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CSAG INFORMATION PAPER:

Military Expenditures and China's Foreign Military Sales: Trends and Implications

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1. **<u>Subject:</u> Military Expenditures and China's Foreign Military Sales: Trends and Implications**

2. **<u>Purpose</u>**

   An overview of global military expenditure trends and an assessment of China's foreign military sales, with emphasis on their scope, impact, and implications for U.S. security interests.

3. **<u>Introduction</u>**

   Global military spending is rising, reaching $2.718 trillion in 2024, a 9.4% increase from 2023 that accounted for approximately 2.5% of global GDP. The United States remains the largest military spender at nearly $997 billion, followed by China, who's official 2025 defense budget was $314 billion.[1,2] However, when adjusted for purchasing power parity (PPP), off-budget expenditures, and lower labor costs, China's actual defense spending is estimated between $550–600 billion (using the same method with 2024 calculations).[3]

   Regional defense spending overview:

   i. Europe: Spending reached $693 billion (2024 January-December), largely driven by NATO revitalization and the ongoing war in Ukraine. (18 out of 32 NATO members spend at least 2 per cent of GDP on military).[4]
   ii. Asia and Oceania: Rising tensions in the Taiwan Strait and South China Sea, coupled with The U.S.-China strategic rivalry, are driving defense buildups across the region ($629 billion total spending, 2024 January-December).[5]
   iii. Middle East: Total military spending reached $243 billion (2024 January-December), led by Saudi Arabia ($80.3B) and Israel ($46.5B).[6]

4. **<u>Facts</u>**

   a. China is now the fourth-largest arms exporter, accounting for 5.8% of global arms transfers between 2019 and 2023. Between 2020–2024, China delivered major weapons systems to 44 countries. Approximately 77% of Chinese arms exports were directed to Asia and Oceania with Pakistan alone receiving 63% of total exports, representing roughly 81% of Pakistan's total arms imports. [7] Africa accounted for 14% of exports, while sales to the Middle East have been steadily increasing, reflecting China's expanding strategic reach.[8] Although the proportion of China's arms exports to the Middle East appears relatively low (roughly 1.2%), China leverages soft power and foreign aid as strategic tools to enhance its influence in the region.[9]

b. Key drivers of Chinese arms competitiveness include affordability, minimal political conditions, rapid production, and delivery.[10] These attributes make Chinese defense systems especially appealing to armed forces facing budgetary constraints or political barriers that limit access to Western suppliers.
c. All major Chinese defense companies are state-owned enterprises (SOEs) operating under President Xi Jinping's civil-military fusion initiative.[11] Leading Chinese defense firms and their prominent products:
    i. NORINCO (China North Industries Group Corporation Limited): Ground systems such as VT-4 main battle tank, artillery, and armored vehicles.[12]
    ii. AVIC (Aviation Industry Corporation of China): Aviation systems including JF-17 fighter and Wing Loong UAVs.[13]
    iii. CASC (China Aerospace Science and Technology Corporation): Missiles and drones, notably the CH-series UAVs and ballistic missile systems.[14]
    iv. CSGC (China South Industries Group Corporation): Small arms and tactical light vehicles.[15]
d. China's rising defense spending underpins its goal of fully modernizing the PLA across all domains by 2035, highlighted by advancements in stealth aircraft, UAVs, UMSs, and a rapidly expanding nuclear arsenal, demonstrated during the September 3rd military parade, which showcased these new systems as a clear signal of China's global ambitions and growing military-industrial strength.
e. China restructured its command by replacing Strategic Support Force with separate Aerospace, Cyberspace and Information Support Forces, reflecting a shift to a specialized, joint-force model that boosts the PLA's multi-domain capabilities and competitiveness with the U.S.[16]

5. <u>Assessment</u>

a. Recent developments highlight a strategic shift where China's arms exports are no longer a purely commercial endeavor but a core instrument of its foreign policy and grand strategy. This effort directly challenges the established security architectures dominated by the U.S. and its allies.
b. Arms exports are directly tied to the Belt and Road Initiative (BRI), transforming economic engagement into long-term strategic influence, particularly across Africa and the Middle East. By supplying defense systems, China creates a long-term dependency on its training, maintenance and future upgrades, securing a diplomatic lever against recipient states and potentially marginalizing U.S. influence.
c. China is explicitly signaling its status as a peer competitor in the military-industrial domain. The presence of four Chinese defense conglomerates among the world's top twelve by 2025 is a clear demonstration of industrial and strategic power, supporting the vision of the "Great Rejuvenation of the Chinese Nation."
d. China is evolving from a passive arms supplier to an active security partner. The increase in joint exercises, training, and security assistance demonstrates a willingness to invest in operational ties and project military soft power, directly challenging the U.S. role as the primary security partner of choice.
e. Market Disruption and Interoperability Challenge: By offering cost-effective, politically flexible systems, China is disrupting the U.S. and European market dominance across the Global South. The proliferation of non-NATO-standard Chinese platforms undermines allied interoperability and complicates future arms control efforts.
f. China strategically captures market share by offering an alternative to the U.S. Foreign Military Sales (FMS) system. While U.S. sales are often delayed by multi-year, multi-agency reviews and strict end-use Monitoring, Beijing leverages its state-owned industry to provide "ready-to-ship" systems with "no strings attached" regarding human rights or usage restrictions. This "transactional efficiency" directly undermines U.S. influence.

6. Conclusions

a. China's strategic engagement through defense exports represents a sophisticated, multidomain challenge to the United States and the existing security architecture.

b. China has cemented its role as the world's second-largest military spender and a major, rapidly ascending arms exporter (See ANNEX A). This rise actively reshapes the global security landscape by offering partner nations a compelling alternative: rapid, affordable military modernization without traditional alliance structures.

c. The core challenge for the U.S. is not the volume of sales, but the durable security partnerships and strategic influence China is building. These relationships grant China increased access, intelligence collection opportunities, and potential dual-use infrastructure (e.g. 5G towers, ports), fundamentally eroding the established global order.

d. China's defense systems feature inherent vulnerabilities, including variable reliability, limited sustainment, and non-NATO interoperability that restrict their long-term operational utility for partner nations. The U.S. can exploit this gap by offering its advantage in superior long-term sustainment, proven reliability, and unparalleled interoperability across its allied network.

e. A defining characteristic of current strategic competition, within the USCENTCOM Area of Responsibility (AOR) and globally, is the widening gap between economic presence and security assurance. China leverages economic initiatives and arms transfers to expand its influence without assuming the commitments associated with long term security guarantees. In contrast, the U.S. continues to project strength through credible military assurance, enduring partnerships, and high levels of interoperability.

f. To address China's integrated and adaptive approach, the U.S. military should refine its doctrinal framework to better synchronize operational posture, force development, and alliance integration across the competition continuum. Sustaining strategic advantage will depend on the joint force's ability to align readiness, innovation, and interoperability to counter China's multidomain influence.

Sources

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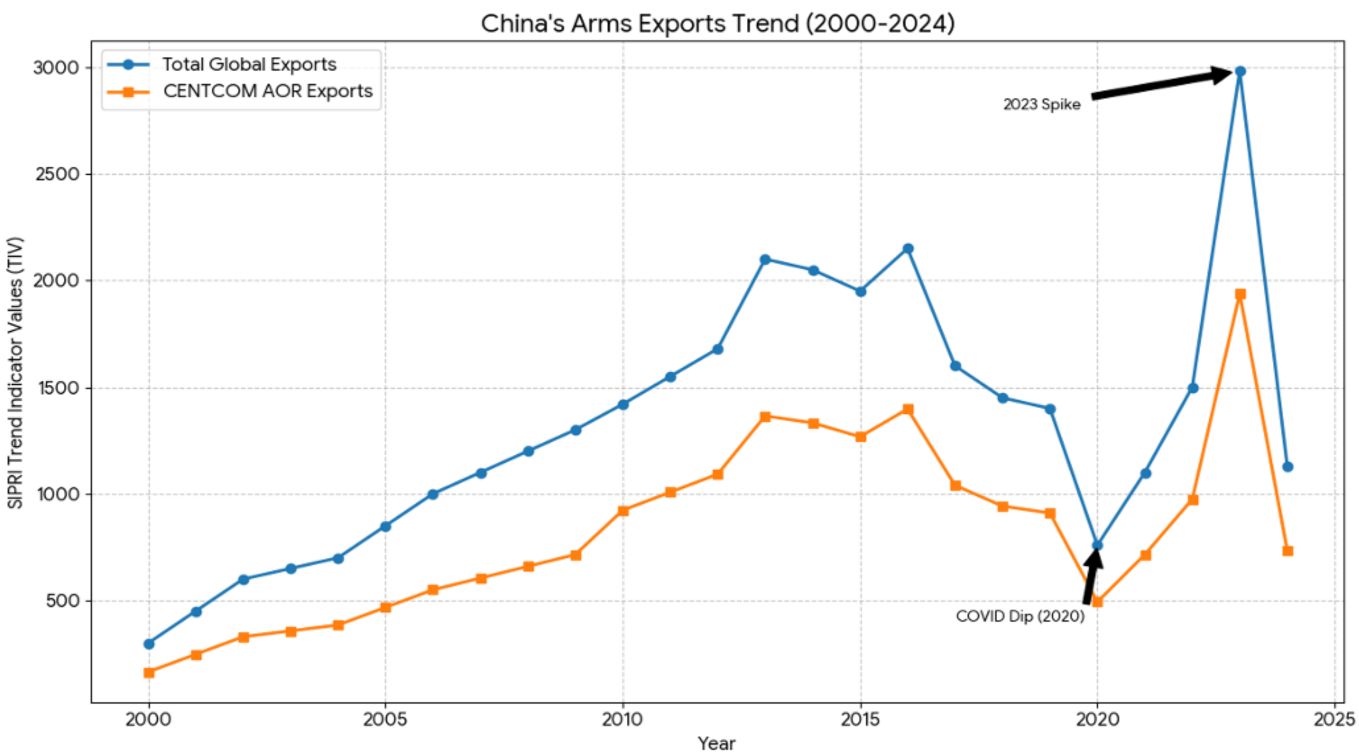
<u>ANNEX A</u>

China’s Arms Export Trend (2000-2024)

Based on data from the Stockholm International Peace Research Institute (SIPRI) and official reporting through January 2026, the graph below depicts the trend of China's global arms exports compared to its sales within the USCENTCOM AOR over the last 25 years.

Figure 1. China’s Arms Export Trend (2000-2024) (Based on SIPRI data and official reporting, generated by AI)



Key Observations:

a. 2023 Delivery Peak: In 2023, China’s arms transfers reached an estimated 2.98 billion TIV (Trend Indicator Values, SIPRI, compared to 11.1 billion TIV for the U.S), representing the highest level recorded in the 25-year dataset. This temporary increase was primarily attributable to large-scale deliveries of high-value platforms, such as J-10C fighter aircraft and the continued expansion of unmanned and missile systems to select Middle Eastern partners.

b. Emerging Diversification: Export patterns suggest progressive diversification within the Middle East, as China broadens its customer base beyond traditional partners. This trend is characterized by increased uptake of UAV and missile technologies by regional states seeking cost-effective, readily available alternatives to legacy systems.

c. Technological Advancement: The composition of recent exports indicates a qualitative shift toward systems integrating advanced guidance, automation, and electronic warfare capabilities. This evolution reflects China’s growing capacity to supply intelligentized defense technologies that enhance operational interoperability and system integration across recipient forces.