



**High Tide – Low Tide – Defence Budgets:
Increase in Asia, Decrease in Europe and America
Reasons and Consequences**

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ANALYSIS

1. Introduction

Using the terms “Low tide” versus “High tide” as a picture does neither imply a direct connection between the divergent developments in the two geostrategic regions as kind of a zero sum game nor that – like at the Oceans – a third, outside element drives both developments.

Rather, it is to underline that in our globalized world it is advisable to take a bird’s view as regards security and defence matters before one dives into regional or country details.

My attention towards this issue grew from attending the 2011 Munich Security Conference. In his remarks the Secretary General of NATO, Anders Fogh Rasmussen, made a strong point that the financial and deficit crisis should not become a security crisis due to uncoordinated cuts of defence spending in member nations. During the discussion, it was the Australian Foreign Minister Kevin Rudd who expressed his surprise of this “cutting debate” since in his region the development was rather marked by an increase in defence expenditures and not just in the PRC¹.

It was at the NATO defence ministers meeting in Brussels in June that US Secretary of Defence Robert Gates in his last attendance addressed the audience with a stark message. He saw insufficient efforts in European countries to sustain not to speak of creating the required military capabilities in order to achieve the commonly agreed level of ambition. He added that the Europeans cannot rely anymore on a fully fledged military spectrum of the US since the highest US defence budget after the Korean war will have to be reduced due to the indispensable and huge cuts in the federal budget. This theme was repeated and emphasized in early October by his successor, Leon Panetta, during the follow on meeting of NATO’s defence ministers.

Days before at a conference in Singapore Gates praised the opportunity to meet with Asian allies, especially as Washington works to remain influential in Asia in the face of those foreseeable budget cuts. “I think as the kinds of problems that the world is facing make it more difficult, to be successful with a unilateral approach, the opportunity to build these partnerships becomes even more important,” he said. But he pointed to the fiscal challenges at home and in the Q & A period he emphasized that sharing of the burden and responsibility would become even more prevalent. He “expect(s) this area of the relationships to come under more scrutiny in the time ahead”, esp. in both chambers of the US Congress. That the uneasiness of Asian countries concerns the U.S. seems obvious when following the visit of the new Secretary of Defense, Leon Panetta, to Indonesia, Japan and South Korea. Everywhere he stressed, “That the U.S. is going to remain a presence in the Pacific for a long time”.

2. Developments in Europe and America

In Europe, several trends, perceptions and facts influence the already limited defence capabilities in the foreseeable future.

¹ Peoples Republic of China



2.1 Risk and threat perception

Over the last few years many countries - already pressed by limited or even shrinking defence allocations - started individually or collectively - to concentrate their assessment of risks, dangers and threats on the more likely and played only little attention or just lip service to the most demanding ones as regards necessary capability development.

Thus, a conventional war or a hostile act, i.e. localised aggression against EU or NATO countries by non EU or non NATO nations received a marker of very low probability. The focus is on potential crisis and conflicts outside the EU or NATO area. This determines the agreed level of ambition at national, EU and NATO level. EU and NATO documents request the ability to confront the full spectrum of military endeavours. NATO's defence ministers confirmed its ambition of two Major Joint Operations (MJO) and up to 5 - 6 Smaller Joint Operations (SJO), the EU stays with her decision of crisis response operations up to 60.000 troops for one year at strategic distances.

The new threats like in the cyber domain, energy security or emerging technologies are not assessed as primarily military challenges. Rather to the contrary, the military structures need help to protect their own structures.

In this context as well as with counterterrorism, the formerly clear(er) distinction between external and internal security has lost its contours or even lost its relevance at all – with additional consequences to the defence budgets.

2.2 The fragmented European defence community

With political entities like NATO and the European Union in the West many tend to just aggregate country data to one total sum. But this is a misleading approach. While there are common documents, texts and even concepts both in NATO and the EU security and defence matters remain widely reserved to a national authority. Thus, the nations decide what capabilities they need, can afford and are willing to contribute to current or future multinational endeavours. The balance between the U.S. and the Europeans in NATO has shifted even further away from the Europeans. Twenty years ago, the U.S. stood for 50 % of the resources in the Alliance. Today, the U.S. holds 70 % of the capability burden. Yes, the U.S. defence budget has risen after 9/11 over the last ten years and with two major wars to almost 700 billion dollars. But under today's U.S. efforts to reduce its deficit dramatically, the defence sector will receive a great deal less funding than during the years passed. This will carry considerable consequences for the collectively accessible capabilities but also regarding the U.S. readiness and willingness to engage overwhelmingly in crisis response efforts in or close to Europe.

While the commonly agreed purpose, goals and overall objectives in NATO's S.C. 2010 present a rather comprehensive picture, those abstract texts have not been operationalized down neither to synchronized national activities nor to coherent contributions of any detail.

A recent EU study shows the fragmentation of the 27 EU member states. With the field of defence as a national responsibility it is assessed, that the 325 billion US \$ spent by 27 countries result in only about 20 % of the efficiency of the defence expenditures compared to a respective U.S. effort. The uneven dis-



tribution of the defence efforts amongst the 27 is illustrated by the fact the France and the United Kingdom make up for about 50 % of the defence expenditures and even 70 % of the funding for R & T costs. The decrease of the 27 defence budgets carries even harsher consequences on the capabilities when one considers the different national procedures for the development, acquisition and life cycle measures in the field of capabilities. These peculiarities are partly rooted in the national military cultures. But they are also heavily influenced by the diverse composition of the defence industries – where those still exist.

2.3 “Soft” versus “hard” power

With the fortunate end of the “Cold War” following the fall of the Berlin Wall the recognition of an obvious requirement for a strong military force for deterrence and defence was degraded. In the complex and complicated world of crisis management so-called conventional wisdom often portrays that there is no such thing as a military solution to the challenges in crisis or conflicts. This carries and supports the (mis)perception that, therefore, military capabilities become less important or - even worse - in some areas counterproductive. This view is also supported by a 50 years history of the EU presented as a “declared civil power” of global reach. Even more than ten years after the creation of a common European security and defence policy this cultural description carries additional weight as funding priorities need to be decided in times of austerity.

Under those circumstances in a fragmented defence domain the financial crisis with potentially detrimental results for the European countries should and could be turned into an opportunity for closer cooperation not only on concepts and doctrines but also on structures and organizations, capability development and acquisition, the latter closely connected with an indispensable defence industry consolidation of the diverse and competing companies.

2.4 Some facts and figures

The first drastic reduction of available Armed Forces in NATO countries happened in the early 1990ies. The so-called “peace dividend” was highly welcome and taken as a relief from the decades of the “Cold War” with high efforts for defence including a huge mobilization organization. Some examples²:

Germany:	1985	52.0 bn US \$	3.2 % of GDP	
	1999	31.0 bn US \$	1.6 % of GDP	(even with the unification of the country and the Balkan engagement since 1995)
U.S.:	1985	382.0 bn US \$	6.5 % of GDP	
	1999	283.0 bn US \$	3.1 % of GDP	(most reductions related to European area, like forward stationing and “Reforger” efforts)
Poland:	1985	8.5 bn US \$	8.1 % of GDP	
	1999	3.2 bn US \$	2.1 % of GDP	(end of Warsaw Pact, preparation to join NATO)

² Figures: Military Balance 2000-2001, IISS, London

The only increase took place in

Turkey:	1985	3.4 bn US \$	4.5 % of GDP	
	1999	10.2 bn US \$	5.5 % of GDP	(due to internal issues and uncertainties in neighbouring countries)

A study for the EU Parliament stated this summer that first with the financial and now the budget/debt crisis the short term reductions (1 - 4 years) will range between 30% for smaller countries, 10 - 15 % for medium size countries and below 8 % for larger countries. Since the way out of the debt problem is a long term problem the study expects a period of up to 20 years of either further reduced or stagnant defence budgets.

This outlook can dramatically limit the possibilities of EU as well as NATO to act effectively in crisis prevention, –control, –management and post conflict stabilization.

2.5 Proposed ways ahead

In order to mitigate those negative effects that counter the intention of a capable, active and coherent security and defence policy the European countries both in the EU and in NATO will have to prioritize and concentrate their defence efforts.

1. The still existing strategic capability gaps that both organizations have identified for more than 10 years require sufficient resources.
2. The armament and acquisition domain including R & T has to be brought from the mostly national level to a common either EU or NATO level to create more common if not standardized solutions.
3. The “Pooling & Sharing” Initiative in the EU or the *Smart Defence” effort in NATO driven by Secretary General Rasmussen add to a long list of capability initiatives since the mid 1990ies that achieved very little.
4. A success of those approaches requires a consolidation of the existing European defence industries to overcome the nationally guarded companies that deliver small numbers of equipment at ever higher prices.

Those are no new proposals. But one might hope that the dramatic debt crisis can help to overcome the widely fragmented area and to build practical agreements that lead to

- common requirements
- common development
- common acquisition and
- common use of equipment.

Those measures could enable the EU as well as NATO with their member states to build effective units and structures - even in times of austerity - that ensure efficient action across the full spectrum of missions when called upon to act in response to a crisis.



3. Remarks on the “high tide” in Asia

My remarks are from an outside person that does not claim to be an expert on the security and defence issues of the huge and diverse Asian region. I will present them in three parts: First some facts and figures, second some reasoning for the present and foreseeable development and third what might be done to either avoid or - if already under way - limit any arms race.

3.1 Some facts & figures

Within the last years there have been a lot of articles and media attention to expenditures for military capabilities and the modernization efforts in Asia in general and in China in particular.

In Western media and publications this often goes hand in hand with some dramatization combining the double digit increases of the overt China defence budget and a pronounced national standpoint on territorial as well as maritime issues. In this perspective the raised defence budgets of other Asian nations are seen as a precautionary reaction to the regionally more than impressive Chinese power, economically and more and more militarily, too.

The military balance edition from Cordesman shows that from 2000 to 2010 defence expenditures grew

in China by	252 %
in Russia by	70 % ³
in India by	53 %
in S. Korea by	28 %
in Japan by	4 %

Those figures vary in other publications. But the general direction of significant increases is – with the exception of Japan - widely documented.

The SIPRI database shows also in other South and Southeast Asian countries like Vietnam, Indonesia, the Philippines, Malaysia and – to a lesser extent – Taiwan considerable increases. In several cases these do not follow a linear path. There are adaptations to economic and other factors. But generally speaking the defence expenditures are increasing moderately in some countries and significantly in others, China being the predominate frontrunner.

The rise of expenditures supports the modernization of the respective armed forces and the purchase of more sophisticated equipment esp. in C4ISR⁴, naval and air capabilities. As such this does not answer the question whether there is an ongoing or beginning arms race.

For an outside observer of the region a look at the percentage of the defence budgets in relation to the GDP of each Asian nation presents a picture that would hardly support the assessment of an arms race, if one starts from the notion that in such a case the efforts for defence would eat up an ever larger portion of the countries respective GDP.

³ The FAZ, 14 Oct. 2011, reported a three year increase of 9 billion Euro to modernize the Russian defence industries.

⁴ Command Control Communication Computers, Intelligence, Reconnaissance and Surveillance



Many if not all countries of the region spend a lower or a just equal percentage of the GDP in 2010 compared with 2000 or 2001.

Nevertheless, it is obvious that this development of extended efforts regarding military capabilities raises questions, leads to concerns, nervousness and wariness throughout the countries in the region, the U.S. and beyond.

3.2 China and its military build up

The historical background might explain why a national consensus exists in this field between the Communist Party and the majority of the Chinese people.

“Never being offended, never humiliated again” is a short expression used by Mao in 1949. The “four modernizations” of Deng Xiaoping started in 1978. They paraphrase the old dream of an - internally - prospering and - externally – strong China. Today, China has become the second largest economy in the world, but the “march to modern times” is still a long way to go. The Chinese government is acting under the objective of China’s “peaceful rise”. For the government and the people there is no contradiction between this goal and the actual military modernization and build-up of capabilities. They aim at building a “national comprehensive power”. The cultural heritage, the extraordinary economic growth and a commensurate military power are three pillars. The military – from the Chinese perspective – is a required asset not to intimidate others but not to be intimidated by others.

Four present strategic challenges shape the concrete background of the military activities as presented and discussed in many documents and analyses.

- Prevent any kind of official independence of Taiwan. A militarily strong PRC is to deter any adventures or misperception on the Taiwanese side.
- Keep at bay any real or potential foreign interference in domestic affairs.
- Territorial claims in the South and Est China Sea by different nations require a strong standing not to be pushed in giving in prematurely. Last but not least
- The issues of maritime security and freedom of navigation that become critical for a nation relying heavily on access to many natural resources and in need to reach all markets with its products.

3.3 The challenges for the region

For the majority of the states in the region with positive economic developments one finds that - with a relatively constant percentage of the growing GDP - the military expenditures raise, too. But in a very peaceful, cooperative environment one could even assume, that the percentage of GDP would decrease and priorities of the states would fall in other domains, and this without decreasing defence budgets in real terms.

Thus, there must be other reasons why defence budgets go up. The territorial disputes are one rational for some countries. Besides this, the questions of declared objectives on one side and hidden intentions



or agendas on the other influence the equation. Where different actors are involved one of Clausewitz insights come into play: *“here we are concerned ... with the fact that the very nature of interaction is bound to make reaction unpredictable. The effect that any measure will have on (other actors) is the most singular factor among all the particulars of action” (p. 161).*

In this field, analysis and assessments are often based on subjective interpretation, on perception of other actors' behaviour. “A” takes in his view a purely defensive measure, “B” interprets it as an activity with offensive background or intentions and answers with his own defensive action. This again gets an offensive interpretation by the first actor. This dynamic can reach Clausewitz' interaction principle: Thus, *“each side will force the other to follow suit; each will [can] drive its opponent toward extremes and the only limiting factors are the inherent counterpoises.”(p. 84).*

This abstract notion will be mitigated in the real world endeavours, since *“the probabilities of real life replace the extreme and absolute required by theory ... From the opponent's character, from his institutions, the state of his affairs and his general situation each side, using the laws of probability, forms an estimate of its opponent's likely course of action”(p. 90).*

And this leads me to the recognition that - with all the understandable and obvious nervousness and worries of China's neighbours - most experts and politicians tend to agree, that China does not follow an expansionist path as such, neither territorial nor ideological accepting the use of offensive military power, not even towards Taiwan.

In order to deal with the political nervousness and a potentially volatile development some reflections and proposals might be considered:

In the Taiwan issue China will not act militarily on its own as long as Taiwan will refrain from officially declaring its independence. The uncertainty or the probability of the U.S. coming to the defence of Taiwan is a strong argument for China not to take military actions.

The territorial disputes require consultation. They have to be put in legal processes where they should be resolved peacefully

Chinese increasingly nationalistic voices combined with the too limited transparency of China's military modernisation and activities, esp. at sea, require not only the widely requested reassurance by the U.S. towards the countries in the region but even more the development and strengthening of regional forums for security policy, ASEAN and “ASEAN + three” as two examples.

When China reserves a whole chapter for confidence building measures in a recent White Paper then it has to overcome its vulnerability syndrome which supports the notion that transparency threatens national security.

With the described possible misperceptions with escalating effects time might have come to look for a regional arms control forum, where facts and figures, goals and objectives can be discussed. The aim of such a forum would and could be to limit or even shrink the military build up and expenditures. But even if there will be no or no quick real reductions, the dialogue and more transparency can help to stop eroding the confidence in China's declared policies and gives China the opportunity to better explain its activities in support of its **“peaceful rise”** as a great power which it claims.



4. Closing remarks

Looking back at the picture of “low tide - high tide” several points can be stated.

The uncoordinated decrease in defence capabilities in Europe can have as negative and destabilizing effects for security and stability in a globalized world as can a military build up based on offensive intentions or misperceived as such due to a lack of transparency.

If the EU and or NATO do not have the capabilities to deal effectively with emerging or open crises or conflicts that impinge on their interests directly or indirectly this will not only have negative effects for them but create repercussions in other regions.

If the military build up in Asia creates maybe misperceptions, wrong judgements or offensive intentions that lead to diplomatic, political, economic or even military escalation between two or more countries in the region the repercussions and negative consequences will be felt around the globe.

A successful and peaceful rise of China in close coordination and cooperation in the region and beyond can also increase the options to cooperate with EU, NATO and bilaterally on the many transnational security challenges from

- International terrorism and non-proliferation of nuclear weapons and missiles to
- Freedom of navigation (fight against piracy) and access to natural resources,
- Dealing with failed or failing states
- Energy security and climate change.

For all those areas there is great potential for common work. Thus, a strong and stable, prosperous and open China is in the interest of Europe.

And I hope that any erosion of the EU’s security and defence policy and NATO’s crisis response capability will not be taken in Asia as something that would support the rise of their region with the wrong notion of a zero sum game in our globalized world.

Not only in the heavy challenges of the financial, banking and state debt crisis – with already obvious repercussions of the “real economy”, but also facing the new security risks and dangers we either win together or loose together.

Remarks: *Opinions expressed in this contribution are those of the author.*

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