



# Keeping Up with the Pacing Threat: Unveiling the True Size of Beijing's Military Spending

Mackenzie Eaglen

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## Key Points

- Beijing's publicly released military budget is inaccurate and does not adequately capture the colossal scope and scale of China's ongoing military buildup and wide-ranging armed forces modernization.
- After accounting for economic adjustments and estimating reasonable but uncounted expenditures, the buying power of China's 2022 military budget balloons to an estimated \$711 billion—triple Beijing's claimed topline and nearly equal with the United States' military budget that same year.
- Equal defense spending between the United States and China plays to Beijing's benefit. As a global power, the United States must balance competing priorities in the Indo-Pacific and elsewhere, which spreads Washington's budget thinly across multiple theaters. Meanwhile, each yuan China invests in its military directly builds its regional combat power in Asia.
- America's spy community has confirmed that Beijing's defense spending is on par with Washington's, but questions remain. The intelligence community's estimate of China's \$700 billion in annual military expenditures needs more transparency to better convey Beijing's military budget breakdown and inform policy debates regarding US defense spending investments, gaps, and imbalances.

Last year, findings from the US intelligence community revealed a startling fact about the scope of Beijing's military spending: The true size of the Chinese military budget is roughly \$700 billion.<sup>1</sup> While it's no surprise that China isn't transparent about the real size of its defense budget, this figure is triple Beijing's publicly stated military spending topline of \$229 billion and nearly equal to US defense spending.<sup>2</sup>

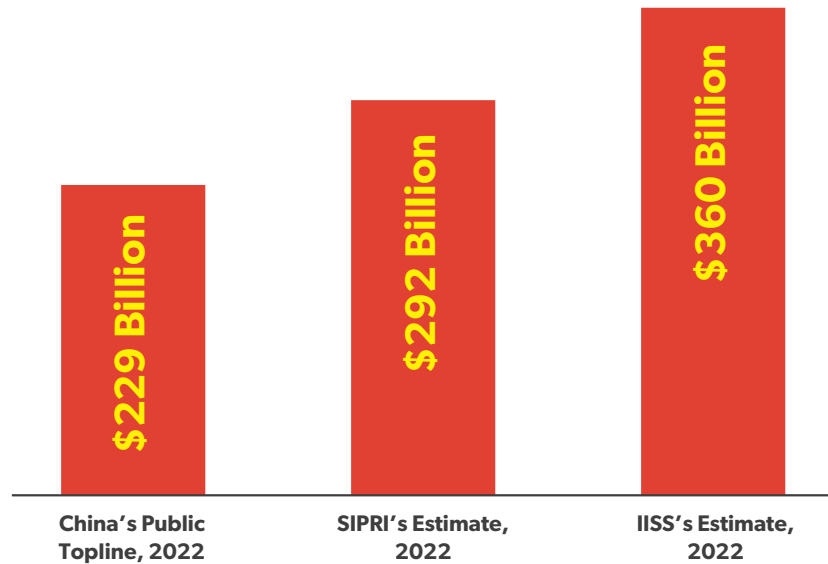
Considering that the Pentagon has labeled China the "pacing challenge," this revelation should cause concern.<sup>3</sup> The American public is too often at ease in believing the US military remains ahead of all its competitors, with misleading statistics erroneously illustrating that the United States' defense spending dwarfs that of the next 10 countries combined.<sup>4</sup>

But just how did US intelligence analysts reach this \$700 billion figure? Adjusting buying power by considering the inherent economic differences between the United States and China and including additional military expenditures that Beijing omits from its military budget can create a more accurate picture of China's military spending.

## Beijing's Defense Budget Games

As complacency continues in Washington, policymakers must realize that Beijing releases just one figure for its defense spending each year: a nominal topline, without any details on or insight into how the money is spent.<sup>5</sup> In years past, Beijing sometimes provided the United

**Figure 1. China’s Self-Reported Military Budget Undercounts Vast Additional Spending**



Source: Xinhua News Agency, “Prudent Chinese Defense Budget Growth Ensures Broad Public Security,” March 5, 2022, \*<https://english.news.cn/20220305/32515cc36dda4d1281f3b293126f6467/c.html>; Nan Tian et al., “Trends in World Military Expenditure, 2022,” Stockholm International Peace Research Institute, April 2023, [https://www.sipri.org/sites/default/files/2023-04/2304\\_fs\\_milex\\_2022.pdf](https://www.sipri.org/sites/default/files/2023-04/2304_fs_milex_2022.pdf); and *The Military Balance 2023: The Annual Estimate of Global Military Capabilities and Defence Economics* (London: International Institute for Strategic Studies, 2023).

Nations with a broad three-category breakdown: equipment, training and maintenance, and personnel.<sup>6</sup> Despite Beijing’s claim that this reporting is “open and transparent,” its reluctance to provide any details on defense spending priorities indicates an intent to hide information. Further, diverse research concludes that Beijing does not report all its military expenditures, which directly contribute to the People’s Liberation Army (PLA) or function as extensions of it, within its stated topline.<sup>7</sup>

China’s reported defense budget is remarkably less transparent than the thousands of pages of the Pentagon’s public budget documentation, which are released with each annual presidential request.<sup>8</sup> The trove of documents detail nearly every aspect of each year’s budget, with each service releasing supplementary budgetary materials. While some expenditures are classified, the documents paint a nearly complete picture of the Pentagon’s budgetary outlook. No equivalent documentation exists for any aspect of China’s military.

After the president submits the budget request, Congress publicly deliberates it through annual authorization and appropriation bills, furthering US defense spending oversight and transparency. Through this process, the United States military budget is one of

the most transparent in the world; meanwhile, China’s ranks as one of the least.<sup>9</sup>

To better approximate and evaluate Chinese defense spending, researchers from organizations such as the Stockholm International Peace Research Institute (SIPRI) and International Institute for Strategic Studies (IISS) have developed detailed methodologies to create a more accurate depiction of Chinese defense spending, but their updated figures still come in well below the intelligence community’s estimate.<sup>10</sup>

SIPRI researchers note the extraordinary difficulty of calculating the true size of China’s military budget, citing a “lack of public transparency” in Chinese military allocations.<sup>11</sup> While the SIPRI estimate of \$292 billion provides a helpful starting point with its data on some avenues of uncounted expenditures, its scope and scale are limited. The SIPRI estimate accepts Beijing’s claimed minimal budget data as “accurate until there is convincing information to the contrary,” limiting the model’s ability to estimate the true scale of Beijing’s military spending.<sup>12</sup>

As seen in Figure 1, IISS’s approximation is slightly higher—\$360 billion, since it considers some form of purchasing power parity and different areas of

uncounted expenditure, such as defense research and development (R&D).<sup>13</sup> The IISS estimate excludes some expenditures that the SIPRI estimate includes, which contributes to differences in the figures.

While these estimates helpfully demonstrate the fallacy of Beijing's stated topline, they do not explain the intelligence community's \$700 billion figure. One reason for this shortcoming may be an undercounting of the real buying power of China's military budget. Many budgetary comparisons operate under a flawed assumption by blankly accepting the market exchange rate conversion between Chinese yuan and US dollars in military spending.<sup>14</sup> Simply converting spending in yuan to dollars based on a currency exchange rate overstates American capacity, especially since prices for goods are significantly lower in China.<sup>15</sup> For this reason, economies are often measured by purchasing power parity rates to conduct relevant comparisons—which is why China has the world's largest economy when considering purchasing power parity.<sup>16</sup>

There are limits to using purchasing power parity to compare military expenditures, as a conversion rate between gross domestic product (GDP) and purchasing power parity does not give a completely accurate measure of a country's military buying power. Though each country's defense sector is different, an economy's defense sector does not perfectly translate to the general economy, from which GDP-purchasing power parity conversion rates are calculated. This is especially true in China, where the value of the yuan is not subject to market forces.<sup>17</sup>

For this reason, researchers have attempted to evaluate "military purchasing power parity"—that is, purchasing power parity more finely accounting for military-specific expenditures. Research applying this military purchasing power parity calculation has illustrated that the Chinese defense budget's true buying power may be nearly double the publicly reported topline.<sup>18</sup>

While a specific, military purchasing power parity rate would be preferred, the data were insufficient to perform the calculation in the base year of 2022 used in this report.<sup>19</sup> Even the Department of State, in compiling its past *World Military Expenditures and Arms Transfers* reports, admits that the rough approximation of a military purchasing power parity rate is "heroically strenuous" due to the varying availability of data on countries and is best used with other buying-power approximation methods.<sup>20</sup>

While the principle of purchasing power parity does not perfectly translate across economies and should be regarded as an approximation, research has demonstrated that it can hold in paying soldiers or purchasing military hardware.<sup>21</sup> Therefore, AEI's model applied a GDP-purchasing power parity adjustment to certain aspects of the Chinese military budget to better illustrate the true buying power of Beijing's spending. Though not definite, this calculation serves as a general estimate to better inform debate around international comparisons of military spending between the United States and China.

Since salaries and workforce compensation are far lower in China than in the United States, it's important to also adjust for differences in labor costs, because the market exchange rate will understate the value China derives from its defense budget.<sup>22</sup> This is evident in comparing the US and China, as China can afford to pay its enlisted soldiers roughly 16 times less than the salaries of their American counterparts.<sup>23</sup>

## Estimating a More Accurate Military Topline for China

To evaluate Beijing's real defense buying power and improve on existing estimates of Chinese military spending, AEI's model used a baseline year of 2022 for the most recent and complete data from the United States and China. In 2022, China's publicly released figure was \$229 billion, and the United States' appropriated military budget (without supplemental spending) was \$742 billion, nominally over thrice the Chinese topline.<sup>24</sup> However, further adjustments are needed to more accurately represent Beijing's buying power.

To better understand the size and scope of the Chinese military budget, adjustments for differences in buying power and labor costs are necessary. Then, the topline should include additional uncounted expenditures that Beijing excludes from its military budget. This figure for Chinese military spending will provide a more accurate comparison to the topline Pentagon budget.

These additions illustrate the scope of Beijing's military investment—but ultimately, due to lack of public information, a complete picture will require more data. China's complete lack of transparency into military spending and strategy of military-civil fusion, which

blurs or eliminates barriers between government and commercial sectors through investments in dual-use technologies and capabilities, make the distinction between military and civilian investments unclear.<sup>25</sup>

**Adjusting for Buying Power and Labor Costs.** To more accurately apply a labor-cost adjustment and consider purchasing power parity, China's publicly reported \$229 billion topline from 2022 must be broken into the three categories of military spending that China previously provided (equipment, training and maintenance, and personnel). Each of these categories has a rough equivalent in the Pentagon's budget documentation: The equipment category maps onto the Pentagon's procurement category, training and maintenance maps onto the Pentagon's operation and maintenance category, and personnel maps onto the Pentagon's military personnel category.<sup>26</sup> According to Beijing, these categories are a sum of active and reserve components, which allows this figure to be accurately compared to Pentagon budget figures.<sup>27</sup>

Beijing last provided a proportional breakdown of its military budget to the UN in 2020 (with personnel at 29.7 percent, training and maintenance at 33.2 percent, and equipment at 37.1 percent), but these same proportions can be extrapolated and applied to the 2022 topline for the purpose of estimation and comparison.<sup>28</sup> Breaking the budget out this way not only provides a rough estimation of the Chinese military budget's priorities but also allows more accurate application of economic adjustments based on the function of each spending category. With the above proportions, the PLA's 2022 topline of \$229 billion yields the following estimation of expenditures: personnel, \$68 billion; training and maintenance, \$76 billion; and equipment, \$85 billion.

Public economic data can then be consulted to apply necessary economic adjustments for purchasing power parity and labor costs. The first economic adjustment needed is for purchasing power parity. According to the World Bank, the whole-of-economy GDP-purchasing power parity adjusted conversion factor was 3.99 yuan per dollar in 2022.<sup>29</sup> This is noticeably lower than the average market exchange rate of 6.74 yuan per dollar in 2022,<sup>30</sup> indicating that the true buying power of Chinese military spending could be higher than it first appears, if purchasing power parity remotely holds for military goods.

Additionally, to more accurately compare the buying power behind China's personnel expenditures, a cost adjustment for labor is necessary. Labor costs and compensation are demonstrably lower in China than in the United States. This trend broadly holds in the military domain, since China maintains a far larger military force than the United States' for a much smaller nominal personnel outlay.<sup>31</sup> Therefore, topline figures should not be compared at face value.

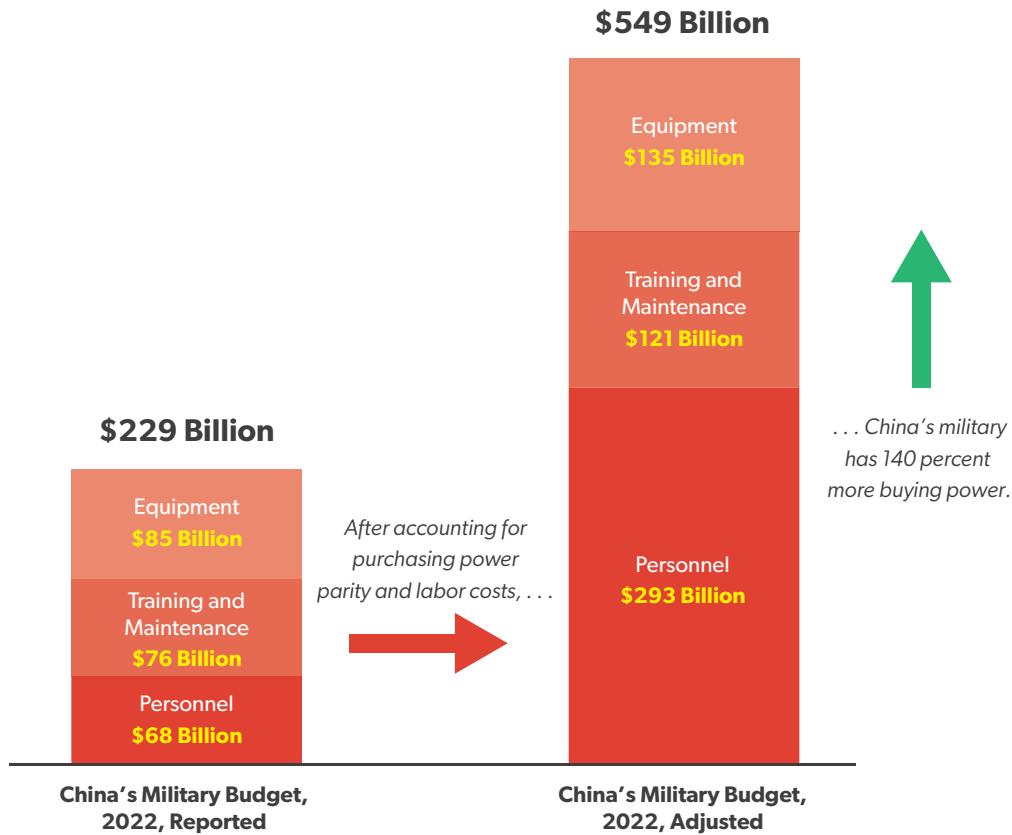
Since no detailed data exist for Chinese military salaries and personnel expenditures, a one-to-one comparison of the labor cost of military personnel is not possible. However, an approximation can be calculated by dividing the average wage of a US government worker (\$79,137) by the average wage of a Chinese government worker (\$18,341) to create a labor-cost adjustment factor of 4.31 for this estimation.<sup>32</sup>

To apply these adjustments, AEI's model converted Chinese military expenditures in the equipment and training and maintenance categories to dollars using the above purchasing power parity conversion rate instead of the market exchange rate. Expenditures in the personnel category were also converted to dollars at the market exchange rate, and labor-cost adjustments were then applied to personnel expenditures. No purchasing power parity adjustment was applied to the personnel category to avoid counting economic adjustments on top of the labor-cost adjustment.

As seen in Figure 2, when accounting for purchasing power parity, the PLA's equipment budget rises from \$85 billion to an adjusted \$135 billion, and the training and maintenance budget rises from \$76 billion to \$121 billion, a nearly 60 percent increase. When the personnel adjustment is applied to the PLA's \$68 billion personnel budget, the actual buying power more than quadruples to \$293 billion.

These adjustments create a new topline of \$549 billion—over twice the size of Beijing's nominal \$229 billion defense budget and a more accurate picture of the actual buying power behind Chinese military spending. Furthermore, an estimate of \$549 billion amounts to 74 percent of the fiscal year (FY) 2022 Department of Defense topline of \$742 billion, illustrating the true buying power behind China's publicly released topline and better explaining how China has been able to maintain its unprecedented military buildup.

**Figure 2. China’s Military Spending More Than Doubles After Accounting for Purchasing Power Parity and Cheaper Labor**



Source: Xinhua News Agency, “Prudent Chinese Defense Budget Growth Ensures Broad Public Security,” March 5, 2022, \*<https://english.news.cn/20220305/32515cc36dda4d1281f3b293126f6467/c.html>; UN Report on Military Expenditures Database, Military Expenditures: China, <https://milex.un-arm.org/country-profile/CHN>; World Bank, World Development Indicators, PPP Conversion Factor, Private Consumption (LCU per International \$)—China, 2024, <https://data.worldbank.org/indicator/PA.NUS.PRVT.PP?locations=CN>; National Bureau of Statistics of China, “Average Wage of Employed Persons in State-Owned Units (RMB),” \*<https://data.stats.gov.cn/english/easyquery.htm?cn=C01>; and US Department of Commerce, Bureau of Economic Analysis, “Table 6.6D. Wages and Salaries per Full-Time Equivalent Employee by Industry,” September 29, 2023, [https://apps.bea.gov/iTable/?reqid=13&step=3&isuri=1&nipa\\_table\\_list=201&keyword\\_index=w](https://apps.bea.gov/iTable/?reqid=13&step=3&isuri=1&nipa_table_list=201&keyword_index=w).

**Counting China’s Hidden Expenditures.** While these adjustments for differences in buying power between the US and Chinese economies help paint a more complete picture of Beijing’s budget, this \$549 billion topline estimate does not include the vast uncounted military expenditures that China notably excludes from its military topline. In its annual report on Chinese military developments, the Pentagon confirmed that Beijing’s published military budget also “omits several major categories of expenditures and its actual military-related spending is significantly higher.”<sup>33</sup>

To assemble the most complete estimation of uncounted Chinese military expenditures for AEI’s model, a collection of past work was reviewed.<sup>34</sup> Many of these estimations were outdated and calculated from

funding totals that the Chinese government no longer releases. To estimate what this spending may have been in 2022, the most recent approximation of spending on certain categories of uncounted military expenditures were compiled. Then, to roughly estimate growth across spending categories, the growth rate of the Chinese military budget’s public topline was applied to each total from the appropriate base year. Since the base years of many estimations vary, different growth rates were applied, as detailed below.

*Including Uncounted Paramilitary Organizations.* Numerous paramilitary organizations, which are increasingly used in tandem with the PLA, are another notable omission from China’s military topline. According to

the Pentagon's most recent report on Chinese military power, these organizations have ramped up their cooperation with the PLA and "continue to grow in scale and sophistication," making them necessary in any estimate of Chinese military expenditures.<sup>35</sup>

The People's Armed Police (PAP), a paramilitary organization tasked with internal state security, is one of the largest omissions. The PAP was recently reorganized under the Central Military Commission, the highest-level defense organization in China, reflecting the PAP's increasing importance in military operations.<sup>36</sup> Besides being responsible for domestic security, the PAP is officially tasked with augmenting the PLA in any military conflict, and its budget thus should be classified as a military expense.

While the budget for certain pieces of the PAP is no longer publicly available, adjusted estimates can be made from past data. IISS research previously calculated that the PAP's spending topline was \$30 billion in 2017.<sup>37</sup> Assuming growth equal to that of the rate of increased central military expenditures from 2017 to 2022 (50.7 percent), PAP funding in 2022 is estimated to total \$45.2 billion.<sup>38</sup>

The 150-vessel China Coast Guard (CCG), which operates alongside the People's Liberation Army Navy (PLAN), is another notable exclusion. The CCG is heavily involved in enforcing China's illegal territorial claims in the South China Sea and increasingly operates alongside PLAN warships.<sup>39</sup> This increase in strictly military activity warrants the CCG's inclusion in China's defense topline. Research from SIPRI determined that the CCG's annual funding was roughly \$1.6 billion in 2019,<sup>40</sup> and when adjusted for growth to 2022, this figure becomes \$2.1 billion.

*Considering Other Expenditures.* Additionally, the Chinese budgetary data do not include expenditures on China's space forces, military satellites, or growing counter-space capabilities.<sup>41</sup> Beijing reports only a separate vague topline "space budget," making no distinction between civil and military space outlays. Given many satellites' inherent dual-use capability and Beijing's general adherence to a strategy of military-civil fusion in space policy, AEI's model counted this entire budget as a military expenditure.<sup>42</sup>

China's space budget was last reported to the Organisation for Economic Co-operation and Development (OECD) as \$10.8 billion in 2013. Adjusting for growth to

2022, this budget may have doubled to \$21 billion.<sup>43</sup> This is a nearly 10-year approximation, and the real expenditure may be still greater given China's recent rapid advancements in military space applications.<sup>44</sup>

Research from SIPRI indicates that the Chinese military budget is missing key expenditures for military demobilization, retirement, and pensions. These are reportedly funded through the Ministry of Civil Affairs instead of through the PLA and are thus not counted in the defense topline. SIPRI research estimates funding in 2019 totaled \$35.8 billion.<sup>45</sup> Lacking recent data,<sup>46</sup> the value of these costs can again be calculated by applying the growth rate of the Chinese military budget from 2019 to 2022 (28.9 percent) amounting to an estimated \$46.1 billion.

This estimation includes additional, smaller expenses that are reportedly absent from Beijing's topline, such as for continued construction in 2022 of military installations in the South China Sea and arms imports, which approximated \$1 billion and \$807 million, respectively.<sup>47</sup>

*Including Military Research and Development.* Remaining is the question of China's expenditures on military R&D. The Pentagon has publicly reported that, despite Beijing's claims to the contrary, Beijing's budget does not include any totals for military R&D.<sup>48</sup> This omission is significant, especially considering China's colossal investments in emerging technologies and rapid progress in the PLA's modernization efforts.<sup>49</sup> For context, American investment in the research, development, test, and evaluation category of the Pentagon's budget was \$118 billion in 2022, nearly 20 percent of the total defense budget.<sup>50</sup>

China's military R&D expenditures are commonly called a "black box,"<sup>51</sup> since China publishes no information regarding its specific investments in military R&D. Still, any reasonable accounting of China's real military spending should include these costs.<sup>52</sup> Even the statistics Beijing released to the OECD, which were consulted in this report, notably have errors and do not fully adhere to the OECD's methodology.

In 2021, China reported to the OECD that central government expenditures on R&D were \$94.7 billion.<sup>53</sup> Previous research found that 45.3 percent of the Chinese central government's R&D spending went to "nondisclosed agencies," indicating defense-related expenditures.<sup>54</sup> After adjusting for the rate of military spending

growth in 2022 (6.8 percent) and applying this percentage, Chinese military R&D expenditures that year are estimated to be \$45.8 billion.

Even this broad approximation could undercount China's military R&D investment. China's practice of military-civil fusion and its subsidization of and reliance on vast economic state-owned enterprises obscure where a yuan spent for civilian purposes ends.<sup>55</sup> Furthermore, China's military R&D is complemented by a sophisticated cyberespionage operation, which is responsible for stealing technological secrets from the US and its allies.<sup>56</sup> This means China's military-related R&D expenditures may actually be much larger. This report's estimate of \$45.8 billion—derived from prior research methods and limited publicly available data—is conservative.

**Altogether, China's Military Spending Is on Par with the United States'.** Figure 3 shows that together, these calculations illustrate a far greater budgetary topline for Beijing: \$710.6 billion (rounded to \$711 billion elsewhere in this report), more than triple the \$229 billion topline that Beijing released in 2022. This staggering topline is 96 percent the size of the Pentagon's FY2022 budget of \$742.2 billion (rounded to \$742 billion elsewhere) and slightly larger than the intelligence community's \$700 billion estimate of Beijing's budget.

Beijing's true military spending should be cause for concern, as the American public is too often put at ease by the erroneous assertion that the US is ahead of its adversaries on military spending and investments. In just the past decade, however, China has managed to rapidly build sophisticated missile forces, surpass the United States by building the largest navy in the world, and catch up to and even exceed the United States in many other key national security areas.<sup>57</sup> By calculating the true buying power behind the Chinese military budget, it's easy to understand how Beijing can continue this unprecedented military buildup while, on paper, appearing to spend much less.

Furthermore, China's military spending has increased consistently, at an average of 9 percent, for the past 28 years.<sup>58</sup> Annually, Beijing pushes high single- or double-digit increases to defense spending to fuel rapid military modernization. Meanwhile, the Pentagon's budget has increased by an average of 0.8 percent annually over the past decade, well under the rate of annual inflation.<sup>59</sup>

While this report provides only a rough estimate of the real buying power of China's military budget, accuracy is difficult with what little information is available from China. Getting a clear bottom-line estimate is further complicated by Beijing's policy of military-civil fusion.<sup>60</sup> For example, China has created armed reserve forces of civilians, such as the People's Armed Forces Maritime Militia (PAFMM), which can quickly mobilize in conflict.<sup>61</sup> Beijing also mandates its domestic commercial ships be built with certain military specifications to augment the Chinese fleet during a potential war.<sup>62</sup>

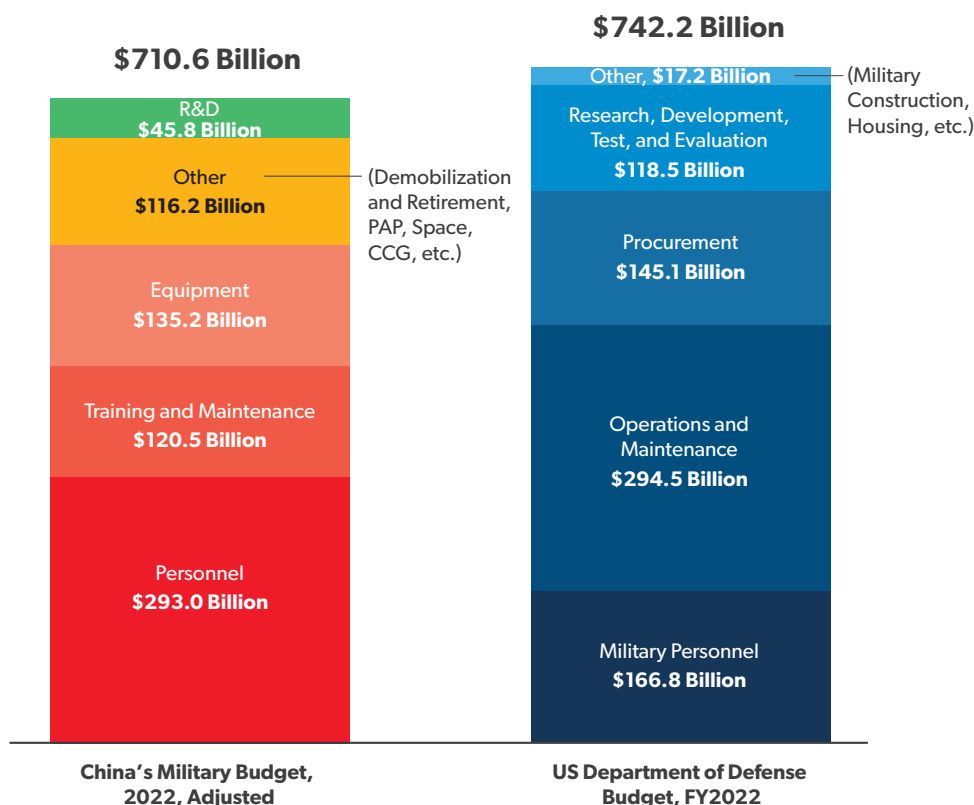
Expenditures on fused initiatives such as these should be counted in Beijing's topline, but no public figures exist to calculate an estimate. If fully evaluated, Beijing's expenditures via military-civil fusion and dual-use technology investments prove even the much larger \$711 billion figure underestimates China's military investments.

## The State of US Defense Spending

Meanwhile, US defense base spending is locked in at \$842 billion for FY2024.<sup>63</sup> While this is the highest nominal defense budget in history, as a portion of GDP, it will be among the Pentagon's slimmest since before World War II. American defense spending has not grown proportionally with the nation's wealth or other federal spending; the defense budget continues to shrink as a percentage of national GDP. President Joe Biden's FY2025 defense budget request is for \$850 billion<sup>64</sup>—a 1 percent increase over FY2024—taking defense spending down to 3 percent of GDP for the first time since the days of the peace dividend.<sup>65</sup>

To keep up with economic growth, boosts to the US defense budget would need to average at least 3 to 5 percent annually in real terms. However, recent defense budgets haven't even managed to keep pace with inflation, subtly chipping away at US combat power.<sup>66</sup> The FY2025 request's 1 percent increase is competing with an expected inflation rate of 2.1 percent—amounting to an effective cut in the Pentagon's buying power.<sup>67</sup> Furthermore, while China's official defense topline drastically undercounts China's actual defense investments, the US figure overcounts America's investments due to extraneous nondefense spending hidden in the US defense budget.<sup>68</sup>

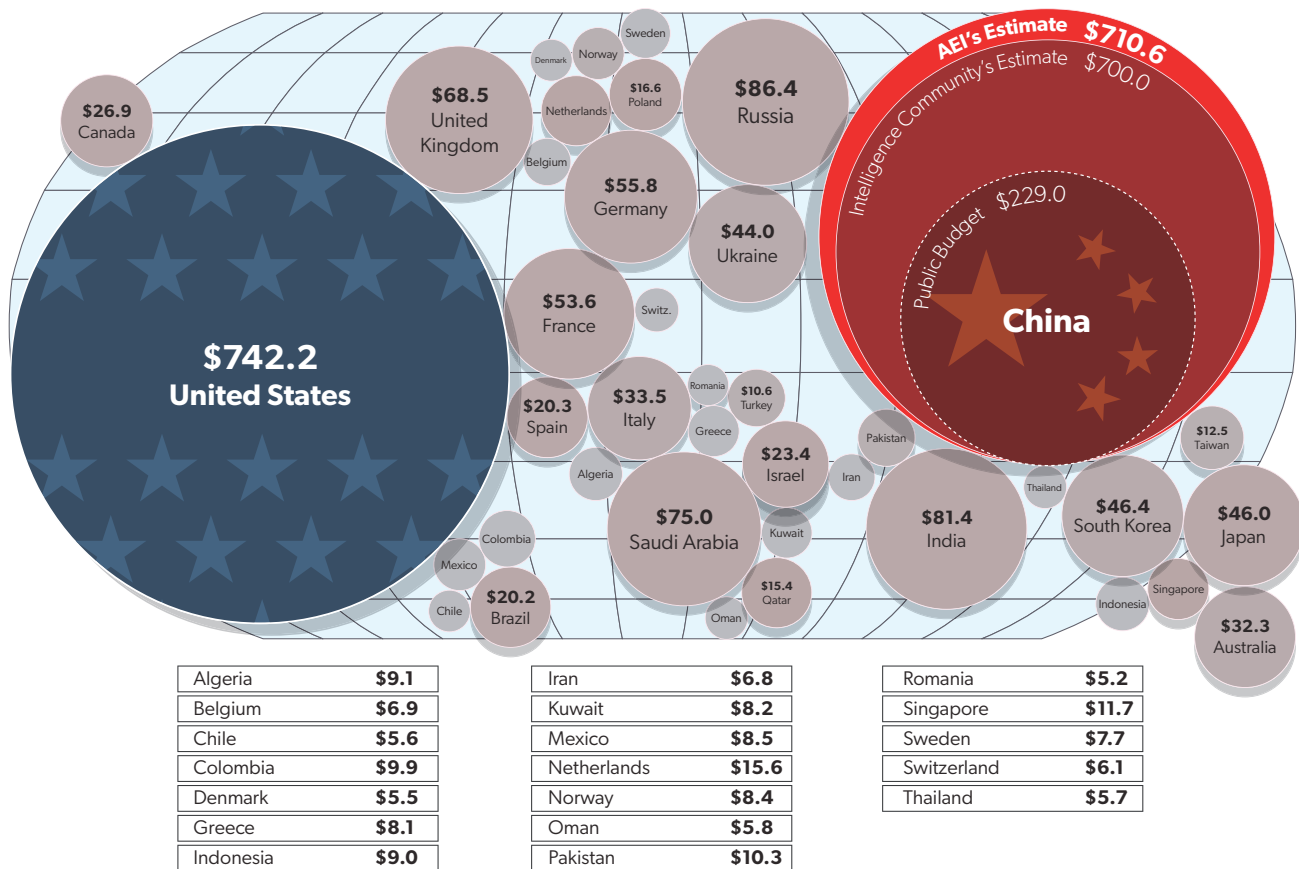
**Figure 3. When Accounting for Economic Differences and Hidden Expenditures, China’s Military Spending Is Nearly Equal to the United States’**



Source: Xinhua News Agency, “Prudent Chinese Defense Budget Growth Ensures Broad Public Security,” March 5, 2022, \*<https://english.news.cn/20220305/32515cc36dda4d1281f3b293126f6467/c.html>; UN Report on Military Expenditures Database, Military Expenditures: China, <https://milex.un-arm.org/country-profile/CHN>; World Bank, World Development Indicators, PPP Conversion Factor, Private Consumption (LCU per International \$)—China, 2024, <https://data.worldbank.org/indicator/PA.NUS.PRVT.PP?locations=CN>; National Bureau of Statistics of China, “Average Wage of Employed Persons in State-Owned Units (RMB),” \*<https://data.stats.gov.cn/english/easyquery.htm?cn=C01>; US Department of Commerce, Bureau of Economic Analysis, “Table 6.6D. Wages and Salaries per Full-Time Equivalent Employee by Industry,” September 29, 2023, [https://apps.bea.gov/iTable/?reqid=13&step=3&isuri=1&nipa\\_table\\_list=201&keyword\\_index=w](https://apps.bea.gov/iTable/?reqid=13&step=3&isuri=1&nipa_table_list=201&keyword_index=w); Meia Nouwens and Lucie Béraud-Sudreau, *Assessing Chinese Defence Spending: Proposals for New Methodologies*, International Institute for Strategic Studies, March 2020, <https://www.iiss.org/globalassets/media-library--content-migration/files/research-papers/assessing-chinese-defence-spending--iiss-research-paper.pdf>; Nan Tian and Fei Su, *A New Estimate of China’s Military Expenditure*, Stockholm International Peace Research Institute, January 2021, [https://www.sipri.org/sites/default/files/2021-01/2101\\_sipri\\_report\\_a\\_new\\_estimate\\_of\\_chinas\\_military\\_expenditure.pdf](https://www.sipri.org/sites/default/files/2021-01/2101_sipri_report_a_new_estimate_of_chinas_military_expenditure.pdf); Alexander Bowe, “China’s Pursuit of Space Power Status and Implications for the United States,” US-China Economic and Security Review Commission, April 11, 2019, [https://www.uscc.gov/sites/default/files/Research/USCC\\_China%27s%20Space%20Power%20Goals.pdf](https://www.uscc.gov/sites/default/files/Research/USCC_China%27s%20Space%20Power%20Goals.pdf); World Bank, “Arms Imports (SIPRI Trend Indicator Values)—China,” <https://data.worldbank.org/indicator/MS.MIL.MPRT.KD?locations=CN>; Organisation for Economic Co-operation and Development, Main Science and Technology Indicators: GOVERD at Constant Prices and PPP\$, [https://stats.oecd.org/Index.aspx?DataSetCode=MSTI\\_PUB](https://stats.oecd.org/Index.aspx?DataSetCode=MSTI_PUB); Yutao Sun and Cong Cao, “Research Funding. Demystifying Central Government R&D Spending in China,” *Science* 345, no. 6200 (August 2014): 1008, [https://www.researchgate.net/publication/265175931\\_Research\\_Funding\\_Demystifying\\_central\\_government\\_RD\\_spending\\_in\\_China](https://www.researchgate.net/publication/265175931_Research_Funding_Demystifying_central_government_RD_spending_in_China); Zhao Lei, “China to Raise Military Budget by 7.1% This Year,” *China Daily*, March 6, 2022, <https://www.chinadaily.com.cn/a/202203/06/WS62245064a310cdd39bc8aacb.html>; Huizhong Wu and Christopher Bodeen, “China Raises Defense Budget by 7.2% as It Pushes for Global Heft and Regional Tensions Continue,” Associated Press, March 5, 2024, <https://apnews.com/article/china-legislature-defense-budget-taiwan-us-9e751a41c9a1ffe8c0cf9775797750e3>; Xinhua News Agency, “China Focus: China’s 2017 Defense Budget to Grow 7 Pct: Finance Official,” March 6, 2017, [http://www.xinhuanet.com/english/2017-03/06/c\\_136106993.htm](http://www.xinhuanet.com/english/2017-03/06/c_136106993.htm); Edward Wong and Chris Buckley, “China’s Military Budget Increasing 10 Percent for 2015, Official Says,” CNBC, March 4, 2015, <https://www.cnbc.com/2015/03/04/chinas-military-budget-increasing-10-percent-for-2015-official-says.html>; US Department of Defense, Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2024*, May 2023, 29, [https://comptroller.defense.gov/portals/45/documents/defbudget/fy2024/fy24\\_green\\_book.pdf](https://comptroller.defense.gov/portals/45/documents/defbudget/fy2024/fy24_green_book.pdf); and Sam Perlo-Freeman, “Deciphering China’s Latest Defence Budget Figures,” Stockholm International Peace Research Institute, March 31, 2014, <https://www.sipri.org/node/377>.



**Figure 4. China’s True Defense Budget Is on Par with the United States’ and Dwarfs Those of Its Indo-Pacific Neighbors**



Note: All dollar amounts are in billions.

Source: Data on budgets are from Nan Tian et al., “Trends in World Military Expenditure, 2022,” Stockholm International Peace Research Institute, April 2023, [https://www.sipri.org/sites/default/files/2023-04/2304\\_fs\\_milex\\_2022.pdf](https://www.sipri.org/sites/default/files/2023-04/2304_fs_milex_2022.pdf); US Department of Defense, Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2024*, May 2023, 29, [https://comptroller.defense.gov/portals/45/documents/defbudget/fy2024/fy24\\_green\\_book.pdf](https://comptroller.defense.gov/portals/45/documents/defbudget/fy2024/fy24_green_book.pdf); and 169 Cong. Rec. S1865 (daily ed. June 1, 2023) (statement of Sen. Sullivan).

When compared globally, China’s estimated \$711 billion military budget illustrates that China is more of a “pacing threat” than a “pacing challenge.” As seen in Figure 4, China’s estimated rate of expenditure makes it far and above the second-largest military spender in the world, considerably outspending its collective neighbors in the Indo-Pacific.

Cracks and strains are evident across the US military as inflation cuts into the Pentagon’s buying power and further reduces the little share left to decision makers to fund new equipment, technology, and posture. An endemic lack of real budgetary growth has eroded the size and strength of the US military—forcing it to do more with less.

For the US to properly compete across the globe, significant and costly power-projection capabilities are required. As a global power and to meet the needs of the National Defense Strategy, the US must balance priorities in the Indo-Pacific with those elsewhere, such as deterring Iran, countering Russian aggression, and shoring up allied commitments.<sup>69</sup> While the US still fields the most powerful and likely the most expensive military in the world, these numerous priorities spread US capabilities thinly across the globe. On the whole, the American military outmatches the Chinese military, but in the Indo-Pacific, the power balance is far less clear.

Beijing does not have to balance power and actively manage peace across three theaters globally. China

must worry only about its neighborhood in the Indo-Pacific and denying US objectives there. This effectively means Beijing's defense investments go much further than the United States' and may be concentrated far more effectively on a smaller region and more limited objectives.<sup>70</sup> Nearly equal defense spending between the US and China is therefore not equal investment for similar outcomes.

To deter China and other adversaries, the US military requires the capacity to get to the fight and then sustain, rapidly repair, and resupply its forces. It must be capable of absorbing attrition early in a conflict or withstanding a protracted conflict.<sup>71</sup> China catching up to the US in defense spending must not mean China can outmatch or outlast America, should the US military be called on to fight and win in Asia.

## **The Path Forward: How the US Can Keep Pace**

The American public has little insight into the real scope of Chinese military spending. Despite the Pentagon's admission that "[China's] published military budget omits several major categories of expenditures and its actual military-related spending is significantly higher than what it states in its official budget," in its most recent annual report on Chinese military power, the Pentagon provided no estimates or figures of Beijing's defense expenditures.<sup>72</sup>

Vague topline and inadequate or outdated estimations can only go so far. While this report aims to shed light on how the intelligence community may have reached its conclusions, US intelligence agencies must do more to share their findings on the scope

and scale of China's military budget. If the intelligence community is calculating military budget estimates for China that nearly equal America's own, the American public and policymakers should be brought up to speed.

Thankfully, Congress has started to act. The FY2024 National Defense Authorization Act mandates the Pentagon to conduct a comparative study of the Chinese defense budget and publish the results.<sup>73</sup> It also requires that the study consider many of the factors used above, including purchasing power parity and uncounted categories of military spending.

Policymakers should go a step further and encourage intelligence agencies to release their own public estimates, since competing estimates would greatly inform debate on just how critical the military threat from China is.

Getting to the bottom of how much China spends on its military should be paramount for the US government if the Pentagon is serious about China being a "pacing challenge."<sup>74</sup> The US military cannot expect to keep up if it does not know how fast China's military is moving.

## **About the Author**

**Mackenzie Eaglen** is a senior fellow at the American Enterprise Institute, where she works on defense strategy, defense budgets, and military readiness.

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# Appendix A

**Table A1. China’s Reported and Estimated Military Budgets vs. the US Military Budget (Millions)**

	China’s Military Budget, 2022, Reported	China’s Military Budget, 2022, Adjusted	US Military Budget, 2022	
Personnel	\$67,899	\$292,955	\$166,845	Military Personnel
Training and Maintenance	\$75,936	\$120,506	\$294,491	Operations and Maintenance
Equipment	\$85,165	\$135,152	\$145,147	Procurement
Research and Development		\$45,791	\$118,537	Research, Development, Test, and Evaluation
Demobilization and Retirement		\$46,133	\$17,224	Other (Military Construction, Housing, etc.)
People’s Armed Police		\$45,197		
Space		\$21,023		
China Coast Guard		\$2,063		
South China Sea Island Building		\$1,000		
Arms Imports		\$807		
<b>TOTAL:</b>	<b>\$229,000</b>	<b>\$710,627</b>	<b>\$742,244</b>	

Source: Xinhua News Agency, “Prudent Chinese Defense Budget Growth Ensures Broad Public Security,” March 5, 2022, \*<https://english.news.cn/20220305/32515cc36dda4d1281f3b293126f6467/c.html>; UN Report on Military Expenditures Database, Military Expenditures: China, <https://milex.un-arm.org/country-profile/CHN>; World Bank, World Development Indicators, PPP Conversion Factor, Private Consumption (LCU per International \$)—China, 2024, <https://data.worldbank.org/indicator/PA.NUS.PRVT.PP?locations=CN>; National Bureau of Statistics of China, “Average Wage of Employed Persons in State-Owned Units (RMB),” \*<https://data.stats.gov.cn/english/easyquery.htm?cn=C01>; US Department of Commerce, Bureau of Economic Analysis, “Table 6.6D. Wages and Salaries per Full-Time Equivalent Employee by Industry,” September 29, 2023, [https://apps.bea.gov/iTable/?reqid=13&step=3&isuri=1&nipa\\_table\\_list=201&keyword\\_index=w](https://apps.bea.gov/iTable/?reqid=13&step=3&isuri=1&nipa_table_list=201&keyword_index=w); Meia Nouwens and Lucie Béraud-Sudreau, *Assessing Chinese Defence Spending: Proposals for New Methodologies*, International Institute for Strategic Studies, March 2020, <https://www.iiss.org/globalassets/media-library--content--migration/files/research-papers/assessing-chinese-defence-spending--iiss-research-paper.pdf>; Nan Tian and Fei Su, *A New Estimate of China’s Military Expenditure*, Stockholm International Peace Research Institute, January 2021, [https://www.sipri.org/sites/default/files/2021-01/2101\\_sipri\\_report\\_a\\_new\\_estimate\\_of\\_chinas\\_military\\_expenditure.pdf](https://www.sipri.org/sites/default/files/2021-01/2101_sipri_report_a_new_estimate_of_chinas_military_expenditure.pdf); Alexander Bowe, “China’s Pursuit of Space Power Status and Implications for the United States,” US-China Economic and Security Review Commission, April 11, 2019, [https://www.uscc.gov/sites/default/files/Research/USCC\\_China%27s%20Space%20Power%20Goals.pdf](https://www.uscc.gov/sites/default/files/Research/USCC_China%27s%20Space%20Power%20Goals.pdf); World Bank, “Arms Imports (SIPRI Trend Indicator Values)—China,” <https://data.worldbank.org/indicator/MS.MIL.MPRT.KD?locations=CN>; Organisation for Economic Co-operation and Development, Main Science and Technology Indicators: GOVERD at Constant Prices and PPP\$, [https://stats.oecd.org/Index.aspx?DataSetCode=MSTL\\_PUB](https://stats.oecd.org/Index.aspx?DataSetCode=MSTL_PUB); Yutao Sun and Cong Cao, “Research Funding. Demystifying Central Government R&D Spending in China,” *Science* 345, no. 6200 (August 2014): 1008, [https://www.researchgate.net/publication/265175931\\_Research\\_Funding\\_Demystifying\\_central\\_government\\_RD\\_spending\\_in\\_China](https://www.researchgate.net/publication/265175931_Research_Funding_Demystifying_central_government_RD_spending_in_China); Zhao Lei, “China to Raise Military Budget by 7.1% This Year,” *China Daily*, March 6, 2022, <https://www.chinadaily.com.cn/a/202203/06/WS62245064a310cdd39bc8aacb.html>; Huizhong Wu and Christopher Bodeen, “China Raises Defense Budget by 7.2% as It Pushes for Global Hef and Regional Tensions Continue,” Associated Press, March 5, 2024, <https://apnews.com/article/china-legislature-defense-budget-taiwan-us-9e751a41c9a1ffe8c0cf9775797750e3>; Xinhua News Agency, “China Focus: China’s 2017 Defense Budget to Grow 7 Pct: Finance Official,” March 6, 2017, [http://www.xinhuanet.com/english/2017-03/06/\\_c\\_136106993.htm](http://www.xinhuanet.com/english/2017-03/06/_c_136106993.htm); Edward Wong and Chris Buckley, “China’s Military Budget Increasing 10 Percent for 2015, Official Says,” CNBC, March 4, 2015, <https://www.cnbc.com/2015/03/04/chinas-military-budget-increasing-10-percent-for-2015-official-says.html>; US Department of Defense, Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2024*, May 2023, 29, [https://comptroller.defense.gov/portals/45/documents/defbudget/fy2024/fy24\\_green\\_book.pdf](https://comptroller.defense.gov/portals/45/documents/defbudget/fy2024/fy24_green_book.pdf); and Sam Perlo-Freeman, “Deciphering China’s Latest Defence Budget Figures,” Stockholm International Peace Research Institute, March 31, 2014, <https://www.sipri.org/node/377>.

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