

The background of the slide is a collage of military parade images. On the left, there's a vertical strip showing soldiers in grey uniforms with helmets. To the right, there's a large red flag with yellow stars, partially visible. Below the main title, there are more images: soldiers in blue uniforms on the left and soldiers in camouflage uniforms marching on the right.

WHY TAIWAN'S DEFENSE SPENDING HAS FALLEN AS CHINA'S HAS RISEN

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Based on research w/ Gary Uzonyi and Tom Flores

US DoD REPORT ON THE PEOPLE'S REPUBLIC OF CHINA

“Preparing for potential conflict in the Taiwan Strait remains the focus and primary driver of China’s military investment”

- 2015 Report, p. I.



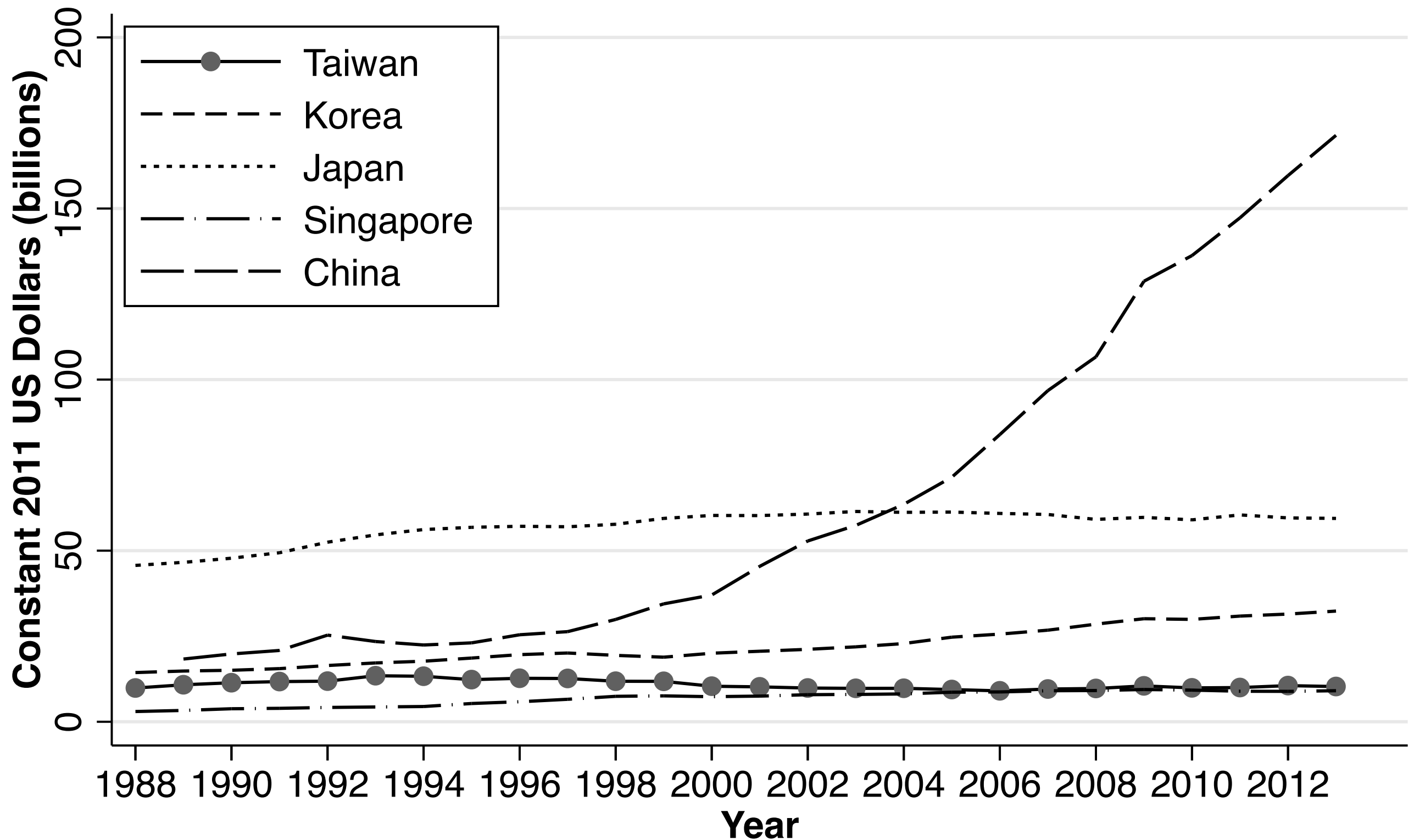
US DoD REPORT ON THE PEOPLE'S REPUBLIC OF CHINA

- PRC 2014 official military budget: 9.3% increase, to US \$136 bn.
- Unofficial estimates: >US \$165 bn.
- Taiwan's defense budget in 2014 was US \$10.3 bn. (about 2% of GDP)



Defense Expenditure in East Asia, Constant USD

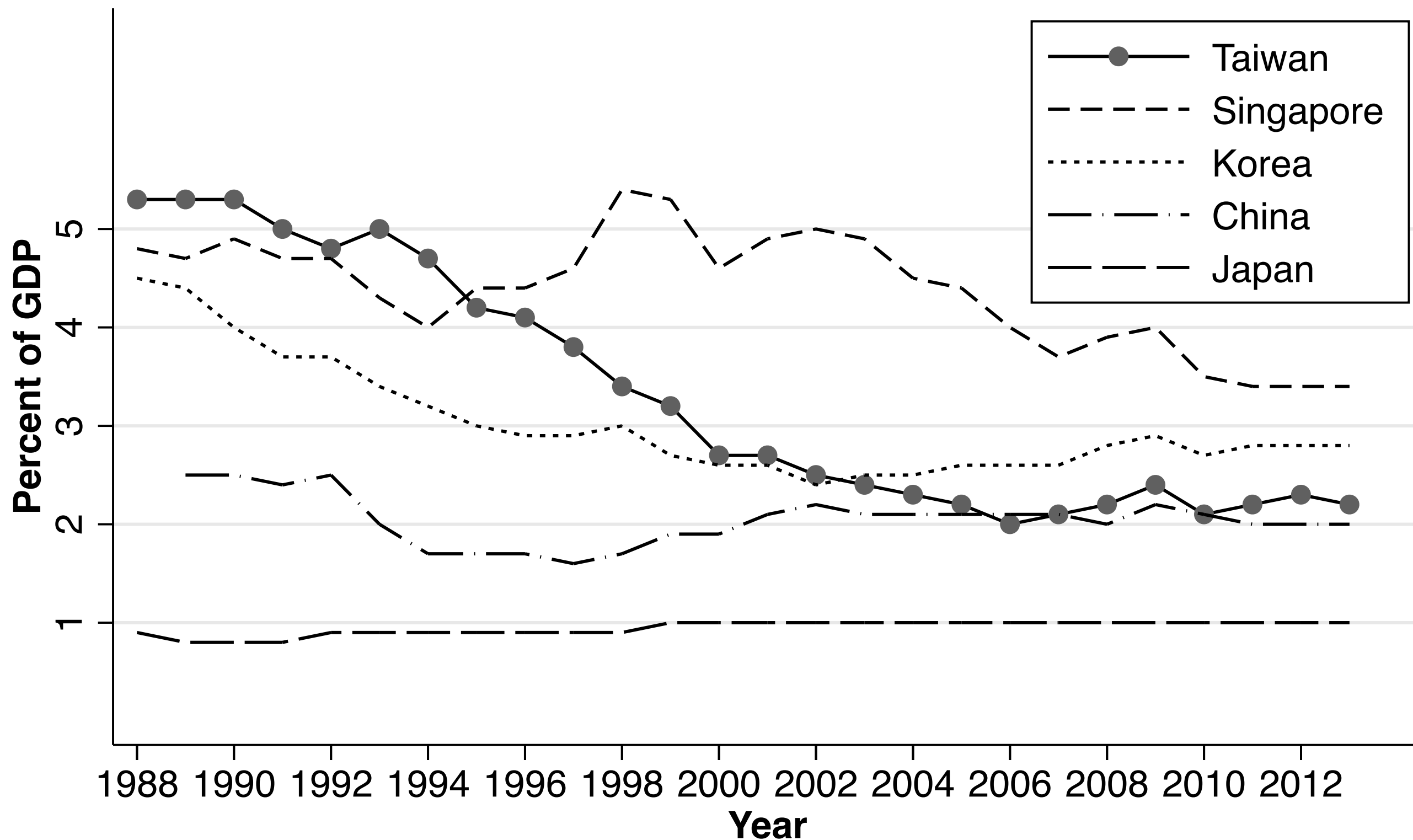
1988-2013



Source: SIPRI Military Expenditure Database (2014)

Defense Expenditure in East Asia, Percent of GDP

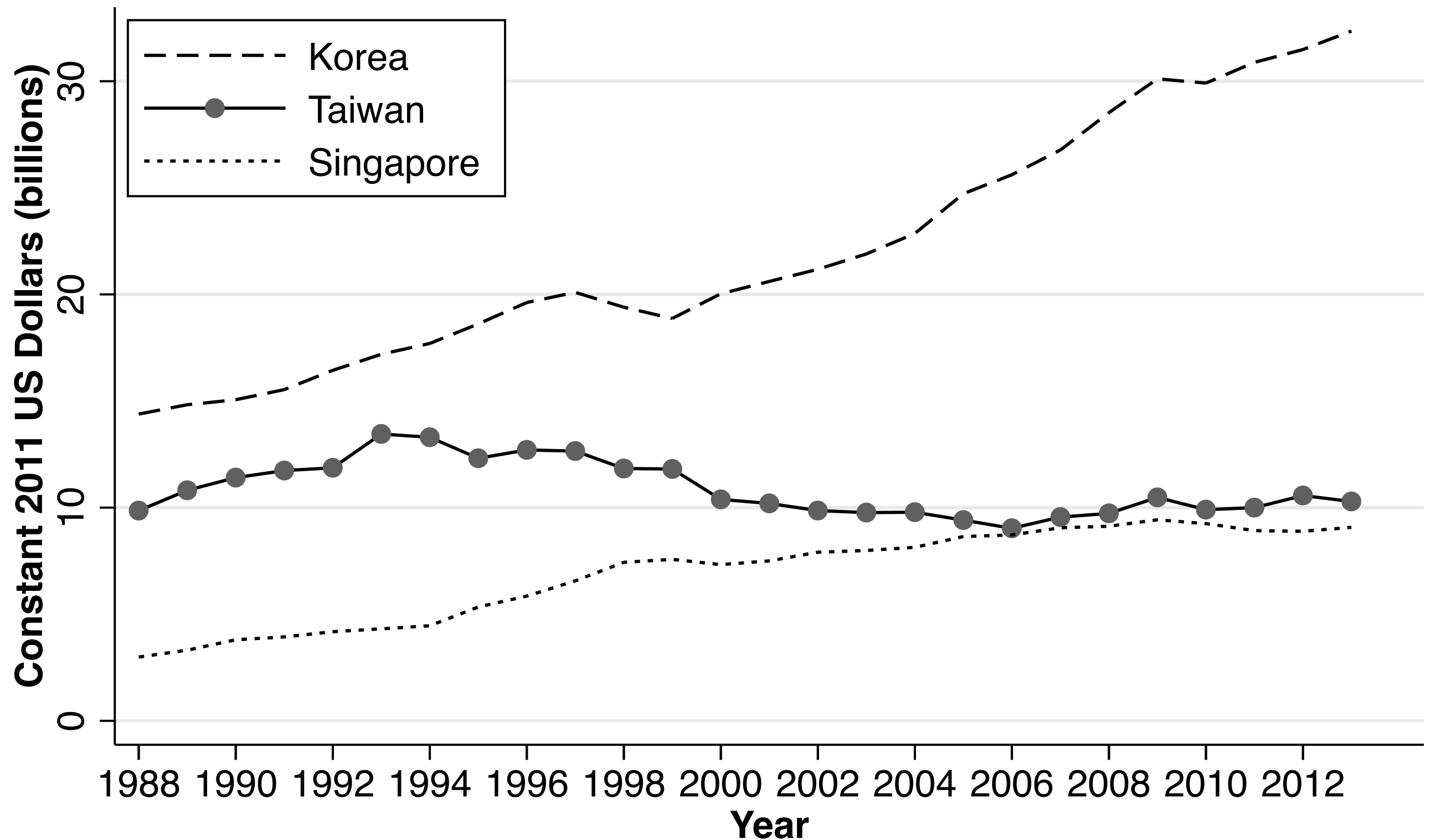
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Source: SIPRI Military Expenditure Database (2014)

Defense Expenditure in East Asia, Constant USD

1988-2013



Source: SIPRI Military Expenditure Database (2014)

THE PUZZLE: IF...

- the PRC's military budgets are rising by 10% a year...
- the PLA is acquiring credible new capabilities to threaten Taiwan's security, and...
- the PRC is explicit that it will use force against Taiwan if the island declares independence...

...then why has Taiwan's defense spending declined so much?

PREVIEW: DEMOCRACY DID IT

- **Crowding out effect:** intensified demands for non-defense spending
- **Divided government effect:** new weapons packages blocked in legislature
- **Burden-shifting effect:** greater reliance on US alliance, less deference to US demands



WHERE WE'RE HEADED

- The Data: Are They Wrong?
- Existing Theories: State Responses to External Threats
- Our Explanation: Democracy Did It
- Implications



THE DATA: TAIWAN'S DEFENSE SPENDING

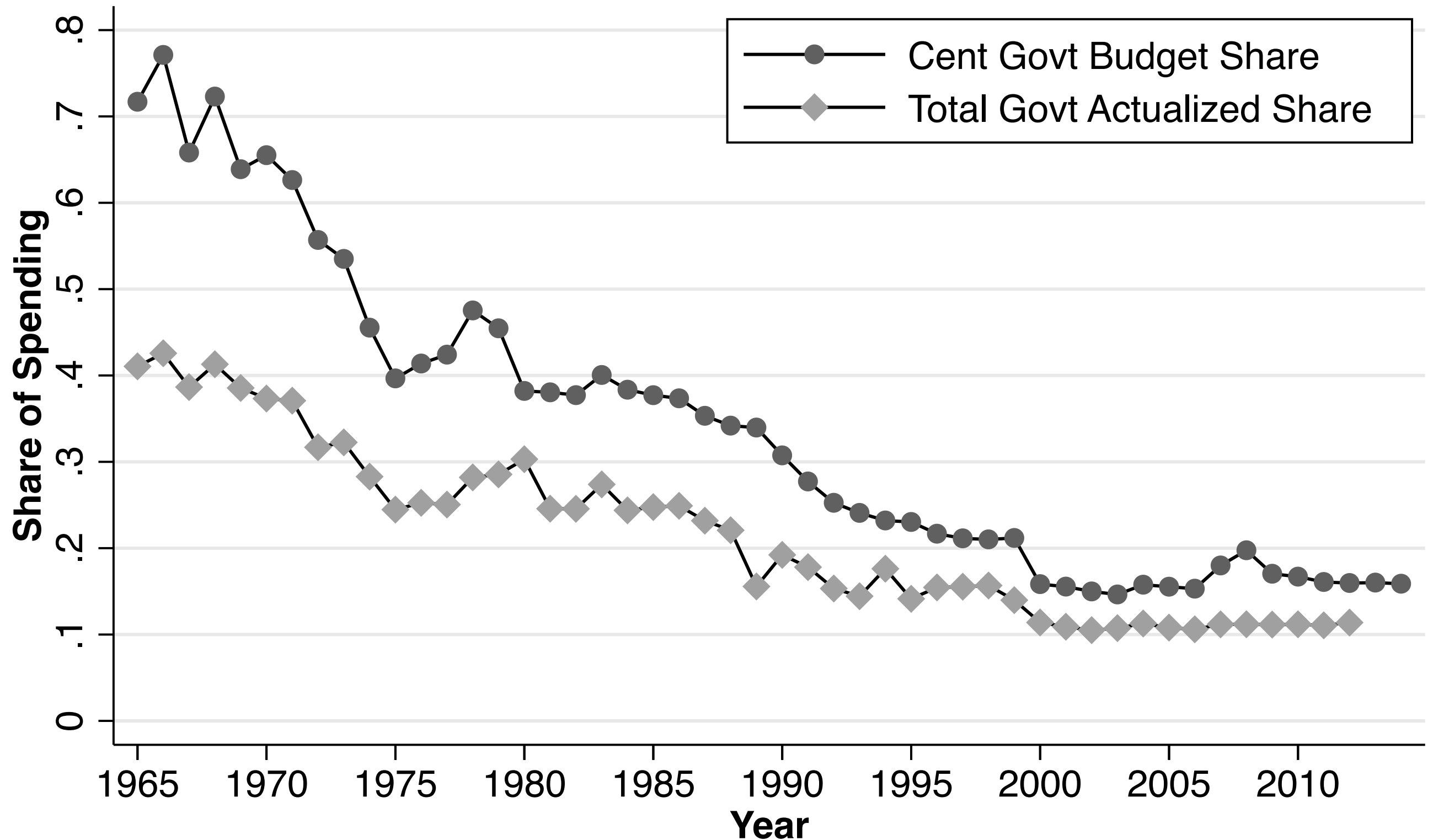
TAIWAN DATA: YEARBOOK OF FINANCIAL STATISTICS



- Better source than MND reports—back to 1950s
- Includes total & central budgets
- Includes actual & budgeted spending
- Broad spending categories: defense, education, etc.

Total vs Central Government Defense Expenditures

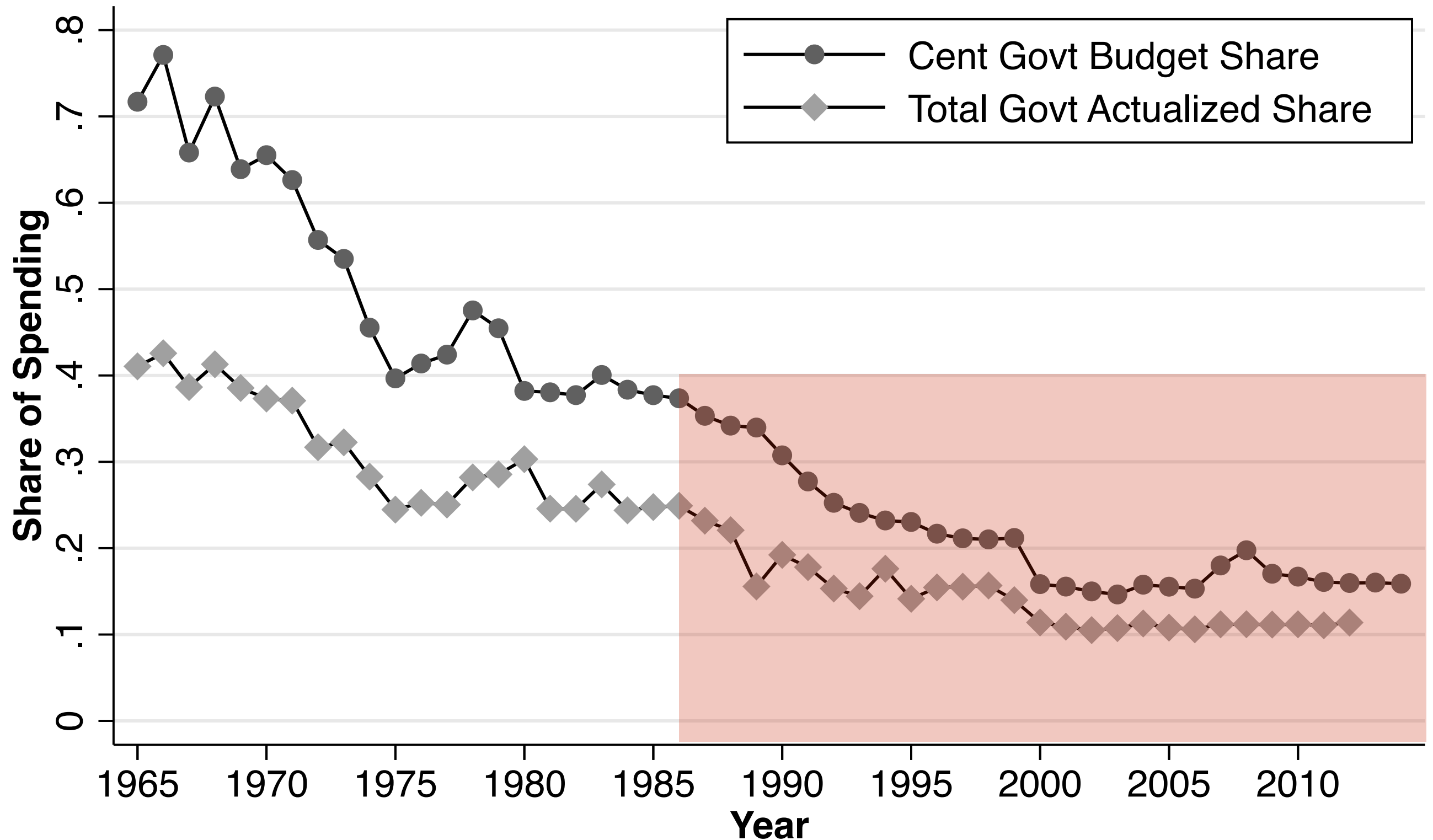
Share of Spending, 1965-2014



Source: ROC Yearbook of Financial Statistics, various years

Total vs Central Government Defense Expenditures

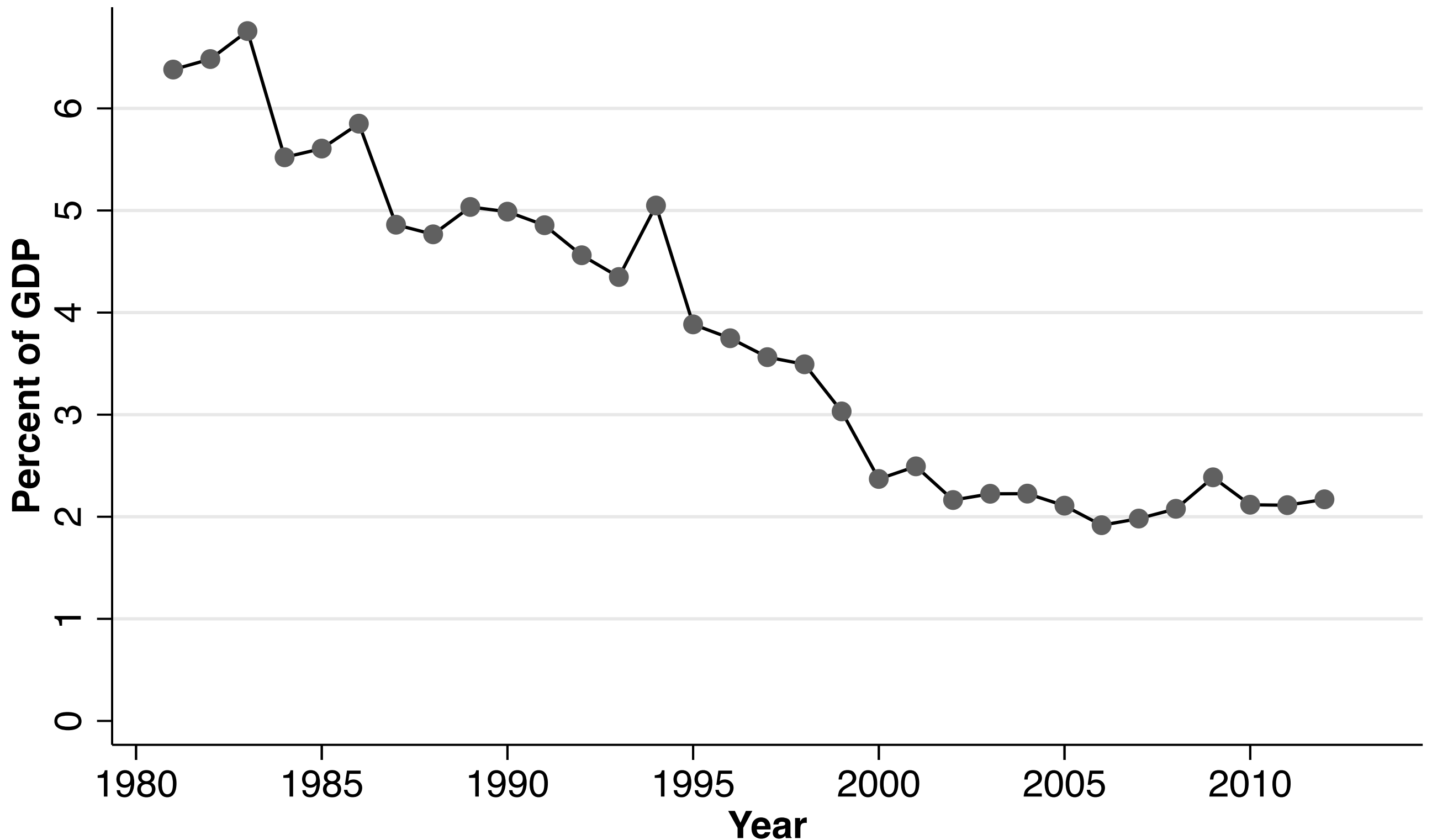
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Total Government Defense Expenditures

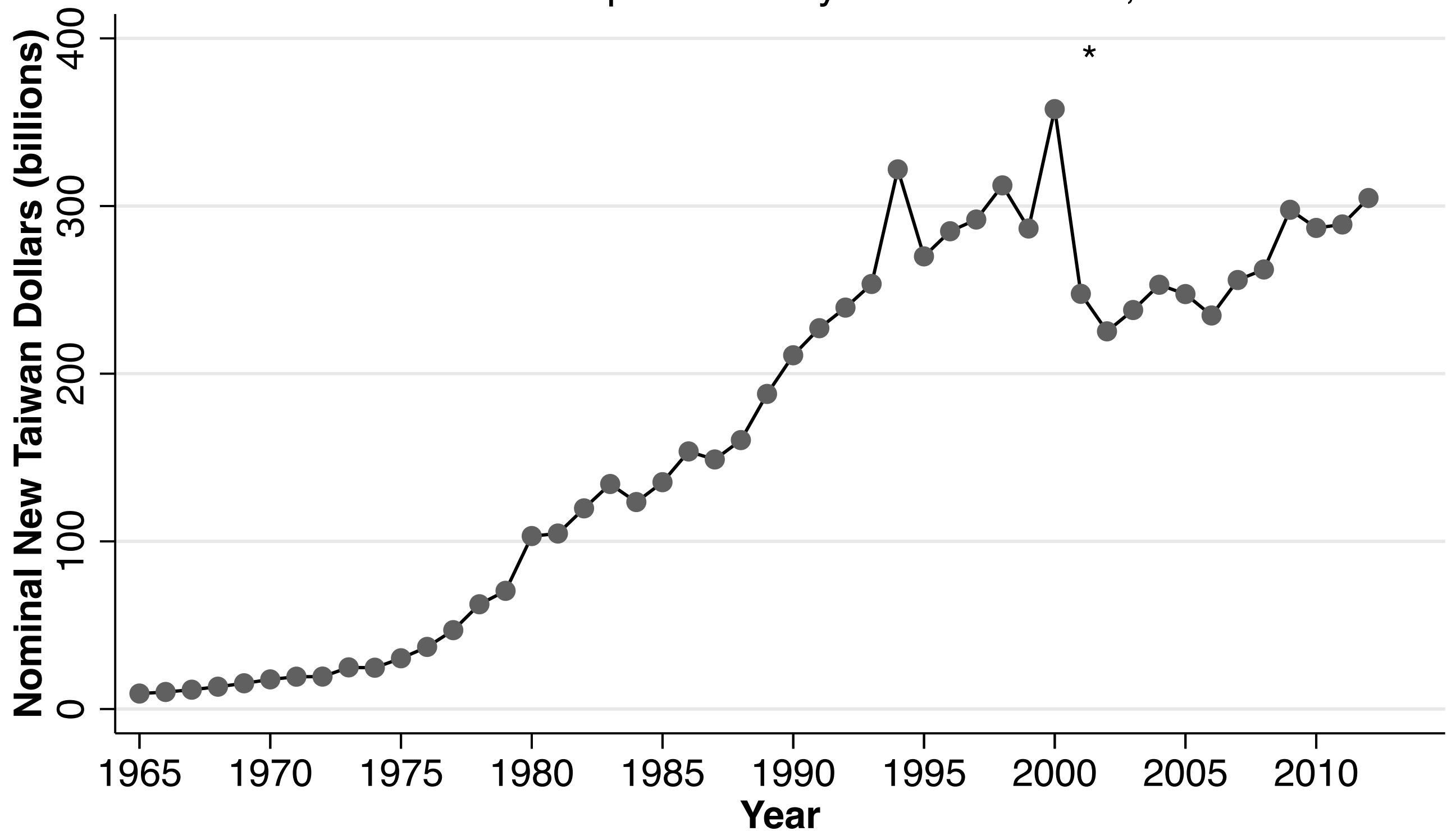
Actualized Annual Expenditure, Percent of GDP, 1981-2012



Source: ROC Yearbook of Financial Statistics, various years

Total Government Defense Expenditures

Actualized Annual Expenditure by Final Accounts, 1965-2012



*FY2000 spans 18 months

Source: ROC Yearbook of Financial Statistics, various years

TO SUM UP

- Real defense spending has fallen from 6% of GDP in 1980 to 2% now
- Defense share of total government spending has fallen from about 30% in 1980 to about 11% now
- Even in **nominal** terms (unadjusted for inflation), Taiwan's actualized spending on defense was **higher in 1994 than it was in 2014.**

EXISTING THEORIES

IR THEORIES PREDICT...

In the face of a rising threat, states will pursue one of three strategies:

1. **Arming:** build up one's own defense capabilities to deter the hostile state
2. **Allying:** seek new allies, give up some policy autonomy in exchange for security
3. **Bargaining:** negotiate with threatening state to preserve security

THE CHINA THREAT: HOW SERIOUS?



- 1996: Taiwan Strait crisis
- 2000: Chen Shui-bian elected
- 2004: Chen Shui-bian re-elected, PRC warns against “chaos” in Taiwan
- 2005: Anti-Secession Law passed
- 2008: Ma Ying-jeou elected

ALLIES: THE US IS IT

- 1954: US-ROC Mutual Defense Treaty signed
- 1979: US switches recognition to PRC, announces end of treaty
- 1979: Taiwan Relations Act passed: US views use of “non-peaceful means” as “grave threat to the security of the Western Pacific.”



ALLIES: THE US IS IT

US policy since early 1980s fundamentally unchanged:

- Deliberately ambiguous about whether it would aid Taiwan in event of hostile action against it by PRC, so as not to encourage declaration of independence
- But also maintains extensive informal ties, continues to provide weapons to Taiwan
- Taiwan has added no other allies

BARGAINING?: NOT FROM 1993-2008!

- Both Lee Teng-hui and Chen Shui-bian considered “splittists” by Beijing—harbored pro-independence views
- Little official dialog across the Strait; US role in constraining Taiwan leaders
- Ma Ying-jeou era (2008-present): much more communication, negotiation, cooperation. E.g. direct cross-Strait flights a reality now.
- Bargaining can't explain pre-2008 behavior.

TO SUM UP: TAIWAN'S RESPONSE TO THE CHINA THREAT HAS BEEN...

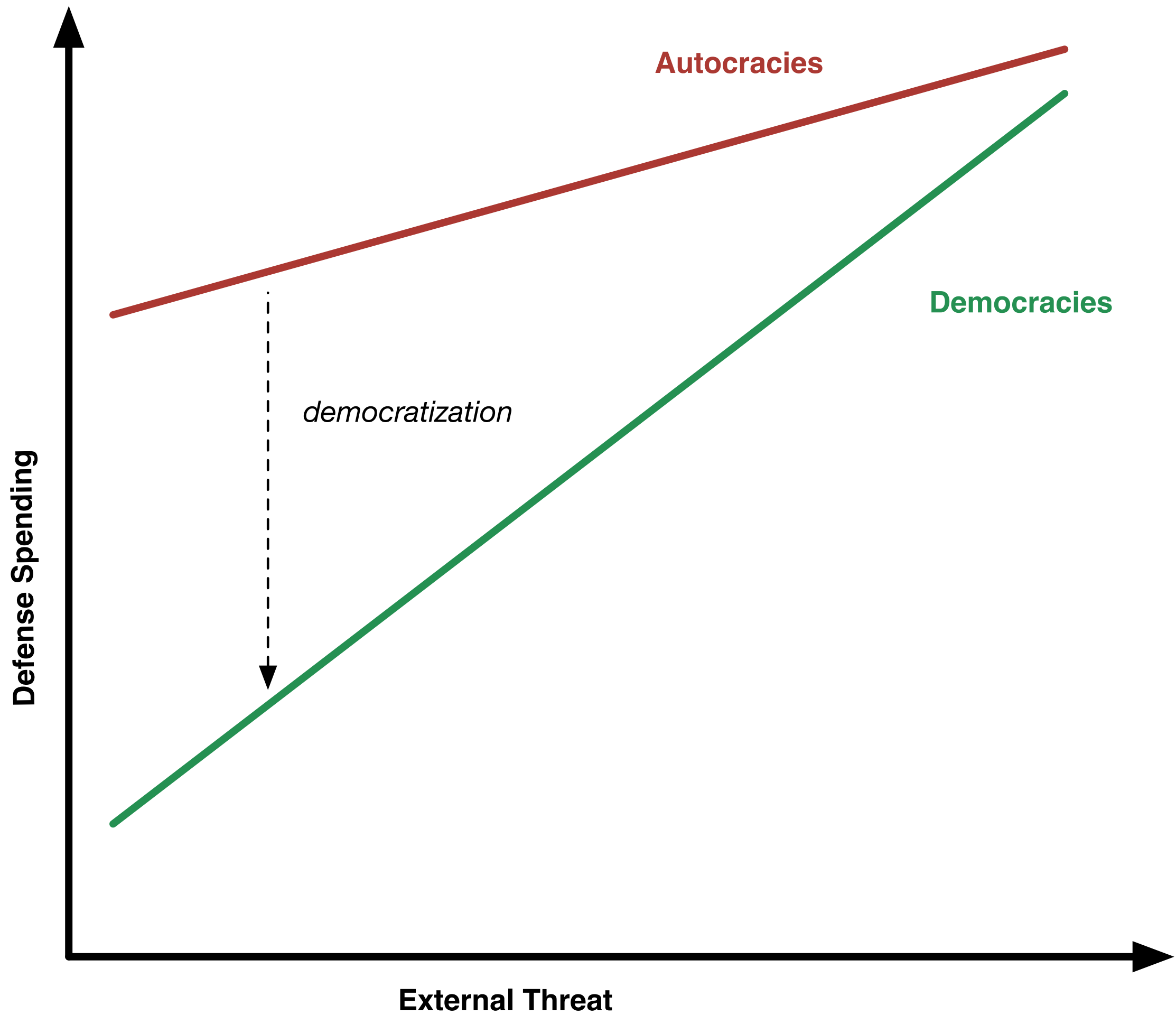
- No new arming
- No new allies
- No bargaining (at least until recently)

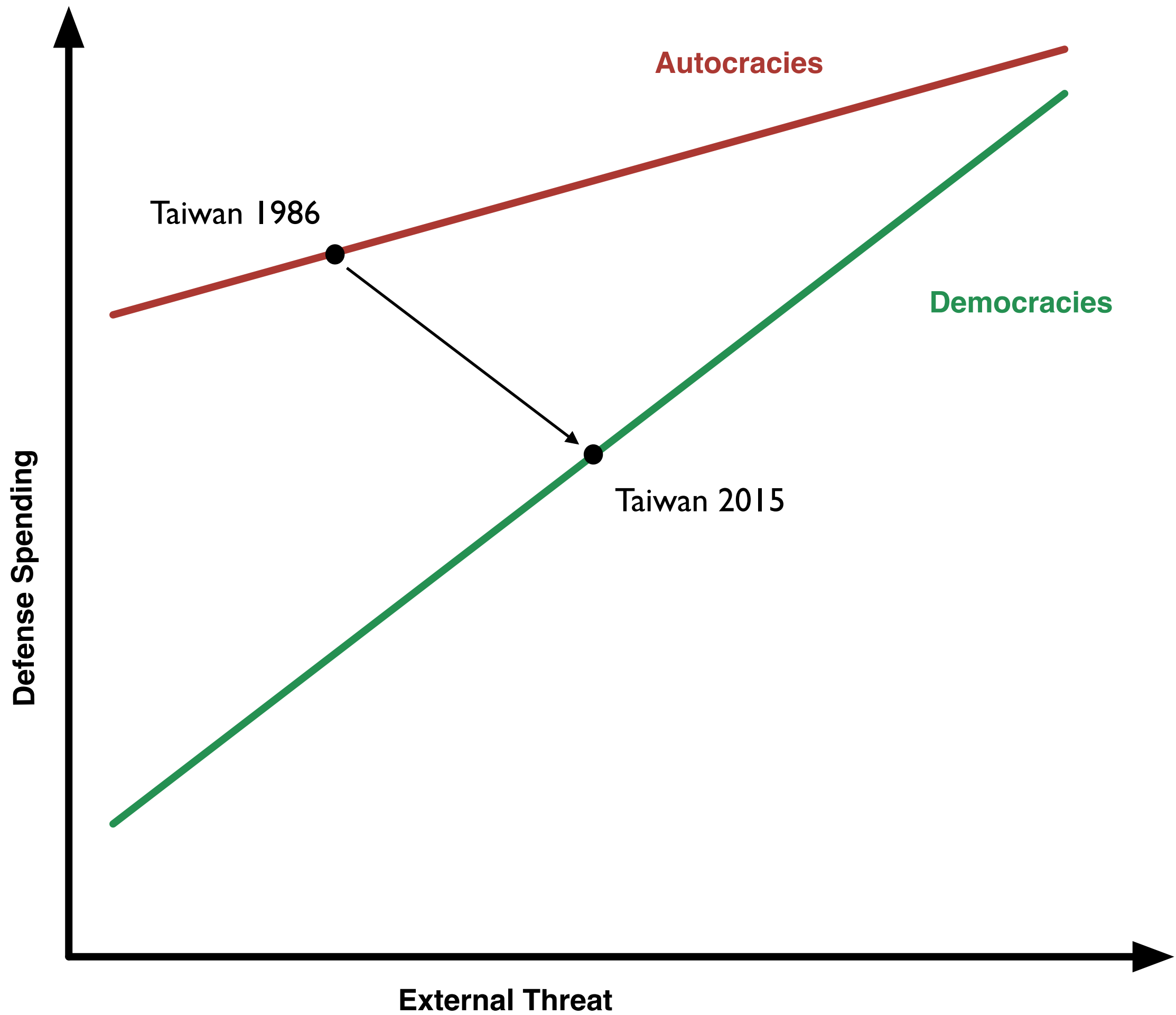
What's going on?

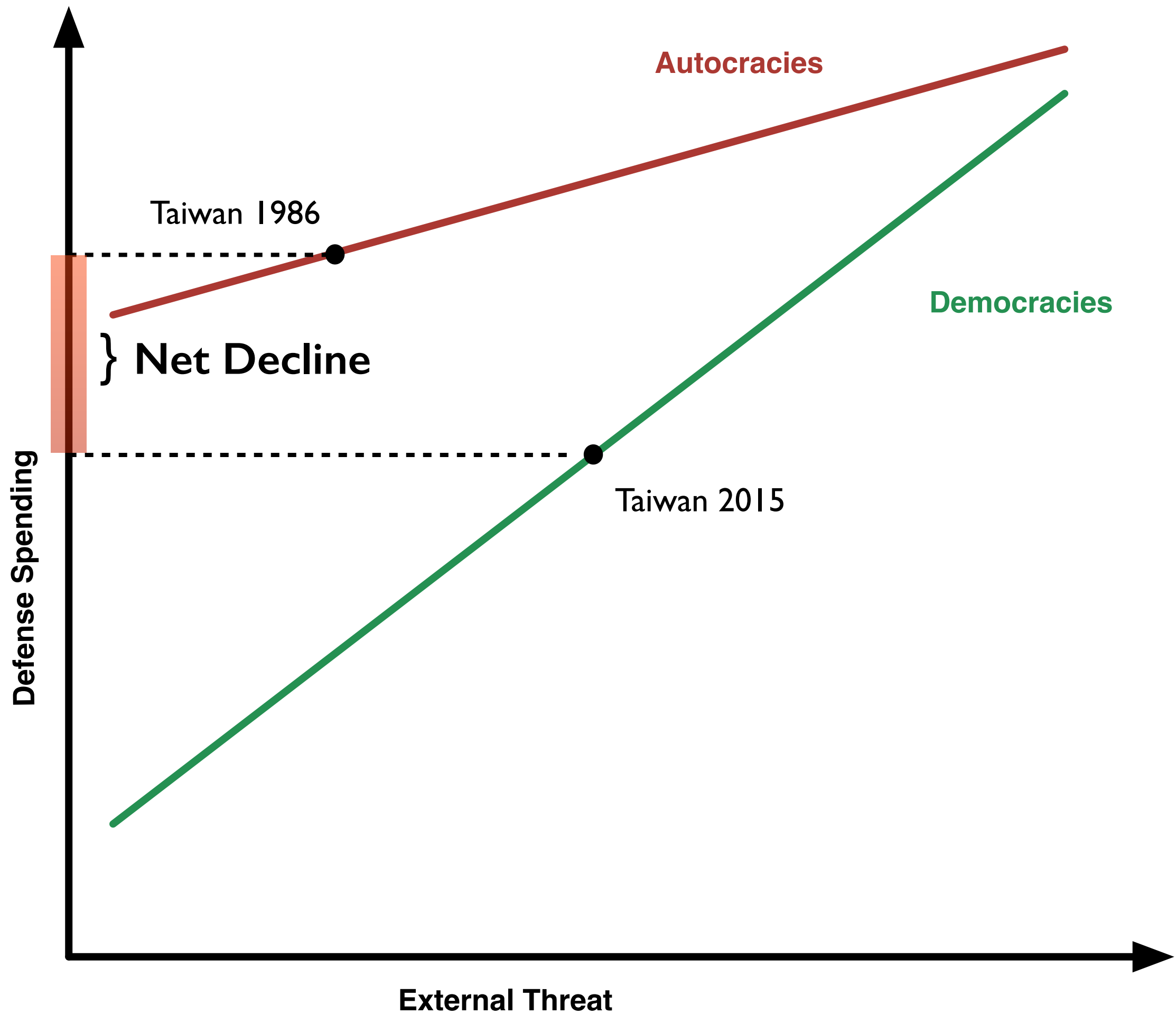
—> Rising threat from PRC

—> Swamped by effect of democratization

DEMOCRATIZATION AND DEFENSE SPENDING







DEMOCRACY AND DEFENSE BUDGETS IN TAIWAN

DEFENSE BUDGETS DECLINED UNDER DEMOCRACY BECAUSE:

1. Social welfare spending crowded out defense
2. Divided government blocked new spending
3. Elections increased incentives and ability to burden-shift

CROWDING-OUT EFFECT

Politicians respond to electoral competition by promising new social spending:

- National Health Insurance
- Social Security
- Unemployment benefits



CROWDING-OUT EFFECT

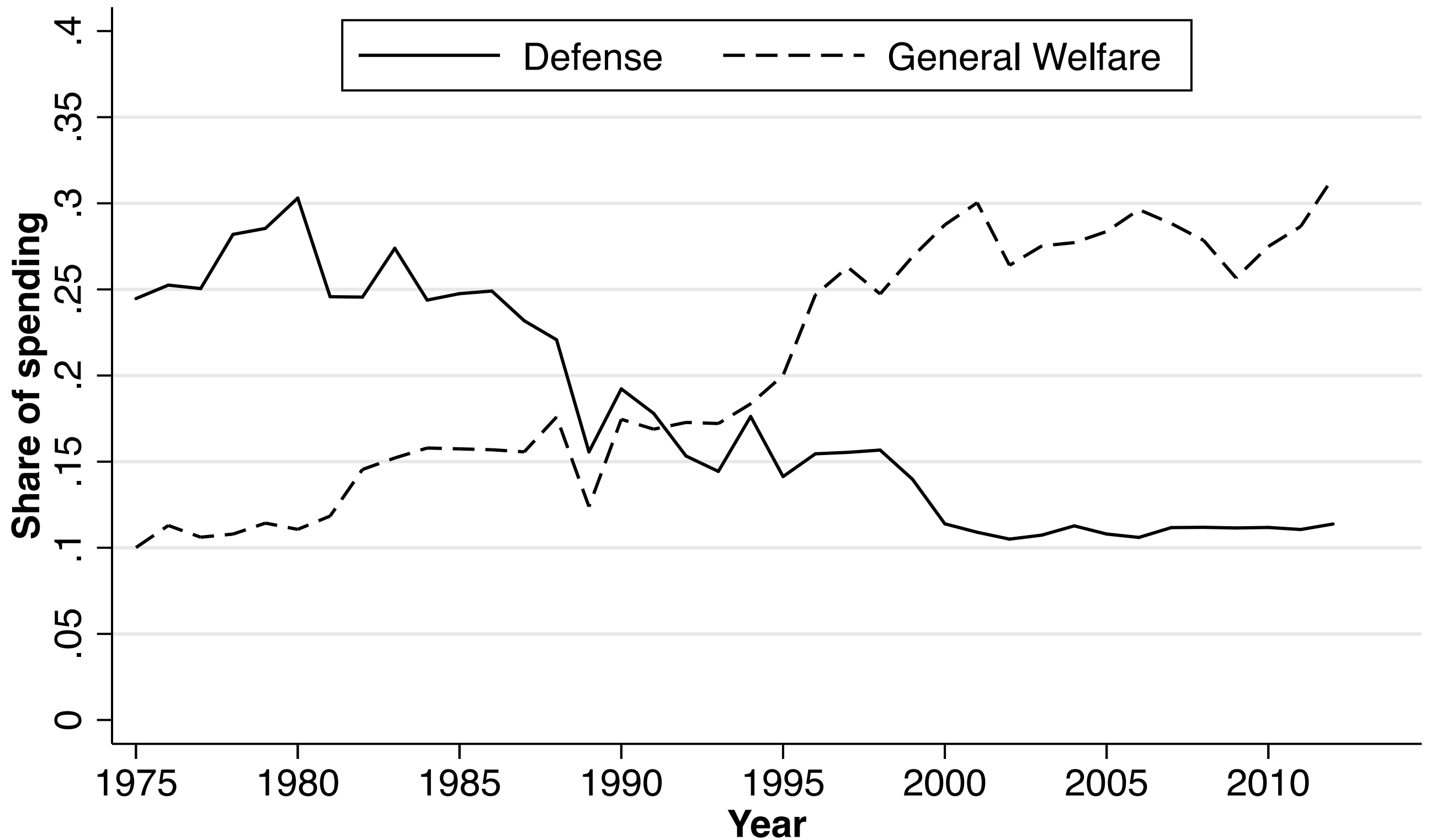
“Immense pressure from the DPP has forced the government to set up more social welfare services in recent years and to pass several laws providing better assistance to the elderly, handicapped, and others in need. Social welfare has thus become a major issue in elections. The KMT has recognized the usefulness of social welfare as an effective tool to enhance its chance of success and has frequently adopted social welfare policies previously promoted by the DPP.”

- Christian Schaeffer, 2003, *The Power of the Ballot Box*



Total Govt Expenditure: Defense vs Welfare

Share of Actualized Annual Expenditure, 1975-2012



Source: ROC Yearbook of Financial Statistics

DIVIDED GOVERNMENT EFFECT



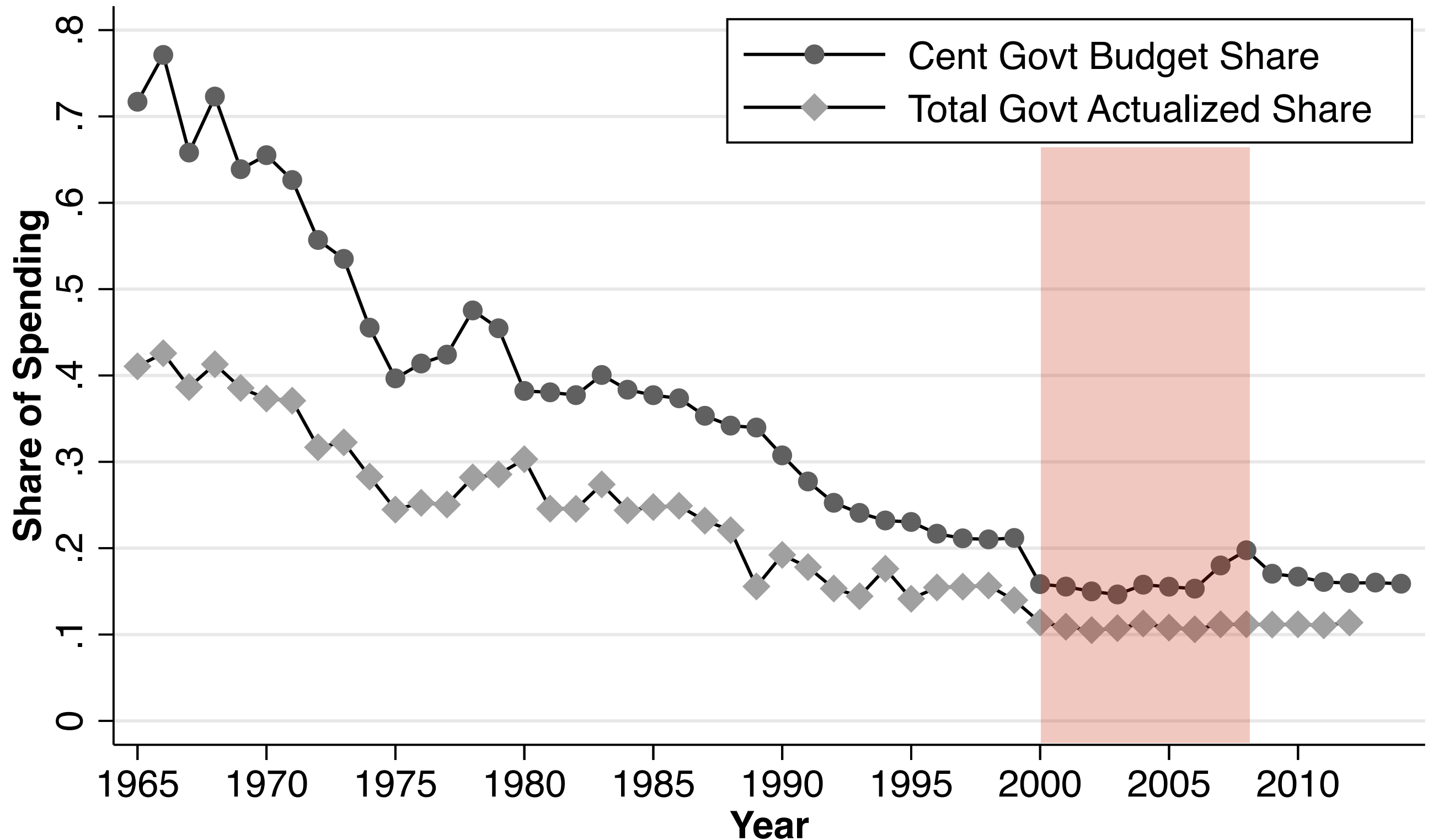
- 2000-2008: DPP president, KMT-led legislature
- President Chen favors increased defense spending; KMT does not
- Legislature's approval needed for new special budgets
- Budgets repeatedly rejected

DIVIDED GOVERNMENT: AN EXAMPLE

- 2001: Bush administration approves 12 weapons packages for sale to Taiwan
- 2004: Chen admin introduces US\$18.2 bn special budget to acquire submarines, P-3 aircraft, Patriot anti-missile batteries
- 2004-2007: Rejected over two dozen times in LY
- 2007: \$300 mil budget passes, P-3s purchased

Total vs Central Government Defense Expenditures

Share of Spending, 1965-2014



Source: ROC Yearbook of Financial Statistics, various years

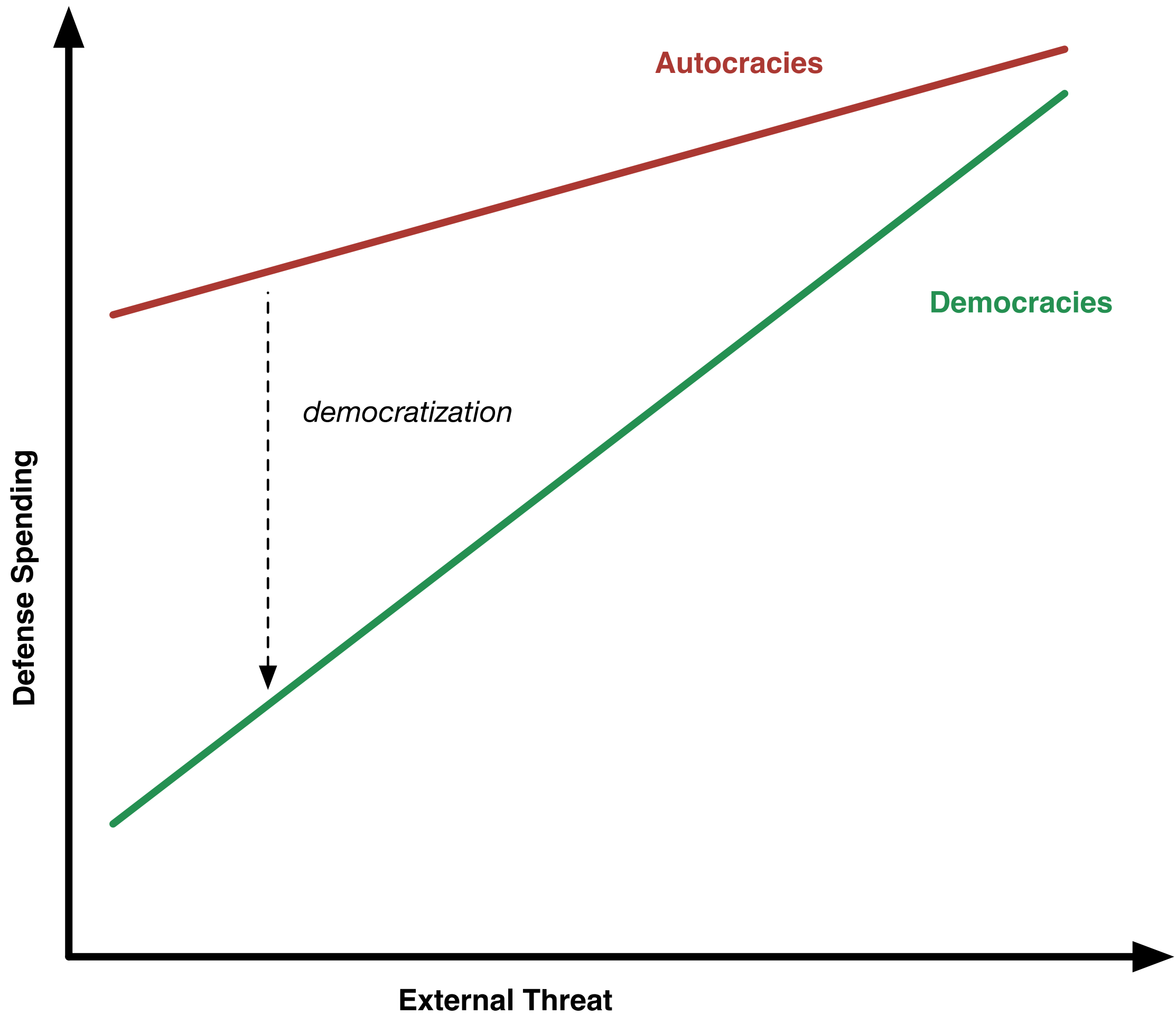
BURDEN-SHIFTING EFFECT

- US-Taiwan alliance is asymmetric
- Danger is that weaker members shirk; NATO has written rules requiring members to spend >2% of GDP on defense
- US-Taiwan alliance has no such thing—informal
- Assertive legislature strengthens Taiwan's bargaining position
- Taiwan is increasingly dependent on US protection

IMPLICATIONS

FOR POLITICAL SCIENTISTS

- International relations research demonstrates that regime type matters. Democracies behave differently.
- Less prominent: transitions to democracy fundamentally change regime behavior.
- The Taiwan case tells us: **the democratization effect is strong!** Swamps rising external threat.



FOR US POLICY-MAKERS

- The US should be worried. Taiwan is burden-shifting, increasingly dependent on the US security umbrella.
- Lack of formal alliance terms makes it easier for Taiwan to shirk.
- Changing these trends will require going through the legislature. Not enough anymore to trust president or party leaders “to deliver.”

LEGISLATIVE POLITICS IN TAIWAN

- Committee structure: frequent change, members chosen by lots
- Short time horizons: re-election rate much lower than US
- Little expertise on defense issues: no electoral payoff



FOR TAIWAN

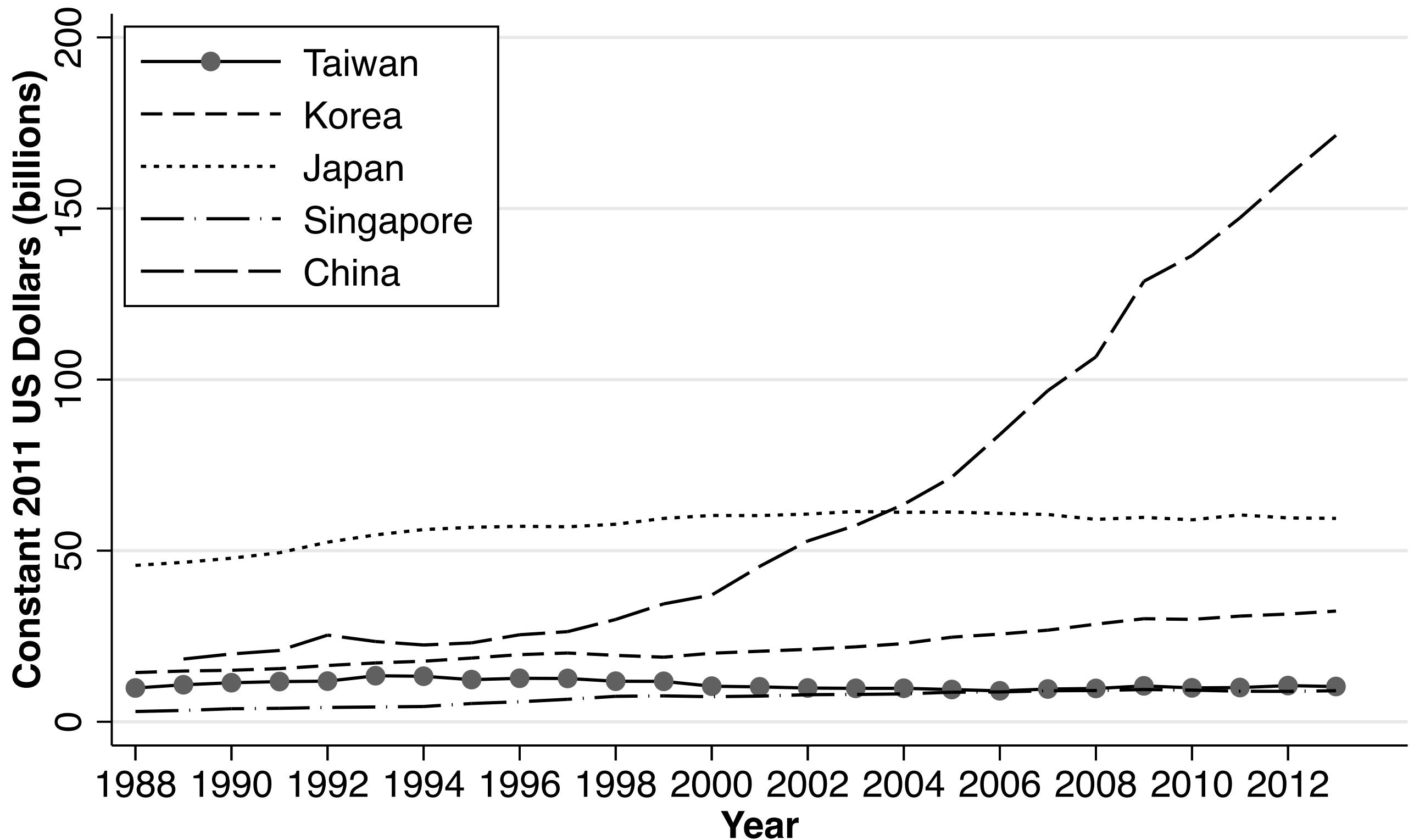
- Long-term challenges:
 - Aging population, low birthrates
 - Rising pressure on social spending programs
 - Rising wealth inequality, high college grad unemployment
 - Uncertainty about economic model: small state, trade-dependent on PRC
- Tax take as share of GDP in 2014:
 - Canada: 32.5%
 - Australia: 25%
 - Japan: 28.3%
 - South Korea: 26.8%
 - Philippines: 14.4%
 - Taiwan: 12.4%

QUESTIONS?



Defense Expenditure in East Asia, Constant USD

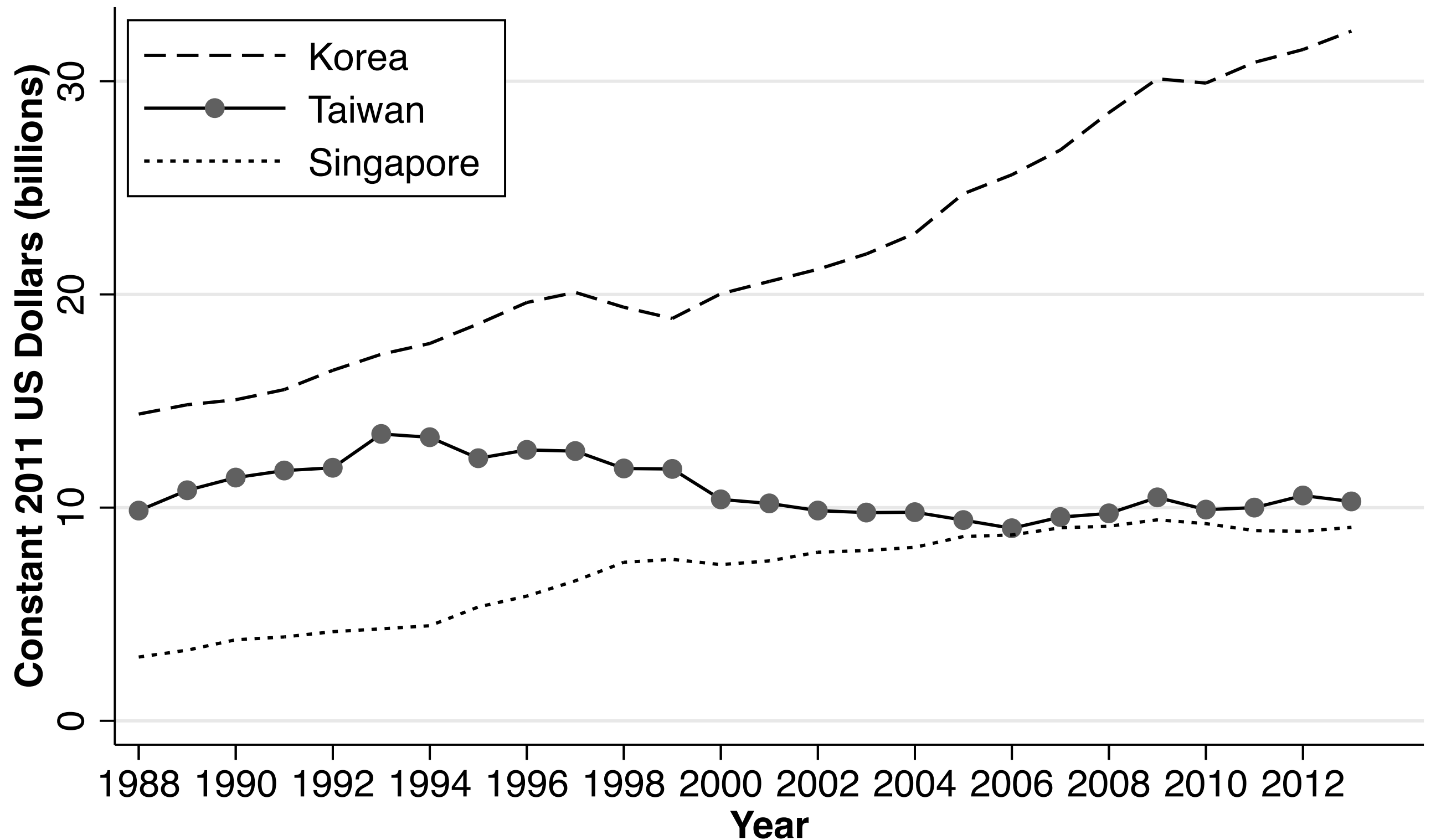
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Source: SIPRI Military Expenditure Database (2014)

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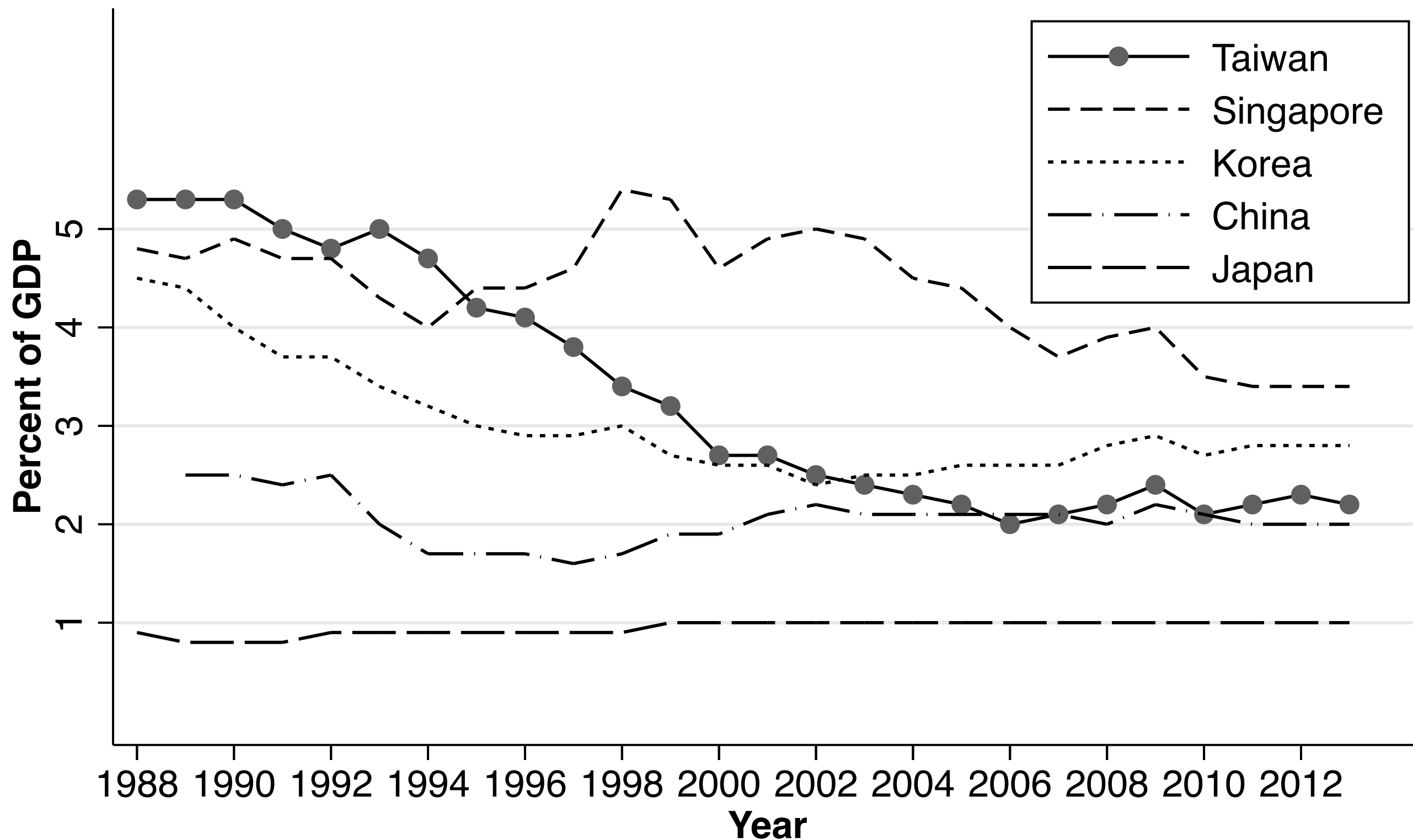
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Defense Expenditure in East Asia, Percent of GDP

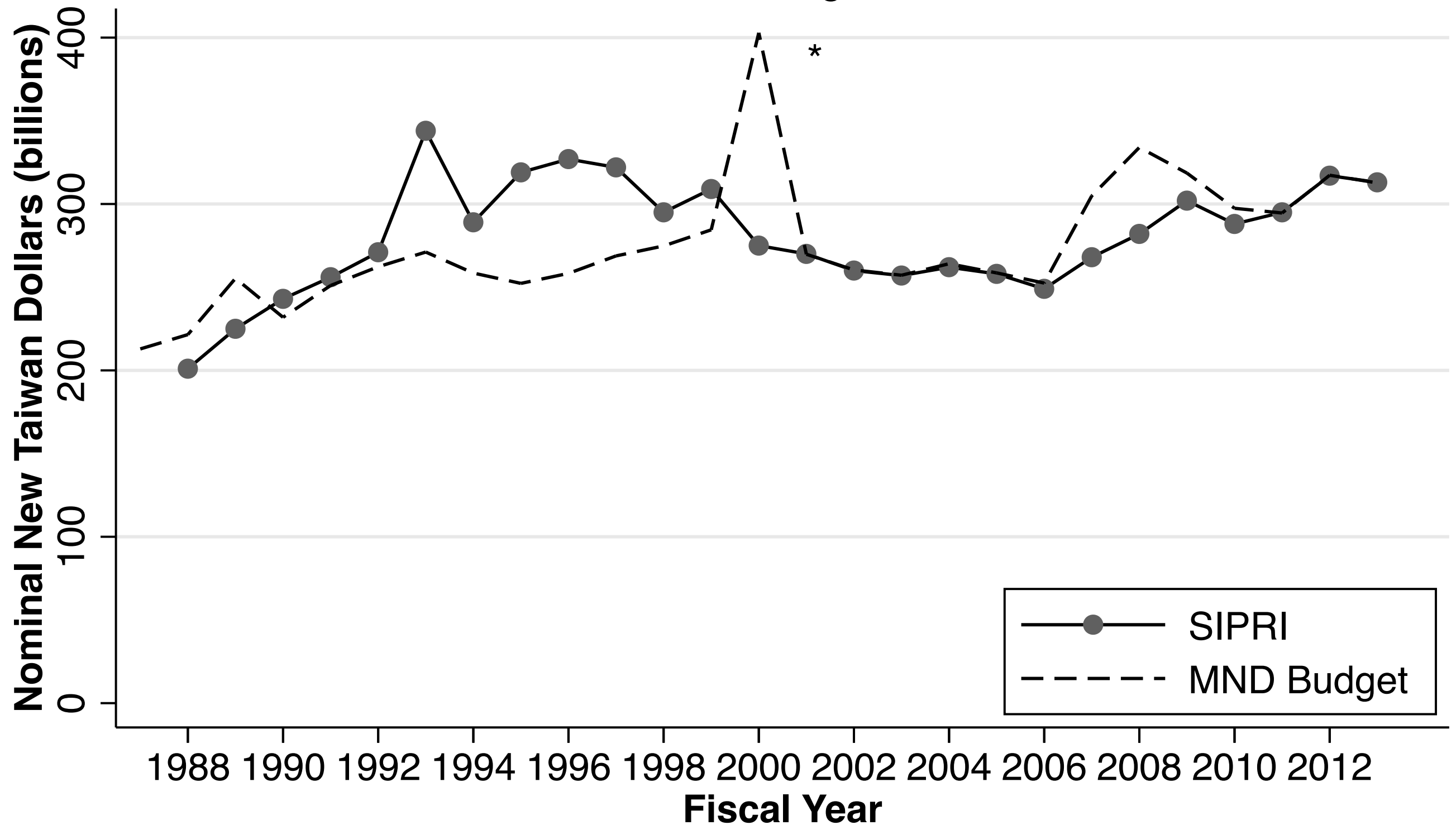
1988-2013



Source: SIPRI Military Expenditure Database (2014)

Taiwan Defense Expenditures by Source

SIPRI vs MND Budget, 1987-2013

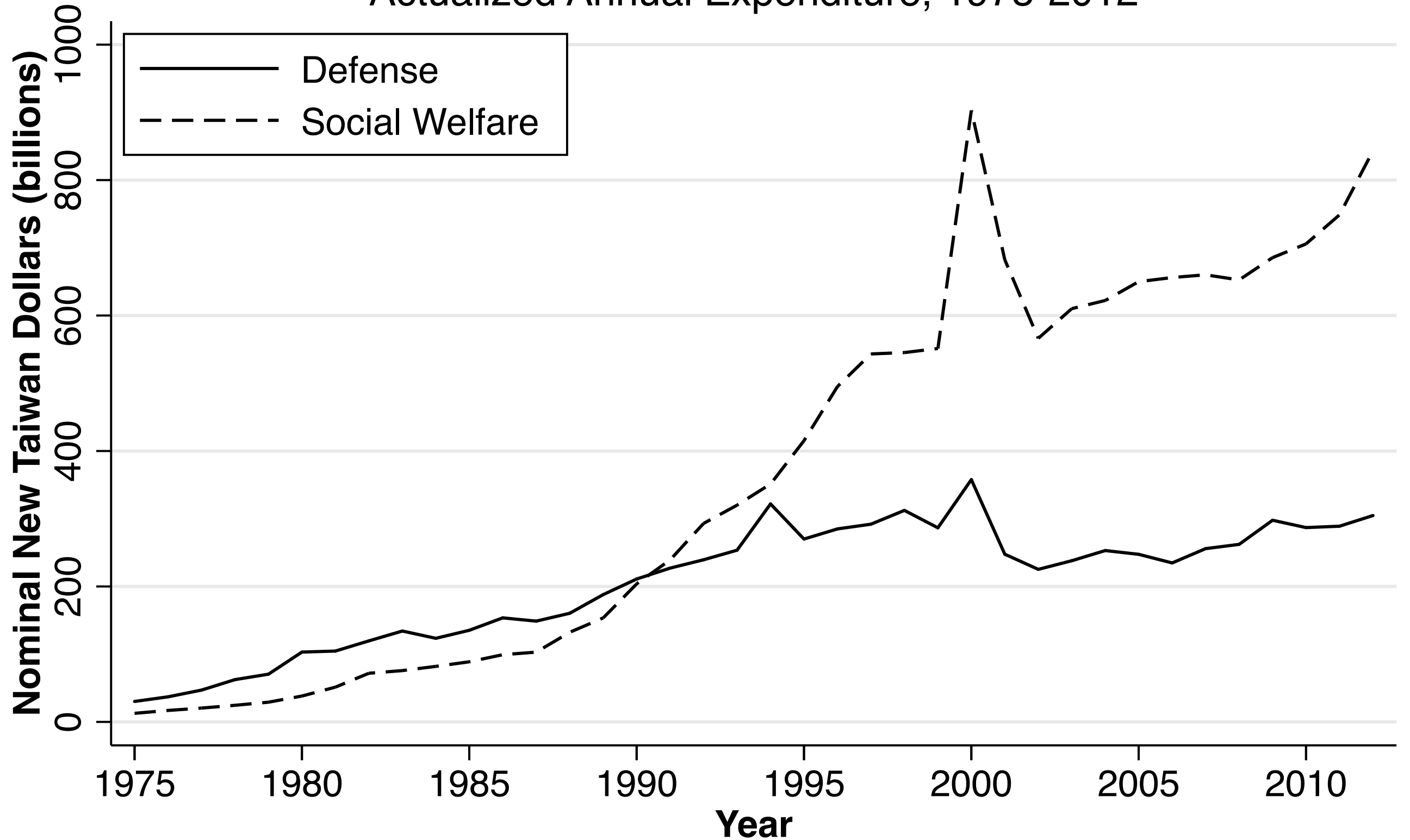


*FY2000 spans 18 months

Source: SIPRI; MND National Defense Reports

Total Govt Expenditure: Defense vs Welfare

Actualized Annual Expenditure, 1975-2012



Source: ROC Yearbook of Financial Statistics

POLLING NUMBERS

- Emerson Niu, 2011, “Taiwan National Security Survey.”
- If Taiwan were attacked as result of declaration of independence, would US come to its aid?: **56.4%**
say yes!
- If PRC attack were unprovoked by Taiwan: **73.5%**

DRIVERS OF DEFENSE BUDGETS

- Threat perceptions
- Military influence over domestic politics
- Bureaucratic inertia
- Democracy vs autocracy