



U.S.-China Economic and Security Review Commission
Staff Research Backgrounder

June 11, 2013

**Taiwan's Declining Defense Spending Could Jeopardize
Military Preparedness**

by

Craig Murray,
Senior Policy Analyst, Military and Security Affairs

with

Kyle Churchman, Research Intern

Disclaimer: This paper is the product of professional research performed by staff of the U.S.-China Economic and Security Review Commission, and was prepared at the request of the Commission to support its deliberations. Posting of the report to the Commission's website is intended to promote greater public understanding of the issues addressed by the Commission in its ongoing assessment of U.S.-China economic relations and their implications for U.S. security, as mandated by Public Law 106-398 and Public Law 108-7. However, the public release of this document does not necessarily imply an endorsement by the Commission, any individual Commissioner, or the Commission's other professional staff, of the views or conclusions expressed in this staff research report.

While China's Military Capabilities Grow, Taiwan's Defense Budgets Continue to Decline

Taiwan's primary security objectives are to defend against China's efforts to force reunification and preserve cross-Straits peace and stability. These goals are intended to protect Taiwan's autonomy and maintain an environment that enables sustained economic development.¹ While Taiwan's military over the last decade has made some improvements, it has focused largely on sustaining existing capabilities. China's rapid military modernization during this time has "negated" many of the military advantages Taiwan previously held over China, according to the U.S. Department of Defense's *Annual Report to Congress on the Military and Security Developments Involving the People's Republic of China 2013*.² The report states the People's Liberation Army (PLA) is "capable of increasingly sophisticated military action against Taiwan."³

Despite its growing military disadvantage relative to China, Taiwan's defense budget continues to decline. Taiwan's official 2013 defense budget contracted to NT \$312.7 billion (U.S. \$10.5 billion) from NT \$317.3 (U.S. \$10.6 billion) in 2012.⁴ According to the Congressional Research Service, Taiwan's current defense spending represents 2.1 percent of its gross domestic product (GDP), a record low matched only in 2006 and 2011. This is considerably less than 3 percent of GDP – the level at which President Ma Ying-jeou pledged to maintain defense spending⁵ – and marks a substantial decrease from 3.8 percent of GDP in 1994. Furthermore, defense spending accounts for only 16.2 percent of the total government budget in 2013, down from 24.3 percent in 1994. The Ministry of National Defense (MND) has stated publicly it would use supplemental funds to pay for arms sales from the United States.⁶

Taiwan's Defense Budgets, 1994-2013⁷

Source: Congressional Research Service

Fiscal Year	Military Budget (NT billion)	Military Budget (U.S. billion)	Percentage of GDP	Percentage of Total Government Budget
1994	258.5	9.8	3.8	24.3
1995	252.3	9.5	3.5	24.5
1996	258.3	9.5	3.4	22.8
1997	268.8	9.4	3.3	22.5
1998	274.8	8.2	3.2	22.4
1999	284.5	8.8	3.2	21.6
2000	402.9	12.9	2.9	17.4
2001	269.8	8.0	2.9	16.5
2002	260.4	7.5	2.7	16.4
2003	257.2	7.6	2.6	15.5
2004	261.9	7.8	2.4	16.7
2005	258.5	8.0	2.3	16.1
2006	252.5	7.8	2.1	16.1
2007	304.9	9.2	2.4	18.7
2008	341.1	10.5	2.5	20.2
2009	318.7	9.6	2.7	17.6
2010	297.4	9.3	2.2	17.3
2011	294.6	10.2	2.1	16.5
2012	317.3	10.6	2.2	16.4
2013	312.7	10.5	2.1	16.2

Official statements and documents⁸ suggest Taipei judges the current level of defense spending is sufficient and will remain stagnant through at least the end of President Ma's term in 2016 as he focuses on continuing to improve cross-Strait relations and strengthening "soft power" approaches to deterrence.⁹ Moreover, President Ma appears to have little incentive to increase the defense budget since improved cross-Strait relations have reduced public perception of the China threat in Taiwan,¹⁰ while domestic and social welfare issues have become more salient as Taiwan's economy attempts to recover from the global financial crisis and its workforce ages.

Underfunded All-Volunteer Force Transition May Force Taiwan to Make Budget Tradeoffs

Amid annual budget reductions, Taiwan since 2008 has been implementing a program to gradually convert its conscript-heavy active duty military into an all-volunteer force (AVF). In order to cover the higher salaries and recruitment and retention costs inherent in an AVF, the Taiwan military is downsizing its active duty force from approximately 270,000 to 215,000.¹¹

The AVF transition has been more expensive than anticipated and the military has had difficulty recruiting high quality volunteers.¹² This is due in part to demographic trends in Taiwan, such as a declining birth rate¹³ and a quickly aging workforce, as well as a culture that does not hold military service in high esteem.¹⁴ Originally scheduled to be complete by the end of 2014, these problems could force Taiwan to delay the full implementation of the AVF transition to 2015 or later.¹⁵

The Taiwan military already is making budget tradeoffs to ease the financial demands of the AVF transition. Taiwan has diverted funds from other portions of the defense budget to pay for rising personnel costs. Between 2009 and 2013, Taiwan increased the share allocated for personnel (from 40 to a projected 50.1 percent) and reduced shares allocated for operations (from 30.1 to a projected 22.5 percent) and investments (from 28.4 to a projected 25.9 percent).¹⁶

U.S. officials¹⁷ and outside observers¹⁸ suggest that, if this trend continues, the Taiwan military may struggle to maintain current operational capabilities, readiness levels, and equipment inventories. Taiwan also could find it increasingly difficult to make progress toward key modernization goals, such as preparing for a wider range of missions at greater distances from Taiwan and integrating "innovative" and "asymmetric" capabilities into its military.

- Taiwan's perception of its security environment has evolved since 2008 due to a number of developments, including the devastation caused by Typhoon Morakot in 2009,¹⁹ heightened tension over maritime territorial disputes in the region, and the increased levels of piracy in important sea lanes. As a result, Taipei is pushing its military to take on several new, non-traditional missions, such as providing humanitarian assistance/disaster relief inside and outside of Taiwan, defending Taiwan's sovereignty and commercial interests in the East and South China Seas, and protecting distant sea lanes.²⁰
- Since approximately 2009, the Taiwan military has focused on developing and fielding innovative and asymmetric platforms and weapon systems, including a fleet of stealthy patrol craft and additional mobile missile squadrons and radars.²¹ According to Taiwan defense officials, this approach will improve Taiwan's ability to defend against the PLA's rapidly growing capabilities and allow it to target assessed vulnerabilities in the PLA's strategy and weapon systems.²² Furthermore, Taiwan judges asymmetric systems will be more cost-effective and reduce its reliance on major, conventional weapon systems that are vulnerable to the PLA's precision strike capabilities.²³

Implications for the United States

As Taiwan struggles with its declining military preparedness, Taipei may seek to develop closer political ties with Washington and to acquire additional U.S. arms and related military assistance. Furthermore, Taiwan's diminishing ability to maintain a credible deterrent capability could provide incentives and create opportunities for Beijing to take on greater risk in its approach to cross-Straits relations, including pressuring Taipei to move toward political talks or using military force to achieve political objectives.

¹ Taiwan Ministry of National Defense, *Quadrennial Defense Review* (Taipei, Taiwan: March 13, 2013). OSC ID: CPP20130409312001. Taiwan began the QDR process as the result of 2008 legislation stipulating that the Ministry of National Defense (MND) must submit a QDR to the legislature no later than 10 months after each presidential inauguration. The QDR serves as Taiwan's most authoritative public statement on its defense strategy, capabilities, and modernization and provides the foundation for defense policymaking, including the MND's Ten-Year Force Buildup Concept and Five-Year Force Construction Plan. Taiwan also uses the QDR as a public relations tool to inform and influence domestic and foreign opinion. The document is drafted by the MND's Integrated Assessment Office and includes input from MND staff units and agencies, Taiwan's military services, and civilian experts. For background on the QDR process, see Alexander Chieh-cheng Huang, *A Midterm Assessment of Taiwan's First Quadrennial Defense Review* (Washington, DC: The Brookings Institution, February 2011).

² U.S. Department of Defense, *Annual Report to Congress on China's Military Power, Military and Security Developments Involving the People's Republic of China 2013*, p. 59 (Washington, DC: May 2013).

³ U.S. Department of Defense, *Annual Report to Congress on China's Military Power, Military and Security Developments Involving the People's Republic of China 2013*, p. 56 (Washington, DC: May 2013).

⁴ Shirley Kan, *Taiwan's Major U.S. Arms Sales since 1990* (Washington, DC: Congressional Research Service, March 14, 2013). For additional background, see Taiwan Executive Yuan's Directorate General of Budget, Accounting and Statistics, *Taiwan Central Government Budget* (Taipei, Taiwan: January 15, 2013); U.S.-Taiwan Business Council, *Defense and Security Report: Annual Review 2012* (Arlington, VA: January 1, 2013); Center for Strategic and International Studies, *Asian Defense Spending, 2000-2011* (Washington, DC: October 2012). Of note, due to fluctuations in the NT-U.S. exchange rate, U.S. dollar figures for Taiwan's defense budgets vary slightly across the sources.

⁵ Taiwan Ministry of National Defense, *National Defense Report* (Taipei, Taiwan: October 27, 2009). OSC ID: CPP20091027312001; Alexander Chieh-cheng Huang, *A Midterm Assessment of Taiwan's First Quadrennial Defense Review* (Washington, DC: The Brookings Institute, February 2011).

⁶ Grace Kuo, "MND Reaffirms Strong Taiwan-US Defense Ties," *Taiwan Journal*, May 9, 2013.

<http://taiwantoday.tw/ct.asp?xItem=204910&CtNode=436>.

⁷ Shirley Kan, *Taiwan's Major U.S. Arms Sales since 1990* (Washington, DC: Congressional Research Service, March 14, 2013).

⁸ Andrew Yang (Vice-Minister, Policy, Ministry of National Defense, Taiwan), "Changes in the Asia-Pacific Security Environment and the ROC's Defense Transition" (The Brookings Institution, Washington, DC, April 29, 2013); Chia-Sheng Chen (Director, Defense Net Assessment Division, Department of Integrated Assessment, Ministry of National Defense, Taiwan), "The 2013 Quadrennial Defense Review of the ROC" (The Brookings Institution, Washington, DC, April 29, 2013); Taiwan Ministry of National Defense, *Quadrennial Defense Review* (Taipei, Taiwan, March 13, 2013). OSC ID: CPP20130409312001; Taiwan Ministry of National Defense, *Ministry of National Defense issues a press release clarifying that Mr. Stanton's published views are not entirely objective* (Taipei, Taiwan: May 9, 2013).

<http://www.mnd.gov.tw/Publish.aspx?cnid=65&p=56665>; "Ministry Rebuts Stanton," *Taipei Times*, March 20, 2013.

<http://www.taipeitimes.com/News/taiwan/archives/2013/03/20/2003557538>.

⁹ Phillip Saunders, "The 2013 Quadrennial Defense Review of the ROC" (The Brookings Institution, Washington, DC, April 29, 2013); William Stanton, "National Security and Taiwan's Future" (World Taiwanese Congress, Taipei, Taiwan, March 15, 2013).

<http://michaelturton.blogspot.com/2013/03/stantons-speech-at-world-taiwanese.html>; *Focus Taiwan*, "President touts 'peace dividends' with China at New Year event," February 18, 2013.

<http://focustaiwan.tw/news/aip/201302180033.aspx>; *The China Post*, "Defense highly dependent on soft power: president," October 11, 2011. <http://www.chinapost.com.tw/taiwan/national/national-news/2011/10/11/319449/Defense-highly.htm>;

Robert Sutter, "Taiwan's Future: Narrowing Straits," *NBR Analysis* (May 2011); Cindy Sui, "'Soft Power' raises Taiwan's profile," *BBC News*, October 24, 2010. <http://www.bbc.co.uk/news/world-asia-pacific-11609099>; Richard Bush, "The Social Foundation of Taiwan's Future: Guns, Wheelchairs and Shark's Fin Soup," (Columbia University, New York City, June 13, 2010). <http://www.brookings.edu/research/speeches/2010/06/13-taiwan-bush>; Ma Ying-jeou, "Ma Ying-jeou: The Ministry of Defense Should Clearly Articulate a New National Defense Strategy," *Central News Agency*, March 4, 2009. <http://www.epochtimes.com/b5/9/3/4/n2450708.htm>.

-
- ¹⁰ Taiwan Mainland Affairs Council, *Public Opinion on Cross-Strait Relations in the Republic of China: Beijing's Hostility toward ROC* (Taipei, Taiwan: September 2012). <http://www.mac.gov.tw/public/Attachment/212271540127.gif>.
- ¹¹ Taiwan Ministry of National Defense, *Quadrennial Defense Review* (Taipei, Taiwan, March 13, 2013). OSC ID: CPP20130409312001; Taiwan Ministry of National Defense, *National Defense Report* (Taipei, Taiwan: October 27, 2009). OSC ID: CPP20091027312001.
- ¹² *Associated Press*, "Taiwan Runs Short of Volunteers in Military Shift," May 13, 2013. <http://bigstory.ap.org/article/taiwan-short-volunteers-military>.
- ¹³ CIA – The World Factbook, *Taiwan*. <https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html>.
- ¹⁴ Peter Enav, "Taiwan runs short of volunteers in military shift," *Associated Press*, May, 13, 2013. <http://news.yahoo.com/taiwan-runs-short-volunteers-military-shift-023154016.html>.
- ¹⁵ Vincent Y. Chao, "Delay to end conscription could affect 110,000 men," *Taipei Times*, March 30, 2011.
- ¹⁶ US-Taiwan Business Council, *Defense and Security Report: Annual Review 2012* (Washington, DC: US-Taiwan Business Council, January 2013); Katherine Wei, "Military's budget should favor weapons over recruitment: DPP," *The China Post*, May 9, 2013; Taiwan Ministry of National Defense, *National Defense Report* (Taipei, Taiwan: October 27, 2009). OSC ID: CPP20091027312001.
- ¹⁷ U.S. Department of Defense, *Annual Report to Congress on China's Military Power, Military and Security Developments Involving the People's Republic of China 2013* (Washington, DC: May 2013); U.S. Senate Armed Services Committee, *Advance Policy Questions for Admiral Samuel Locklear III, Nominee to be Commander, U.S. Pacific Command*, February 9, 2012. <http://www.armed-services.senate.gov/statemnt/2012/02%20February/Locklear%2002-09-12.pdf>.
- ¹⁸ Randall Schriver, "Assessing Taiwanese President Ma's Message to America," (Washington DC: The Brookings Institution, April 16, 2013). <http://carnegieendowment.org/2013/04/16/assessing-taiwanese-president-ma-s-message-to-america/fyzl>; Phillip Saunders, "The 2013 Quadrennial Defense Review of the ROC" (The Brookings Institution, Washington, DC, April 29, 2013); Richard Bush, "Facing Mainland China: Taiwan's Future Challenges," (Tamkang University, Taipei, April 10, 2013). <http://www.brookings.edu/research/speeches/2013/04/10-taiwan-future-bush>; Fu S. Mei, "Taiwan's Defense Transformation and Challenges under Ma Ying-Jeou," *The Jamestown Foundation China Brief* 11:7 (April 22, 2011); Alexander Chieh-cheng Huang, *A Midterm Assessment of Taiwan's First Quadrennial Defense Review* (Washington, DC: The Brookings Institute, February, 2011); Albert Willner, "Implications of Recent and Planned Changes in Taiwan's Defense Posture," in Roger Cliff, Phillip Saunders, and Scott Harold, eds., *New Opportunities and Challenges for Taiwan's Security* (Santa Monica, CA: RAND Corporation, 2011).
- ¹⁹ Mark Stokes and Tiffany Ma, *Taiwan, the People's Liberation Army, and the Struggle with Nature* (Arlington, VA: The Project 2049 Institute, May 23, 2011).
- ²⁰ Taiwan Ministry of National Defense, *Quadrennial Defense Review* (Taipei, Taiwan, March 13, 2013). OSC ID: CPP20130409312001; U.S.-China Economic and Security Review Commission, *Hearing on Taiwan-China: Recent Economic, Political, and Military Developments across the Strait, and Implications for the United States*, written testimony of Mark Stokes, March 18, 2010; U.S.-China Economic and Security Review Commission, *Hearing on Taiwan-China: Recent Economic, Political, and Military Developments across the Strait, and Implications for the United States*, written testimony of Albert Willner, March 18, 2010.
- ²¹ William Lowther, "National self-defense key to peace, stability: official," *Taipei Times*, May 1, 2013; Phillip Saunders, "The 2013 Quadrennial Defense Review of the ROC" (The Brookings Institution, Washington, DC, April 29, 2013); Taiwan Ministry of National Defense, *Quadrennial Defense Review* (Taipei, Taiwan, March 13, 2013). OSC ID: CPP20130409312001; Michael S. Chase, "The Role of U.S. Arms Sales in Taiwan's Defense Transformation," *The Jamestown Foundation China Brief* 10:5 (Spring 2010). http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=36121&cHash=6a62890cd7.
- ²² Chia-Sheng Chen (Director, Defense Net Assessment Division, Department of Integrated Assessment, Ministry of National Defense, Taiwan), "The 2013 Quadrennial Defense Review of the ROC" (The Brookings Institution, Washington, DC, April 29, 2013); Andrew Yang (Vice-Minister, Policy, Ministry of National Defense, Taiwan), "Changes in the Asia-Pacific Security Environment and the ROC's Defense Transition" (The Brookings Institution, Washington, DC, April 29, 2013).
- ²³ Michael Lostumbo, "A New Taiwan Strategy to Adapt to PLA Precision Strike Capabilities," in Roger Cliff, Phillip Saunders, and Scott Harold, eds., *New Opportunities and Challenges for Taiwan's Security* (Santa Monica, CA: RAND Corporation, 2011).