it still gives China all sorts of strategic capabilities that it didn't have before. And so, that's something that the rest of the world still has to take account of.

**Professor James Laurenceson:**

And just to be fair to our Defence Minister, he's on the record publicly saying several times that the Australian government doesn't – it accepts that other countries have the right to choose how much they spend on their military. So, it's not an issue in that sense. I just wanted to make sure we got the context right. Okay.

Peter, final context question from me. And this relates to that second finding, the rapid ramping up of China's military modernisation, so the spending on equipment. Actually, I keenly read your commentary piece, published just last week, where you said that while China's overall military spending had increased threefold since 2000, its spending on military equipment had increased nearly eightfold. And your numbers today reinforce that. The question I have there, I get the trend is confronting, but isn't that eightfold increase mostly just a base effect? What I mean by that is, China started with a military that was hugely bloated in terms of the number of personnel, a massive ground force in army. That's completely unsuitable for the strategic circumstances that Beijing and indeed Canberra faces today. I think we can all agree that any future conflict in Northeast Asia is primarily going to be a sea and an air one, not a land one.

Even now, while China's total military spending, according to your numbers, is 59 percent of the US level, its military equipment spending is just 37 percent of US levels. If I've got that right, China's spending 23 percent of a significantly smaller budget on military equipment, while the US is spending 36 percent of a much larger budget. Is that right?



**Professor Peter Robertson:**

Yeah, that's right. But if I'm a Washington hawk, and I have been accused of being a Washington hawk, if I was a Washington hawk, I wouldn't be looking at percentages, I simply go and look at the number. That's all that matters.

The question, what is the strategic threat to the USA and its interests in the Western Pacific from China's growth? It's not a crime to have a big military, but it depends what you want to do with it, so that's the question they've got to ask. Ten years ago, what they could do with it was very limited. Today, what they can do with it is much larger. Simply, the percentages don't matter.

Where you're coming from, perhaps back in the old days, an arms race was defined as a rapidly escalating increase in the fraction of spending on the military as a ratio of GDP. If you look at the pre-World War I or pre-World War II, you see this arms race, Germany and the UK building these battleships, dreadnought battleship class, massively. Just about broke the economies, just prior to World War I. And you see similar big buildup in World War II.

We don't have an arms race of that kind right now, for sure. But nevertheless, the strategic situation is changing in ways that we are not familiar with. And I don't think there are good historical analogies to what we're looking at right now. When we look at China's capabilities, it's managed to increase its capabilities a lot without changing that ratio, because it's been able to substitute away from the troop base to equipment that better suits its current strategic needs, but also is more of a challenge for USA in terms of protecting its interests, if China so chose to use those capabilities in certain ways.

**Professor James Laurenceson:**

There's two points that are both relevant and both correct here. As Peter says, if you are sitting in Washington or if you are sitting in Canberra, the absolute amount of capability that Beijing is able to purchase matters. I think the contextual point is also to remember that if you are sitting in Beijing and you're listening to Washington or listening to Canberra talking about this, you're thinking, hang on, you guys are spending a whole lot more than we are, and it's particularly on equipment, and yet you're accusing us of modernising our military, what about you guys? That's the insecurity spiral I do worry about.

And actually, Peter, my next question comes to that, and you've touched on it in terms of the arms race. Beijing's not shy of accusing Canberra of engaging, promoting an arms race via the AUKUS agreement. Canberra says, hang on, we are not the ones who are engaged in the biggest military build-up in the region since World War II. Canberra will say, we're transparent about acquiring nuclear-powered, but conventionally-armed submarines, we're transparent about what we're trying to achieve, we're not trying to dominate China, we're trying to support a strategic equilibrium in the region. And moreover, there's plenty of countries in the region who don't seem very alarmed. India, Philippines, Vietnam, Singapore, they're all quite comfortable with what Canberra's doing.

Peter, my next question, it's a bit of a normative one and it's getting away from your research, a bit unfair in that sense, but do you have any policy advice for Canberra and/or Beijing in terms of how we might avoid an insecurity spiral and a regional arms race?

**Professor Peter Robertson:**

Thanks, James. Good questions.

I will usually start presentations like this by saying, 'I'm not a security expert, I'm not a defence international relations expert, and I'm not defence expert.' I know nothing about defence particularly. I'm just an economist, but still, given –

**Professor James Laurenceson:**

Not just an economist, Peter. Come on, give yourself some credit.

**Professor Peter Robertson:**

Given the nature of the thing, I feel some responsibility to try and understand some of these issues. And I do have opinions about it, though they may not be entirely clear, but let me try and clarify what I do think. I think, first of all, in terms of Australian defence policy, you've got to cut out the noise and Australia has got to assess its risks and just do what it's got to do. That's the first thing.

We spend somewhere around, I can't remember the number, but somewhere around about two percent of GDP on defence, which is pretty conventional. I think the challenge for Australia really is, firstly, how can we spend that two percent better? I think there's a lot of noise about that right now, and it's probably accurate. Given we do spend so much, what's the best way to spend it? That's the first thing.

But to answer that question, you've got to answer the other question, what sort of defence policy do we want? What are our strategic interests? There's two views going around, I think, about that, to characterise it in this way, but the audience may have a better sense of this than I. Two views going around, the job of defence is to protect Australia, we're not interested in other countries, keep our noses out of it. We're going to put a missile ring around Australia, we'll have submarines to protect us. Keep our interests, just a first line of defence. Just do that really well. Don't rely too much on the USA, but we're going to import weapons because we don't have a big industrial base, so we need allies.

The other view, and I have some sympathy with this, is that you can't really just secure yourself with a ring around your fort. You've got to worry about the broader region, and you need stability in that region, so you've got to be willing to maintain and talk about values, things like freedom of navigation and these kinds of things in that region. If we believe in those values, then we're prepared to put some money behind that. Can you really just have security without having some capacity to influence decisions in the region? And of course, the less we engage with the region, the less influence we would have.

**Professor James Laurenceson:**

I guess the challenge for the Australian government there, as it looks to project force or have the ability to project force further from our shores, is to somehow have to also reassure Beijing that this doesn't mean Canberra is locked into a future conflict with China, which would start off that insecurity spiral that I was mentioning before.

**Professor Peter Robertson:**

Let's be clear, Canberra's not going to get into conflict with China. The only way we get into conflict with China is by aligning ourselves with a USA strategy. That's certainly possible, yeah.

In terms of our relationship with China, that probably mostly depends on how close we are to the USA.

**Professor James Laurenceson:**

Final question from me, and then I'll come to our audience, and that includes our audience online. Our online audience, please do jot down your questions in the chat box.

Peter, here's my last question: What do we need to be doing, in your view, beyond a military response? Given the huge increase in Chinese military spending, is hoping that, to use Penny Wong's language, 'calm and professional diplomacy' might maintain a stable relationship with China, is that just naive? Do we need to face some simple, hard facts here? Aside from building our own military, for example, should we be trying to aggressively decouple our economy from China? There's plenty of folks in Australia who make that exact argument.

I don't think that's the view of our Foreign Minister. It seems to me, our Foreign Minister thinks those economic linkages and interdependencies are actually useful sources of stabilisation, even if they don't – of course they don't prevent a conflict, but they are more likely to make it less likely. I think that's Penny Wong's view.

What do you think we should be doing on the economic front that's really tapping into your expertise as an economist? Should we be embracing those interdependencies with China or should we be really trying to shut them down?

**Professor Peter Robertson:**

I think we should be embracing them full on.

Let me characterise it. China's a beautiful country, Russia is a beautiful country, beautiful histories, culture, all this stuff. But, we have problems with the governments. I think there's really helpful to separate those two things in our mind and think what we want out of these relationships. The governments have their own agenda. Both those countries, they've got particular insecurities. You have to be mindful of those. But I think being mindful of that, then you want to try and engage as much as you can with the people of those countries.

As we were discussing just beforehand, economic activity is good. James and I were agreeing that we don't think that putting up tariff barriers – we're not going to influence China much by refusing to export to them or refusing to import from them. And we saw that when China put up trade barriers against Australia, it didn't really have much effect economically. Australia's economy didn't really miss a beat.

But I think maintaining those cultural exchanges and economic exchanges and business partnerships, that soft power, that is really, really important. I understand that in the US they want to now decouple in the following sense: in the sense they really need to be a little more careful about the exporting of certain technologies that they think can militarised. The USA strategy is never going to be bigger than China. China, if it carries on, if it doesn't get stuck in the middle-income trap, which is another thing we've talked about, then it has the ability to be a much larger economy than USA. USA's strategy is always going to be trying to maintain a technological edge. That's why they want to do that, and that's why they're probably scared to share technology with us.

I can see certain arguments around technology restrictions, but I think in terms of everything else, you just want to engage as much as possible.

**Professor James Laurenceson:**

Thank you, Peter. I might go to our in-person audience today first. Any questions? Sure. If you just want to introduce yourself?

**Audience question:**

Thank you. Thank you very much for the presentation. I'm Bates Gill. I'm the head of the Center for China Analysis with the Asia Society. Thank you very much for the presentation. It was great. Two quick questions.

One, based on what you could apply as an average in annual growth in defence spending by the United States and China, and calculating on the basis of your cost-adjusted figures, when would you expect the Chinese defence budget to overtake the United States in cost-adjusted? That's question one.

Secondly, but this is more important, I think, I was very glad that you got to the point of intention at the end. Because the figures are excellent and they tell us some interesting things about trends, but they don't answer the kinds of questions that James was trying to get us all to think about. Because it all boils down to intent.

There is no doubt that under current circumstances in, let's just say, a conflict across the Taiwan Strait, that China could focus enormous amounts of kinetic and deadly force in concentrated ways that's going to make any intervention by any foreign power or even by Taiwan itself, very, very difficult, extremely difficult. And that has nothing to do, really, with the overall defence spending or what that means and the rest. It's a specific contingency that's extremely dangerous, much more dangerous than it was 10 years ago, and it's only going to get more so.

If I were a defence planner in Canberra and/or in Washington – I know for sure in Washington they're thinking this way, and surely they are in Canberra – the budget figures are interesting, but the real problem is how to deal with specific contingencies. And it's in those contingencies that the budget numbers have begun to apply in ways that make it extremely difficult, and raises all sorts of new questions and problems about what to do about it.

**Professor Peter Robertson:**

To answer the first question, just a quick, rough calculation in my head, 15 years probably. That's assuming that China stays on track in terms of its growth. But I think that's the big risk for China. The economy tanks, as we're seeing, if this tanking it's going to take much longer, it may never catch up. But on the basis of that historical trend, in 15 years it would be of similar size to the USA.

I think that's exactly right. What do these numbers tell us? They tell us China's big and it's got all sorts of new capabilities that it didn't have before, and that raises all sorts of contingencies that you've got to plan for, that you didn't have to worry about before. And that then raises issues of, how do we work with India? How do we work for the US? How do we work with India? How do we work with Australia? How do we work with Japan? Which is the rationale behind these alliances that we're now seeing. I think it's exactly what's going on.

**Professor James Laurenceson:**

Perhaps one more question from the audience. Yeah?

**Audience question:**

Thank you for your very insightful analysis.

Just a comment, and I'm just looking for your interpretation. In the work report by the Premier a couple of days ago, the budget on defence will be increased 7.2 percent, so that would be higher than the GDP growth that's 5 percent. How would you interpret this growth?

**Professor Peter Robertson:**

Sorry, whose – are we talking about China’s budget or Australian?

**Audience member:**

Yeah, China’s.

**Professor Peter Robertson:**

China’s budget? Yeah.

**Audience member:**

7.2 point increase in defence.

**Professor Peter Robertson:**

How would I interpret that? I’d interpret that as that the Chinese leadership has a problem, in the sense that GDP growth is slowing. But they’ve got a military establishment that they need to feed, and it’s very hard to wind some of that annual spending back because they’ve got certain needs, so they need to –

It’s like me as a dean of a business school, I’ve got a certain budget and certain things I have to spend on next year, and sometimes that means I go into deficit if I don’t get enough students to pay the bills. He’s in a similar situation. He’s got less money to pay the bills now, but he’s still got a big military he needs to feed, so he’s going to make cuts elsewhere and maintain that level of military. I wouldn’t see much more in it than that, except it’s on a budgeting position.

What’s the alternative? The alternative is you make a big announcement and say, we can’t afford this military anymore, we’re going to cut it in certain ways. And that’s, I think, a difficult thing for him, because it’s also about employment, making jobs for people. There’s all sorts of industry connected to that. He can’t afford to wind back certain industries right now, which he’s trying to subsidise. I think there’s a lot of political reasons why you expect to see that.

**Professor James Laurenceson:**

I can’t resist jumping in there. In fact, it’s even more benign than that, because that 7.2 percent increase is actually a nominal number where the Chinese government is targeting a five percent real growth number in GDP and they’re expecting inflation to be about three percent. So in other words, what they’re effectively saying is, we expect China’s military spending this year to shrink as a proportion of the Chinese economy, 7.2 percent versus eight percent of the economy as a whole in nominal terms.

The other thing I’ll say on that number, actually, I saw this line when those numbers were released, it seems to happen every year that people will point to those numbers and say, China’s engaged in a huge military build-up. That was the words that we used in *The Australian* newspaper. I noticed last year, China’s military spending went up by 7.2 percent. That got a lot of headlines, but its diplomatic spending went up by more than 16 percent. It is interesting to me that those numbers never get mentioned. I mean, there’s never a headline that says China’s engaged in a huge diplomatic build-up, right? Now I understand there’s some practical reasons for that, but I do think it’s important to keep that context in mind.

Look, Corey, can I go to you, my colleague? You might like to read out Peter, a question from our online audience if there are any.

**Dr Corey Lee Bell:**

I've got one from Glenda, Glenda Korporaal: 'Can you give us some more specifics of where the money on equipment is being spent, mainly in naval capacity, or also in missiles? Can you give an assessment of how the extra spending is translating into specific types of equipment and what this might mean?'

**Professor Peter Robertson:**

Although I don't have the numbers, but I do understand that it's mostly naval capacities where China's been spending the most in terms of official budget and then of course, the US suspects, it's spending a lot more stuff on communications, high power computing type of capabilities, satellites, space, and things like this. But the big switch has been towards naval capacity and that makes sense in terms of its economic needs. We were talking about before with the supply chain from the Middle East.

**Professor James Laurenceson:**

You got another one there, Corey?

**Dr Corey Lee Bell:**

There's one from Ian Lee: 'There is another important factor that contributes to Chinese military modernisation. China is the biggest and, it says, best manufacturer of ships, drones among other key military equipment. What are your points of view?'

**Professor Peter Robertson:**

So what's the question?

**Dr Corey Lee Bell:**

I'm not quite sure. I think it relates to its manufacturing capacity on those things and how that would relate to –

**Professor Peter Robertson:**

Yeah, so I think it touches on the area of what's military and what's not, and this would be one of the US concerns.

For example, one of the concerns of the US, I'm not going to put drones, but take ships. We know that the Chinese PLA Navy has a large number of very new sort of small size but still lethal kind of ships. You can carry missiles, but they kind of look at those number of ships and say, well, we need dockyards to support all this navy. Where are the dockyards and how's that built into the budget? And it's not there, you see. It's these kinds of things, they look at the industrial military, industrial capacity is what leads them to think that China's actual defence spending is much larger than either my number or the SIPRI number, whether you adjust it or not. And so what I'm taking from that question is this connection between China as a manufacturing hub and its ability to produce equipment and subsidise that manufacturing hub and get the civil military fusion that Australia doesn't have, for example.



**Professor James Laurenceson:**

Another question from the room perhaps. If not, I've certainly got another one. Yeah.

**Audience question:**

Thanks James. Thanks Peter. I'm James.

My question to you, Peter, is has anyone produced what you consider to be a persuasive or tenable monetary estimate of what the civil-military fusion advantage would be if it was official defence spending?

**Professor Peter Robertson:**

Yeah, that was the Senator Sullivan from Alaska's estimate. So, we assume that includes the civil-military fusion estimates from the CIA and we assume that it also does a PPP [purchasing power parity] adjustment. So, it looks at labor costs and other kind of costs, and they come up with 700 billion, so seven ninths of the USA. But actually, so there's now a movement in the US to say, well, you can't just make these announcements and not tell us how you got there. We need to inspect this. So, there's a bill being passed through congress for greater transparency so that the defence department will have to produce a report on China's spending every year. That sort of breaks down what they think it is, taking all these things into account. So that'll be interesting once it comes out.

**Professor James Laurenceson:**

Anyone from the audience here? Corey, online or I could go for one if not, I've certainly got one.

**Dr Corey Lee Bell:**

There are a few online. Some of these are not quite relevant to your actual –

**Professor James Laurenceson:**

Well, let me jump in there.

Peter, I know you were in Washington, you did a bit of a roadshow through Washington towards the end of last year. What was the reception you got from the Washington audience to your findings?

**Professor Peter Robertson:**

Oh yeah, thanks James.

Actually, very much along the lines of what we're just discussing with the – but does this take into account the civil-military fusion? How do you estimate that kind of stuff? And of course I have to say, well, look, we can take it into account if you tell me what the number is, I'll adjust it for you. But a lot of interest, I think, a lot of concern. Also, conversations about Australia came up as well. And that's very interesting. I think we are talking now about AUKUS and whether it's feasible and what might be ongoing forward. The view on Washington is, I think the view in Washington, is they want to see, and we have some people here who probably know it better, but I think the view in Washington, what I heard, is that they want to see Australia make a commitment to defence.

They're happy to see Australia make a commitment to defence. They just don't want to be seen as a free rider. They don't particularly care what it is. They just want to see the commitment. They want to know we're sort of, in some way, we're pulling our weight. Whether that's in missiles or submarines or other types of operations, whether it's tightly aligned with the US, or just sort of somewhat independent, I don't think they care about it too much. What they're really happy to see is a country that's just taking the situation seriously and putting in its own resources and not relying on the good old USA to come to their aid if things go wrong. So, that was kind of an interesting takeaway as well. But yeah, there's a lot of interest, and of course what you get in the USA is you get different groups with different axes to grind.

So, there's some institutes there are very much about small government and so their natural position is, well, we don't want the government wasting taxpayers money on big military, so let's not worry about the China threat too much. And then you get other ones who are sort of more right-wing but not actually anti-government. And so they're the ones that sort of see the situation as something we need to do something about, and they're very happy to take my numbers.

**Professor James Laurenceson:**

Have you had any chats to Chinese colleagues about these numbers? Are you planning a road show through Beijing this year with these numbers?

**Professor Peter Robertson:**

I'm not planning a road show through Beijing and I haven't had too many. To be honest, people tend to shy away when I try to engage Chinese colleagues with this topic. They don't feel comfortable talking about it.

**Audience question:**

Like a decade ago or a decade and a half ago, a factoid that was trotted out quite often to talk about China's internal policing expenses and for the sake of the stability, internal stability, was to say that China spent more money on its internal stability, that is, stability maintenance project, than on its defence spending. That was like 10, 15 years ago. Is that still the case or has that balance been tipped?

**Professor Peter Robertson:**

Well, it's an excellent question because the answer is nobody knows and the reason no one knows because China won't tell us. So if I was doing a road show in China, the message I'd be trying to say is, look, please just open your books. Tell us what you're spending on. We understand. Because if there really is no strategic threat, then we'd be able to see that all the things they're spending on are things like paramilitary forces to –

**Audience question:**

How did people arrive at that comparison many years ago?

**Professor Peter Robertson:**

So, people would take guesses, right? They take numbers here and numbers there and do estimates and things like this, but the fact is we don't know for sure even my numbers, we don't know for sure. They've taken some from some source, some from another source, tried to piece it together. So, there's a little bit of detective workers involved. So, every country reports to the United Nations every year. Well, actually, not every country, but many of them do report to the UN every year their military budget. And there's three forms you can fill out. There's one form that's got everything very, very detailed. There's another form with a little bit less detailed, but still quite a lot of information. And the third form is you just put three lines, personnel, operations,

and equipment. And the idea is that if you're Fiji, you've just filled out the three line one, but if the USA, you fill out the more detailed one. Because China just fills out that three line one, so they could be much, much more transparent, and that would, I think, give people some relief if they were a little bit more transparent.

**Professor James Laurenceson:**

Okay. Look, I'm quite – Is there any final questions? Yep, sure.

**Audience question:**

Thanks Peter. I realised that it's the fact that there's not another country that compares to China. That is why we're here talking about it. But if you had to pick one other country, which one would you pick, and where are those points of comparison or difference?

**Professor Peter Robertson:**

So, which country is most like China in terms –

**Audience member:**

Yeah.

**Professor Peter Robertson:**

The other two big countries are India and Russia. And India is also making rapid growth in its military as well. India imports a lot of its equipment from Russia, although it's not kind of aligned with Russia in that way. So, that's kind of an interesting situation. India's also got a lot of naval capacity and will continue to invest rapidly in its naval capacity because it's got its own interests in the Indian Ocean.

So, a person who I very much admire is Hugh White, a great scholar. And his latest book talks about this a lot. So, what's the future of our region because these big players are here, China and India. And so, he looks at Australia, like it being the sort of Switzerland of the South Pacific and between all these big players, just trying to be nice to everybody and keep our heads down. That's his kind of scenario. But the fact is that China and India tell us, you look at that, the world is changing rapidly, and these countries are going to exert a lot more influence politically, but also with hard power as well.

**Professor James Laurenceson:**

In fact, I was just listening to a podcast with Hugh White and he was asked a very similar question. He nominated India and Indonesia. And in his view, the fact that we have some other big players in the region is going to make Australia's job easier. Not easy – easier – compared as if it was just us and it was just China.

**Professor Peter Robertson:**

Indonesia is an interesting one. It has all the potential to be a big player, but it just doesn't seem to show much interest at the moment. So, I think it's more long term. Whereas India has got its own strategic challenges with China in particular, but also Pakistan, and so it's investing in its military in the way we're not seeing in Indonesia; it's just sort of laying back at the moment.

**Professor James Laurenceson:**

Okay, look, let's wrap things up there folks.

It was a real pleasure having you here today, Peter. I love a discussion that revolves around some very carefully researched facts. What I'll say about Peter's research if you read the full papers, is that I can assure you he does the best job possible with the data that is available. So, congratulations on the work you've done, and I hope today we've been able to publicise that work and also put some relevant context around it to inform Australia's public discussion of China. That's what we're really all about here at the Australia-China Relations Institute.

So, thank you Peter for contributing to that. And thank you to our audience in the room and online for joining us today.

Thank you.

**Professor Peter Robertson:**

Thank you very much.