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WORKING PAPER

f THREATS, ALLIANCES, AND ELECTORATES:  
f WHY TAIWAN'S DEFENSE SPENDING HAS  
DECLINED AS CHINA'S HAS RISEN

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# **THREATS, ALLIANCES, AND ELECTORATES: WHY TAIWAN'S DEFENSE SPENDING HAS DECLINED AS CHINA'S HAS RISEN**

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**ABSTRACT**

Over the past 20 years, the military balance between the People's Republic of China and Taiwan has rapidly shifted. As China's defense budget has grown annually at double-digit rates, Taiwan's has shrunk. These trends are puzzling, because China's rise as a military power poses a serious threat to Taiwan's security. Existing theories suggest that states will choose one of three strategies when faced with an external threat: bargaining, arming, or allying. Yet for most of this period, Taiwan's leaders have done none of these things. We explain this apparent paradox as a consequence of Taiwan's transition to democracy. Democracy has worked in three distinct ways to constrain rises in defense spending: by intensifying popular demands for non-defense spending, introducing additional veto players into the political system, and increasing the incentives of political elites to shift Taiwan's security burden onto its primary ally, the United States. Together, these domestic political factors have driven a net decline in defense spending despite the rising threat posed by China's rapid military modernization program. Put simply, in Taiwan the democratization effect has swamped the external threat effect.

## INTRODUCTION

Ever since the Republic of China (ROC) retreated to Taiwan<sup>1</sup> in 1949, it has faced an existential threat from the People's Republic of China (PRC) across the Taiwan Strait. Although the two adversaries ended direct military actions against one another by the mid-1960s, no peace treaty has ever been signed, and the threat of a military conflict over Taiwan's ambiguous international status has continued to the present. For much of this period, the regime on Taiwan has compensated for its much smaller size with a significant qualitative military advantage: its armed forces have been much better funded, trained, and equipped than those of the PRC.

Over the last 20 years, however, this cross-Strait military balance has rapidly changed. China's economy has grown at double-digit annual rates, and the country has transformed into an industrial powerhouse at a dizzying pace, providing the additional economic resources and technological know-how needed to undertake a long-term program of military upgrading and force modernization. Today, the PRC's defense budget is at least seven times what it was in 1995, and it continues to grow above the rate of economic expansion: in 2015 its official defense budget increased by 10 percent to about US \$145 billion, nearly 15 times the ROC's.<sup>2</sup>

By contrast, Taiwan's financial commitment to national defense has fallen by just about every measure. Total expenditure on the military has declined from over six percent of GDP in 1980 to barely two percent now. The military's share of all

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<sup>1</sup> We use Taiwan and Republic of China interchangeably. In addition to the main island of

<sup>2</sup> Wong and Buckley 2015.

government spending has declined from over 40 percent in the late 1960s to only about 11 percent annually over the last five years. Most strikingly, in real terms, funding for defense in recent years has remained well below its peak in 1994: actualized military spending in that year was about US \$13 billion in constant 2011 US dollars, while in 2013 it was only about \$10 billion.

These trends raise several issues of theoretical and substantive importance. The decline in resources devoted to Taiwan's defense has been widely noted in academic scholarship and policy reports and has been a subject of concern for the United States, Taiwan's primary ally.<sup>3</sup> But it has not been systematically examined or explained.<sup>4</sup> Combined with China's ongoing military modernization program, the military balance in the Taiwan Strait is shifting and weakening the ROC's ability to deter a Chinese blockade, missile attack, or other hostile action on its own.<sup>5</sup> Of equal interest, these trends appear at odds with widely accepted theories in international relations, which suggest that states will respond to rising external military threats with some combination of three strategies: (1) defuse the threat by bargaining with their rivals, (2) marshal state resources to build up their own military power, and (3) seek the assistance of allies.<sup>6</sup> The extent to which Taiwanese behavior has deviated from what these theories would predict is, we think, considerably under-appreciated. For much of the 1990s and 2000s, Taiwan's leaders made only token efforts to bargain, arm, or ally to improve the island's security

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<sup>3</sup> E.g. Swaine 2004, 19; Cole 2006, 272-5; Chase 2008, 134; Lee 2008, 535; Willner 2011, 86; Hickey 2013, 44-46; Murray 2013; Report of the US-China Economic and Security Review Commission 2013, 339. Congressional testimony and other statements of concern from US officials are summarized in Kan and Morrison 2014, 34-40.

<sup>4</sup> cursory discussion of reasons for the decline can be found in Swaine 2004, 16-19; Stokes 2006; Lo 2007; and Shlapak et al. 2009, 22-26.

<sup>5</sup> Shlapak et al. 2009; Report of the USCESRC 2013, 337-339; Department of Defense 2014, 53-57.

<sup>6</sup> Barnett and Levy 1991; Morrow 1993; Bennett 1996.

position as the PRC's economic and military power steadily increased. While the lack of success in bargaining with Beijing or adding new allies can be explained away as the result of factors outside Taiwan's direct control, the lack of an increase in the military budget is more perplexing, given the long-term security consequences of the shifting military balance across the Taiwan Strait.

Our explanation for this pattern is straightforward: *democratization*. It is well-established that democracies in general spend less on the military than do autocracies.<sup>7</sup> Transitions to democracy introduce new electoral pressures on governments to shift resources from the military to domestic public goods and services. Leaders who fail to deliver broader public benefits to their new electoral constituencies can now be voted out of office and replaced by opponents who will. Thus, we should expect to see a rise in domestic spending and a decline in military spending after transitions to democracy, all else equal.<sup>8</sup>

Yet all else is not always equal, particularly in the context of a threat on a state's borders. State leaders also know they can be removed from office should they fail to provide adequate national security, creating a difficult "guns versus butter" tradeoff when facing external threats.<sup>9</sup> Electoral demands and security concerns, then, are powerful forces that may pull government spending decisions in opposite directions. Existing theories do not provide a good *ex ante* sense of how newly democratic regimes will respond to these countervailing pressures. Nor do we have many studies of how this process has played out in specific instances to help guide our expectations. The

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<sup>7</sup> Bueno de Mesquita et al. 2003; Dunne and Perlo-Freeman 2003; Goldsmith 2003; Fordham and Walker 2005; Nordhaus et al. 2012.

<sup>8</sup> Haggard and Kaufman 1995; Sandler and Hartley 1995; Lake and Baum 2001; Fordham and Walker 2005.

<sup>9</sup> Russett 1970.

Taiwanese case is a particularly stark example of this tradeoff in action, and thus provides an important illustration of their relative strength.

Put simply, in Taiwan the democratization effect has swamped the external threat effect. The gradual transition to and consolidation of democracy in Taiwan has worked to constrain rises in defense spending in three distinct ways. One is through a permanent increase in non-defense spending: the introduction of competitive elections raised the pressure on elected office-holders to increase spending on infrastructure and social welfare. The electoral demand for more social spending has been powerful enough to create a de facto limit on military outlays for at least the last 20 years. As a consequence, Taiwan today has generous and widely-admired health insurance and social security programs and world-class infrastructure, but also a military increasingly forced to economize on personnel, operations, and weapons purchases.<sup>10</sup>

Democratization has also worked to limit increases in military expenditures by introducing additional veto players into the political system. From 2000 to 2008, control of Taiwan's central government was divided: the Democratic Progressive Party (DPP) under President Chen Shui-bian ran the executive branch, while a coalition led by the Kuomintang (KMT), or Chinese Nationalist Party, held a majority in the legislature. Neither could pass new budgets without the other. And on defense issues, President Chen and the KMT came to hold starkly different positions, leading to prolonged deadlock over new spending packages.

Finally, Taiwan's close relationship with the United States has been crucial in this trade-off, providing the conditions for the island's leaders to shift more resources to fund

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<sup>10</sup> A good illustration is the difficulty Taiwan's military has had in transitioning to an all-volunteer force, which has been repeatedly delayed because of difficulty recruiting enough volunteers. See Yeh 2013 and Setzekorn 2014.



social priorities and to limit defense spending without unduly worsening its security position. The transition to democracy increased the incentives of Taiwanese politicians to take advantage of this possibility, and it also weakened the United States' ability to prevent greater free-riding and to influence defense policy in Taiwan.

Our explanation of the Taiwan case has implications far beyond the military balance in the Taiwan Strait. For instance, Taiwan's defense spending trend has diverged sharply from other countries commonly assumed to face the same kinds of external threats, domestic political developments, and alliance arrangements, notably South Korea. Consequently, we argue that this study of Taiwan, although a single case, should interest not only those scholars specializing in cross-Strait relations but also those interested in explaining cross-national variation in defense spending.

## **1. THE EMPIRICAL PUZZLE OF TAIWANESE MILITARY SPENDING**

### ***Taiwan's Defense Spending: Trending Downward***

To track Taiwan's real defense spending over time, we draw from two sources: the Stockholm International Peace Research Institute (SIPRI) Military Expenditure Database, and the Yearbook of Financial Statistics of the Republic of China, published

annually since the 1970s by Taiwan's Director-General of Budget, Accounting, and Statistics (DGBAS).<sup>11</sup>

*[Figure 1 about here]*

The DGBAS data in Figure 1 show defense spending as a share of total government expenditure in Taiwan since 1965. Starting from an exceptionally high base of over 40 percent of total government and 80 percent of central government expenditures, Taiwan's defense allocation has declined precipitously over the last 50 years. This decline appears to have involved four different stages. The first, from 1965-75, occurred during the early part of Taiwan's economic takeoff, when its economy grew at double-digit rates. Growth in government spending followed, and while most of this new spending went to non-military functions, defense spending also grew. During the second stage, from 1975-1986, Taiwan's economy continued its rapid expansion and industrialization, while growth in defense nearly kept pace with that in non-defense spending, as total government spending on defense was at about 25 percent in both 1975 and 1986. The third stage, from 1987-2000, closely tracks Taiwan's democratic transition: total defense spending drops gradually from about 25 percent in 1986 to a little over 10 percent in 2000, at the time of the presidential election that brought the opposition to power. During the fourth stage, from 2000 to the present, defense spending has averaged about 11 percent of total government spending.

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<sup>11</sup> SIPRI Military Expenditure Database (2014); *Yearbook of Financial Statistics of the Republic of China* [中華民國財政統計年報 – *zhonghua minguo caizheng nianbao*], various years. The appendix contains a detailed comparison of these sources with each other and others and discusses several alternative ways to measure defense spending in Taiwan.

Another way to measure defense spending is as a share of GDP, which eliminates the effects of expansions or contractions in government spending relative to the size of the economy. That percentage is shown in Figure 2. Viewed this way, the decline in commitment to defense relative to other priorities is quite apparent: defense expenditure has dropped from five percent of GDP in 1989 to a little over two percent now. The only significant increases relative to GDP in the last 30 years came in 1994, with the outlay for the purchase of a package of 150 F-16s from the United States, and from 2006-08 in the final years of the Chen Shui-bian administration.

*[Figure 2 about here]*

Overall, these data indicate a sustained decline over the last 25 years in the Taiwanese state's financial commitment to its own defense. Taiwan's defense expenditure today consumes only a third of the relative economic output it did in 1981, and in absolute (real) terms, Taiwan today spends about 25 percent less on defense today than it did at its most recent peak in 1994.

### ***Regional Defense Expenditure: Rising in China, Flat Elsewhere***

Taiwan's spending on the military has also diverged in recent years from other regional powers, which have in general maintained or increased their absolute financial commitment to defense. Figure 3 shows SIPRI's time series for Japan, Singapore, South Korea, and the People's Republic of China back to 1988. The obvious outlier in the

region is China, whose annual defense expenditure passed Japan's around 2004 and now is over 10 times what it was in 1989.<sup>12</sup>

*[Figure 3 about here]*

This dramatic rise in Chinese military spending has to this point not been countered by any of the other regional powers, which with the partial exception of South Korea show no major shifts in absolute financial commitment to defense over the last 25 years. Nevertheless, the relative decline in Taiwan's spending is striking even when compared with Singapore and Korea, as Figure 4 shows. In 1993, for instance, Taiwan's estimated defense expenditure was about three-quarters of South Korea's, but by 2013 it was only about one-third (US \$32.4 billion versus \$10.3 billion.)

*[Figure 4 about here]*

The contrast with Singapore and South Korea comes across even more starkly when spending is calculated as percent of GDP, as shown in Figure 5. At its peak in 1993, Taiwan's defense expenditure was at about five percent of GDP, above both Singapore (4.3 percent) and South Korea (3.4 percent). It fell below Singapore after 1994

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<sup>12</sup> SIPRI's estimate for the PRC is significantly higher than the publicly announced budget for the PLA, which in 2015 is about US \$145 billion (Wong and Buckley 2015). SIPRI's definition of defense spending includes an assortment of additional research and development and personnel expenses that are not included in China's official defense budget. China's military spending has long been notoriously opaque, and the official budget almost certainly understates total spending. On this issue, see Liff and Erickson 2013.

and Korea after 2002, and it has remained significantly below the latter for the last decade.

*[Figure 5 about here]*

### ***Taiwan-PRC Relations: Democracy Deepens the Divide***

The downward trend in Taiwanese defense spending appears especially strange when one considers the increasing contestation over Taiwan's status between the ROC regime on Taiwan and the PRC on mainland China. From 1949 until the advent of democratization, both the KMT and the Chinese Communist Party (CCP) maintained that Taiwan was part of China—the two parties disagreed only on which government was the rightful claimant to the whole country. As the ROC's "exile" on Taiwan turned from years to decades, however, and an increasing share of the world's states switched formal diplomatic recognition from Taipei to Beijing, its claim became more and more untenable. In addition, generational change in the KMT, including the death of Chiang Kai-shek in 1975 and a "Taiwanization" recruitment program initiated by his son and successor Chiang Ching-kuo, led to a gradual shift in the regime's own priorities away from a restoration of the Nationalist government on the mainland and toward domestic development goals.<sup>13</sup> This shift accelerated as the regime gradually transitioned to full democracy, beginning with the establishment of the DPP in 1986 and followed by the lifting of martial law in 1987, the orderly succession of the native Taiwanese Lee Teng-hui to the presidency after Chiang Ching-kuo's death in 1988, and the forced retirement

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<sup>13</sup> Rubinstein 1999a provides a succinct overview of this period.

of permanent mainlander members of the National Assembly in 1991 and the Legislature in 1992. The transition culminated in the first direct vote for the president by the full Taiwanese electorate in March 1996.

These developments had positive, far-reaching effects on Taiwanese politics and society. But they also injected a new and volatile element into cross-Strait relations, as the independence-or-unification question emerged as the central cleavage in electoral politics. Because only a small minority of voters favored outright unification with the PRC, President Lee backed away from the claim that Taiwan was part of China, putting him into direct conflict with Beijing's adamant insistence on a "One-China" policy as the basis of any cross-Strait relationship. The PRC responded by conducting war games and live missile tests near the island in the run-up to the 1996 presidential election, hoping to signal its resolve to prevent a redefinition of Taiwan's status and to drive down Lee's support. The action backfired when Lee won the election by an unexpectedly large margin, and in his second term, President Lee began to characterize cross-Strait relations as a "state-to-state, or at least special state-to-state" relationship—words that in the eyes of the leadership in Beijing were an unacceptable redefinition of the status quo.<sup>14</sup>

The surprise victory in the 2000 presidential election of Chen Shui-bian, the candidate of the independence-leaning DPP, created further problems for Beijing. Chen began his presidency with a series of gestures intended to assuage concerns both in Beijing and Washington about his cross-Strait agenda. But as he ran into opposition to his domestic agenda in the legislature, Chen began to strike a more confrontational pose, pushing for greater recognition of Taiwan's separate status in international organizations and promoting the "Taiwanization" of educational curricula, greater use of the local Min-

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<sup>14</sup> Bush 2013, 16-17

nan dialect rather than Mandarin, and constitutional reforms that would remove many of the ROC's remaining formal ties to its mainland Chinese past. In an effort to improve his re-election chances, Chen also pushed a referendum law through the legislature and, outmaneuvering the opposition, announced public votes condemning the PRC's missile build-up that were timed to coincide with the presidential election in 2004. All of these moves were viewed by the PRC as steps to redefine Taiwan's status—especially the adoption of the new referendum law, which set a potential precedent for holding a popular vote on outright independence.<sup>15</sup>

Driving these developments in Taiwan was the fact that public identification with the Chinese mainland declined precipitously during the 1990s and early 2000s, a trend that Chen Shui-bian and the DPP capitalized on as much as led.<sup>16</sup> Beijing's fears that pro-independence sentiment on the island was rising seemed to be confirmed in the 2004 presidential election, when Chen defied most predictions by winning re-election by less than 30,000 votes after a fiercely fought campaign.

The PRC responded to these developments with a combination of new inducements and veiled threats. Leaders in Beijing began emphasizing the benefits for Taiwanese of greater economic interaction with the mainland by, for instance, playing up the favorable trading terms given to agricultural products from Taiwan's south, where support for the DPP had increased the most over the previous decade. At the same time, however, Beijing's position that Taiwan must eventually be unified politically with the mainland did not change. To reinforce this position, the National People's Congress

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<sup>15</sup> *Ibid.*

<sup>16</sup> Fell 2012, 133-150.

passed an “anti-secession law” in March 2005 that legally bound Chinese leaders to use force to prevent Taiwan’s formal separation from the mainland.<sup>17</sup>

To back up these claims, the PRC’s military modernization program has been explicitly aimed at creating a credible deterrent to a Taiwanese declaration of de jure independence. The capability of the PRC to carry out a wide range of hostile acts against the island, ranging from an economic blockade to decapitation missile strikes to a full-scale invasion, has steadily improved over the last 20 years. Although in the early 2000s most serious analyses of the cross-Strait military balance were skeptical of the People’s Liberation Army’s (PLA) ability to match the quality of Taiwanese forces<sup>18</sup>, there is now considerable disagreement on this question. Some analysts emphasize the rapid improvements in PLA offensive strike capabilities, particularly in its ballistic missile and air forces.<sup>19</sup> Others note that the PLA remains hampered by serious operational weaknesses, and that Taiwan’s military has significantly strengthened its own ability to survive an initial ballistic missile attack and remain capable of challenging PRC forces in the skies: hardening airfields and hangars, improving command and control operations, and deploying anti-missile batteries and advanced early-warning radar systems.<sup>20</sup> What is not in dispute, however, is that the resources available to both sides have shifted dramatically: the PLA’s official budget, already 15 times that of its Taiwanese counterpart, continues to grow annually at double-digit rates, while Taiwan’s remains flat.

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<sup>17</sup> Bush 2013, 19.

<sup>18</sup> E.g. O’Hanlon 2000; Shlapak et al. 2000; Swaine and Mulvenon 2001, 114-127.

<sup>19</sup> Murray 2008; Shlapak 2011; USCESRC 2013, 325-353; Department of Defense 2014, 53-58.

<sup>20</sup> Easton 2014; Chase et al. 2015.



*US-Taiwan Relations: An “Unofficial” Alliance*

As an alternative to arming, states facing external threats can also strengthen existing alliances or add new ones to increase their security.<sup>21</sup> One possibility, then, is that Taiwan’s decline in defense spending can be explained as a substitution effect: allies instead of arms. Yet Taiwan’s alliance structure has not changed in a way that noticeably improves the island’s security. Its primary ally, the United States, formally ended a mutual defense treaty at the end of 1979. Since then, the US has maintained a close but unofficial relationship with the Taiwanese regime and its defense establishment based on the Taiwan Relations Act (TRA) of 1979.<sup>22</sup>

Under the terms of the TRA and long-standing policy, the US formally treats Taiwan’s international status as unsettled, neither endorsing nor denying either the PRC’s claim to be the sole legitimate ruler of Taiwan, or the ROC’s counterclaim to be a sovereign, independent state. It maintains only that Taiwan’s status should be decided peacefully through mutual agreement of the two sides, and that it would view attempts by either to use “non-peaceful means” to pursue a resolution of the issue as a “grave threat to the security of the Western Pacific.” This policy is deliberately ambiguous about whether the United States would come to Taiwan’s defense in the event of military action by the PRC. In practice, while Taiwanese leaders can probably count on US backing in the event of Chinese use of force, their room to take actions that depart from the US position—

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<sup>21</sup> Morrow 1993; Sorokin 1994.

<sup>22</sup> Cf. Bush 2004, 124-178.

particularly attempts to assert Taiwan's formal independence from "China"—is highly circumscribed.<sup>23</sup>

This relationship has not fundamentally changed since the early 1980s. At key moments, the United States has taken steps to demonstrate its commitment to Taiwan's defense in the face of threats from the PRC. Most notably, during the lead-up to the 1996 presidential election in Taiwan, the Clinton administration dispatched two carrier groups to the region as a warning to China. The strongest public statement of support for Taiwan in the last two decades came in 2001, when President George W. Bush said that the United States would do "whatever it took" to help Taiwan defend itself. But such statements have been rare, and regularly balanced with warnings to Taiwanese political leaders by US officials in both Republican and Democratic administrations.<sup>24</sup>

Beyond its unofficial relationship with the United States, Taiwan has no other formal allies of consequence were it to come into a military conflict with the PRC. The ROC maintains unofficial contacts with other US allies in the region—Japan, South Korea, and the Philippines, as well as significant military exchanges with Singapore—but has no formal defense treaty with any of them. And while there is some possibility for Japan, at least, to join the United States in coming to Taiwan's aid, the PRC's military modernization has greatly raised the potential costs of doing so and increased the uncertainty about what Tokyo would do in the event of a military conflict.<sup>25</sup>

In the diplomatic sphere, Beijing has steadfastly opposed Taiwan's separate accession to the United Nations, the World Health Organization, and other global

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<sup>23</sup> For the definitive review of key statements of official US policy on Taiwan since 1979, see Kan and Morrison 2014. On the ambiguity of US policy and its constraining effect on Taiwanese leaders, see Kastner 2006 and Benson 2012, 142-168.

<sup>24</sup> Bush 2013, 18.

<sup>25</sup> Sahashi 2014.

organizations; lodged strenuous protests against any official international visits by ROC leaders; and engaged Taipei in a rather comical battle over diplomatic recognition from such global heavyweights as Nauru, Haiti, and Fiji.<sup>26</sup> At present, Taiwan maintains official relations with fewer than two dozen other states, none of which have separate relations with the PRC per long-standing Chinese practice. Of more significant consequence, PRC pressure has also halted the sale of new arms packages from countries that previously supplied weapons to Taiwan, including Germany, France, the Netherlands, and Israel. The United States is now virtually alone among major arms exporters in continuing to sell advanced weapons systems to Taiwan.<sup>27</sup> Thus, Taiwan's alliance structure remains much the same as it was 30 years ago: the United States is the island's only reliable security partner.

## **2. LITERATURE REVIEW: GUNS, BUTTER, AND DEMOCRACY**

What explains changes in defense spending levels over time like Taiwan's? The literature offers at least four broad categories of explanations.

### ***Threats to the State***

The first explanation is that spending on the military reflects responses by state leaders to security threats. By increasing defense spending, leaders provide more capacity

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<sup>26</sup> Van Fossen 2007.

<sup>27</sup> McLaran 2000, 624-625; Lo 2007.

to counter these threats and increase deterrence. Thus, a deterioration of a state's external security environment will trigger arming behavior and a shift of resources into the defense budget to support this ramping up of military capabilities.<sup>28</sup> A change in internal threat level—the rise of a rebel group bent on overthrowing the state from within, for instance—should follow the same logic: leaders respond to a new threat to state authority by increasing resources going to the security apparatus, and a decline in internal threats leads them to reduce them.<sup>29</sup>

From this perspective, the Taiwan case offers a bizarre, through-the-looking-glass counterexample. In order to counter the rising threat from the PRC over the last two decades, Taiwan's military spending should have increased substantially. Instead, the data in section 1 show precisely the opposite pattern: a rapid decline in defense resources in both relative and real terms. As a consequence, Taiwan's armed forces today are arguably not much better equipped to fend off hostile action by the PRC than they were in 2000, while Chinese forces continue to add new capabilities. Nor can this pattern be explained as a consequence of substitution away from arms and toward allies: as we noted earlier, Taiwan has acquired no new partners for its defense, and its political and military relationship with the United States has remained fundamentally unchanged since the early 1980s.

### *Economic Capacity and Bureaucratic Inertia*

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<sup>28</sup> Richardson 1960; Dunne and Perlo-Freeman 2003; Nordhaus et al. 2012.

<sup>29</sup> Collier and Hoeffler 2002.

A second explanation is that the level of defense spending is primarily a consequence of overall economic capacity, with shifts in spending to respond to new threats occurring only at the margins.<sup>30</sup> Thus, in most states, while military spending levels remain steady as a percentage of overall GDP, the absolute level can increase substantially as the economy expands. Some of these theories rely on an argument about incremental budgeting: state leaders are reluctant to cut or increase budgets dramatically because of the political and bureaucratic costs of doing so.<sup>31</sup>

The expectation here is that Taiwan's military expenditure should have more or less kept pace with economic growth over the last thirty years. Even as overall government spending expanded, the share going to defense should have remained roughly constant. And in absolute terms, the resources going to the military should have grown along with the economy regardless of what was happening in the regime's security environment. Conversely, in recessions or during periods of government retrenchment, military spending should have declined at roughly the same ratio as everything else. A prominent recent example is the United Kingdom's cuts to defense after the 2008 financial crisis: in 2010 the newly-elected Conservative government of David Cameron announced drastic reductions in the defense budget, despite no obvious change in Britain's security environment or its alliances.<sup>32</sup>

This explanation is consistent with the Taiwan data for the 1975-1986 period: shifts in defense share of the budget and of GDP occurred in the short term, but averaged over the entire period defense received a consistent share of a rapidly expanding pie. Yet it clearly cannot account for the steep post-1986 decline in defense spending from five to

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<sup>30</sup> Treddenick 1985; Looney and Frederiksen 2000.

<sup>31</sup> Rattinger 1975; Gonzalez and Mehay 1990; Franko 1994.

<sup>32</sup> Burns 2010.

two percent of GDP, and 25 to 16 percent of the central government budget. Something is clearly different about the post-1986 period.

### *Military Influence on Politics*

A third explanation is that defense spending levels primarily reflect the political influence of the military. In many authoritarian regimes, the military is a key constituency of the leadership and needs to be provided for to ensure the regime leader's own security of position. Cut the defense budget too much, this argument goes, and military elites will overthrow the civilian leadership in a coup.<sup>33</sup> A similar logic may operate in young, unconsolidated democracies with a past history of military intervention in politics, such as Turkey, South Korea, Thailand, Brazil, Chile, Argentina, and much of Sub-Saharan Africa. In several of these states, the military played a key role in a "pact" that ushered in democracy, and as a consequence it remained a key political constituency in the new regime long after the initial transition. Thus, military spending can hold special status in these cases, and democratically elected civilian leaders have to be especially cautious about redirecting military resources to other constituencies.<sup>34</sup> In addition, the military may be used to secure a democratically elected leader's position against anti-regime threats—such as leftist movements in several Latin American states—so budgets can remain disproportionately large for this reason as well.<sup>35</sup>

A couple predictions follow from this line of argument. One is that military budgets in such regimes are rarely cut, are protected during economic crises and budget

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<sup>33</sup> Nordlinger 1977.

<sup>34</sup> Collier and Hoeffler 2007.

<sup>35</sup> Zaverucha and Redenze 2009.

retrenchments, and therefore remain a relatively large share of the overall budget even as a state's economy contracts or expands. Thus, regimes with a past history of military intervention in politics should have larger defense budgets, all else equal, than regimes without. In addition, shifts in the relative power of the military as a political constituency should subsequently be reflected in the defense budget. Democratic consolidation, in particular, should introduce new stakeholders, increase the influence of broad electoral constituencies, put military elites more firmly under civilian control, and therefore make leaders less deferential to the military's budgetary demands.<sup>36</sup>

Yet this explanation, too, has limited power in the Taiwanese case. The post-1949 regime on Taiwan initially did rely heavily on military force to consolidate its position on the island. By the late-1950s, however, Chiang Kai-shek had fundamentally reshaped the KMT party apparatus, strengthening its grip over the military and domestic security agencies and the populace at large. As a revolutionary party organized along Leninist lines, the KMT posted party members at multiple levels in all important branches of the regime and developed a strong political commissar system within the armed forces that ensured party control of the military and reduced the possibility of coups.<sup>37</sup> There is little evidence that military leaders acted as independent power centers during the martial law era in Taiwan—despite, or perhaps because of, Chiang Kai-shek's extensive military background and detailed knowledge of the officer corps. Chiang's son Chiang Ching-kuo also had a background in domestic intelligence and security, but his political authority

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<sup>36</sup> Franko 1994.

<sup>37</sup> Swaine and Mulvenon 2001, 43.

derived mostly from his personal family background and his control of the party rather than support from the military.<sup>38</sup>

The only period in the last 30 years when military leaders might have had significant political influence was during the early years of Lee Teng-hui, from 1988 to about 1993. In 1989, Lee appointed a retired general, Hau Pei-tsun, as premier, motivated at least in part by a need to appease hardliners within the KMT. But most of Hau's power derived from his support within the *party* rather than from the military.<sup>39</sup> Even if we assume that the armed forces were able to influence budgets through Hau, that channel was closed for good when Lee forced Hau to resign in 1993. From that point forward, the military was not an important, independent political constituency in Taiwan, nor did it possess significant off-budget resources. And Taiwan's armed forces have never enjoyed anything like the prolonged political preeminence of the Turkish military, for instance, or the control of copper revenues of the military in Chile.<sup>40</sup> Thus, the "military influence" explanation cannot account for the magnitude of the decline in defense spending after 1989, either.

### ***Democracy and the Guns-Butter Tradeoff***

A fourth explanation is that democratization itself has played the crucial role in shaping Taiwan's defense spending levels. For leaders who wish to maximize their probability of retaining power, transitions to democracy fundamentally change the calculus: they introduce popular elections that incumbents could lose. Leaders have to

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<sup>38</sup> *Ibid.*, 44.

<sup>39</sup> Rubinstein 1999b, 450.

<sup>40</sup> Sezgin 1997; Baldez and Carey 2001, 136-139.



take preferences of voters into account, not just other members of the ruling elite. And voters are likely to prefer less spending on the military and more on other public programs.

The reasons are twofold. The first is the nature of defense. The public good of deterrence is amorphous: it is hard to quantify in a way that is immediate and tangible to most voters, and it is also hard to link individual security to concrete actions taken, or not taken, by leaders. By contrast, other forms of public spending are generally more visible: spending on public infrastructure and social welfare programs has a broad and easily quantifiable impact, and it is relatively simple for voters to assign credit or blame. Thus, voters are less likely to reward spending on defense at the polls.<sup>41</sup> And that in turn changes the relative returns to elected leaders of various budget allocations, raising the electoral opportunity cost of allocating another share of the budget to defense rather than social welfare or infrastructure.<sup>42</sup> In other words, democratization shifts the “guns-versus-butter” tradeoff, making “guns” relatively more expensive in political terms than before.

The second is the time-horizon of defense investment. Defense modernization and upgrading programs typically take place on a scale of decades, not years. As a consequence, visible improvements in security take longer to materialize than do the effects of other forms of public spending. In general, leaders in democracies have to care more about the short-run consequences of spending decisions, because they regularly have to face the electorate. So defense projects with long time horizons, requiring

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<sup>41</sup> Sprout and Sprout 1968; Sandler and Hartley 1995.

<sup>42</sup> Garfinkel 1994; Bueno de Mesquita et al. 2003.

decades-long investments to deliver results and with limited non-security value, are likely to be undersupplied in democracies relative to autocracies.<sup>43</sup>

Two predictions follow from this explanation. First, democracies in general should spend less on the military than non-democracies. Second, after transitions to democracy, defense spending should decline in relative terms, both as a share of GDP and of total government spending. Our argument is that democratization had precisely this kind of effect on budgetary allocations in Taiwan. Competitive elections generated powerful new incentives for politicians to increase public spending—social welfare spending, in particular—that proved to be popular vote-winners. And military spending was held flat, even as the security threat across the Strait increased. In the next section, we show precisely how, when, and through what mechanisms this shift occurred.

### **3. TAIWAN'S DEMOCRATIC TRANSITION: EXPLANATION AND EVIDENCE**

Taiwan's democratic transition unfolded over nearly a decade. It began with the founding of the opposition Democratic Progressive Party in September 1986, and the subsequent decision by President Chiang Ching-kuo to allow the new party to contest supplementary elections to the legislature that December. The next year, he formally lifted martial law. The release of political dissidents and gradual loosening of censorship and other restrictions on the media followed. When Lee Teng-hui succeeded the younger Chiang in 1988, he accelerated the reform process, overseeing the introduction of fully contested elections for the National Assembly (NA) in 1991, the Legislative Yuan (LY)

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<sup>43</sup> Garfinkel 1994.

in 1992, the provincial governor and Taipei and Kaohsiung mayor's offices in 1994, and finally the presidency itself in 1996. Throughout this period, the KMT retained power at the national level, controlling majorities in the NA and LY as well as the presidency. In many ways, the KMT appeared well-positioned to continue in power despite the introduction of multiparty elections that were largely free and fair.

The KMT's survival in power through this transition, however, obscures fundamental changes taking place in Taiwanese politics and policy-making. We identify three distinct mechanisms through which the transition to democracy put downward pressure on the defense budget. These are through (1) *crowding out* of defense by new demands for social welfare spending, (2) *divided government* that led to delays or cancellations of new defense outlays, and new incentives for (3) *burden-shifting* onto Taiwan's US ally.

### ***The Crowding-Out Effect of Social Welfare Spending***

The first way that democratization has affected defense budgets in Taiwan is through a *crowding-out effect*: state resources that were once available for the military are increasingly committed to other functions, squeezing the amount that can be added for defense.<sup>44</sup> In Taiwan, this effect has occurred primarily through increases in social welfare programs—national health insurance, social security, and public employee pensions—that were introduced or greatly expanded in the 1990s.<sup>45</sup> Today, about 30

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<sup>44</sup> Russett 1970; Mintz and Huang 1991; Fordham and Walker 2005.

<sup>45</sup> Infrastructure spending, too, was increased as an electoral strategy, although the regime was starting from a much higher base and so the increase is less dramatic. Nevertheless, new projects

percent of all government spending is devoted to these general welfare programs, up from about 10 percent in 1975. Moreover, this fraction is expected to rise even higher over the next decade, as Taiwan's population is rapidly aging, creating de facto financial limits on the Taiwanese state's ability to respond to the military buildup across the Strait.

Electoral pressure for increased social spending came relatively early in the transition. In 1986, 10 months before year-end supplementary elections to the legislature, the KMT leadership announced that it planned to introduce a universal health insurance program by 2000. Prior to that time, health benefits had been limited to government employees and military veterans—both disproportionately mainlanders and key constituencies of the KMT during the martial law era. But that left the vast majority of Taiwanese uncovered by any form of medical insurance—in 1980, only 17 percent of the population had some kind of public coverage.<sup>46</sup> This legacy of funneling social welfare spending toward mainlanders left the KMT in a precarious position when elections became fully contested: public opinion overwhelmingly favored the introduction of universal health care. Thus, it was only a matter of time before elements of the DPP sought to exploit this issue to win votes.

As a consequence, in 1988, a central government task force began designing a universal health insurance program that would unify various pre-existing schemes under a single-payer system. In 1989, again before an election, the start date was officially moved up to 1995. A final proposal was submitted to the legislature in October 1993 and approved in July 1994, coming into effect on schedule in March 1995. Electoral pressure clearly played a role in the quick passage and implementation of the scheme: the

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beginning in the 1990s included mass transit systems, airport expansions, new highways, and a hugely expensive high-speed rail line. See Cheng and Haggard 2001, 203-207.

<sup>46</sup> Wong 2004, 8.

elections for Taipei and Kaohsiung mayors and Taiwan provincial governor loomed in the fall of 1994, and would be followed by legislative elections in late 1995 and the first direct presidential election in March 1996. This timeline created a strong imperative for KMT leaders to push the reform through as fast as possible.<sup>47</sup>

A similar dynamic led to the introduction of a general social security program, expanded unemployment assistance, and subsidies to poor households. Each issue arose in the context of an electoral campaign, with KMT candidates often promising to increase social spending in a city or county without prior consolidation with the party center. And in each case, the KMT leadership eventually introduced a national policy that superseded the various local programs as a way to head off a DPP challenge.<sup>48</sup> As one scholar summed it up at the time, “immense pressure from the DPP has forced the government to set up more social welfare services in recent years and 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.”<sup>49</sup>

One can get a sense of just how rapidly social spending increased by looking at the share of the budget going to it over time. Figure 6 shows the shares of budgeted central government spending for social welfare—health insurance, pensions, and old-age insurance—and national defense. Two moments appear critical. Social welfare spending jumped in 1995, as the NHI program came online, outstripping national defense’s share for the first time. From that point forward, defense’s share has remained well below

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<sup>47</sup> *Ibid.*, 81.

<sup>48</sup> Aspalter 2002.

<sup>49</sup> Schafferer 2003, 156.

social welfare. They also diverged sharply in 2000, as the KMT ramped up for the 2000 presidential election. After Chen Shui-bian's surprise victory ushered in divided government, social spending from the central government budget remained roughly twice national defense for most of his time in office. The picture is even starker if we look at total government spending rather than just the central government, as Figure 7 shows. Because a significant share of social spending is provided directly by local governments, the true ratio of social to defense spending in Taiwan has been almost three to one since the beginning of the Chen Shui-bian era.

*[Figure 6 and 7 about here]*

Nevertheless, the surge in social spending is so strong, and maps so well onto both the relative decline in defense and key events in Taiwan's political development, that it is easy to miss the second factor limiting the expansion of military expenditure: divided government.

### ***Veto Players: Divided Government and Arms Purchases***

Recent work has advanced the argument that the number of veto players in a regime is at least in part responsible for the “democratic peace”—that is, democracies do not fight one another because of the larger number of actors who can veto the initiation of military conflicts.<sup>50</sup> Our reading of the Taiwan case suggests that there is also a veto players effect on military spending. Put differently, democratization in Taiwan did not

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<sup>50</sup> Ireland and Gartner 2001; Reiter and Tillman 2002; Choi 2010.

just lead to greater responsiveness to demands for social welfare provision. It also created the possibility for the first time of multiple veto players in Taiwan's political system, making policy change harder to enact.

In 2000, this possibility was realized with the election of Chen Shui-bian as president. Chen won with less than 40 percent of the popular vote when two KMT candidates split the rest, and at no point during his two terms in office did his DPP hold a majority in the Legislative Yuan. Instead, the KMT and its smaller ally the People First Party (PFP), collectively known as the pan-Blue camp, retained control of the chamber, and with it the ability to block presidential initiatives.

Under the ROC constitution, the executive has broad agenda-setting power: it proposes the national budget, and the legislature has no authority to increase or reallocate spending among categories. Nevertheless, the legislature can cut funding, and its approval is ultimately needed for all new spending bills. It also has the power to compel ministry officials to testify before legislative committees, and it can place freezes on budgetary items to force executive branch agencies to respond to legislators' demands. Once Chen took office, the pan-Blue majority in the legislature started to use these tools more systematically to block new executive policies and exert some control over government ministries. As a consequence, during Chen's time in office (2000-2008), executive-legislative relations were characterized by prolonged policy deadlock and increasingly nasty partisan rancor.

On defense issues, this might not have mattered much if the major parties agreed on the relative importance of defense in the overall budget, as they did for social welfare programs. But during the Chen era, the pan-Blue camp turned out to be much less

supportive of new spending on the military than the DPP. The reasons for this opposition are not immediately apparent, and certainly were not foreseen before the change in ruling party. In the 1990s, Legislative Yuan criticism of defense spending had come mostly from DPP legislators, who distrusted the military because of its traditional role as an arm of the KMT party-state during the martial law era. DPP legislators along with the occasional rogue KMT member attempted to cut military spending in the LY in the 1990s, but had little success because the KMT majority remained deferential to the executive on defense issues.<sup>51</sup> Thus, the stark reversal of positions on defense after the change in ruling party came as a surprise—particularly the sustained opposition to defense spending that emerged from the Blue camp during the Chen Shui-bian years.

The opposition's willingness to vote against new military spending can be seen in the fate of several new arms packages made available by the United States starting in 2001. After considerable debate, the Chen administration in June 2004 introduced a US \$18.2 billion special budget to acquire three of the packages: eight diesel-powered submarines, 12 P-3 maritime patrol aircraft, and six PAC-3 Patriot anti-missile batteries. Over the next three years, funding proposals were blocked in the legislature dozens of times; only a much-reduced proposal of US \$300 million to purchase the P-3 aircraft and upgrade Taiwan's existing SAM systems finally passed in June 2007.<sup>52</sup>

The public justifications by legislators for their opposition tended to emphasize the high cost of new arms packages, the unsuitability or inefficiency of the specific weapons, and the futility of trying to engage in an arms race with China. It is possible that many KMT legislators even in the 1990s held similar views, but could not express

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<sup>51</sup> Swaine 1999, 65.

<sup>52</sup> Stokes 2006; Rickards 2007.



them because of the consequences of violating party discipline. But the change in ruling parties dramatically altered the politics of the issue and eventually contributed to the politicization of defense spending. Both political camps increasingly viewed the special budgets through the lens of cross-Strait relations and treated it as a partisan issue.<sup>53</sup>

Thus, a lack of cross-party agreement over how to approach cross-Strait relations increasingly spilled over into the defense arena during the Chen years. And the fact that the legislature held a veto over budgets made it effectively impossible for the Chen administration to win funding increases for the military for most of this period. Divided government together with the politicization of defense issues is a second factor that has limited increases in defense spending in Taiwan since 2000.

***Burden-Shifting: The Bargaining Advantages of Democracies***

The third way that democratization has led to lower defense budgets is through its effect on the US-Taiwan alliance. One way to think of military spending in alliances is as a public goods problem, with security the public good in danger of under-production by a group of self-interested countries.<sup>54</sup> Under these conditions, the strongest state may end up shouldering a disproportionate share of the security burden, allowing weaker states in the alliance to free-ride on its defense spending. A variant on this kind of relationship is an asymmetric alliance, in which a client state receives security from a patron in exchange for ceding some policy autonomy.<sup>55</sup> This exchange could also involve

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<sup>53</sup> Swaine 2004, 23.

<sup>54</sup> Russett 1970, 91-126; Sandler and Hartley 1995.

<sup>55</sup> Morrow 1991.

preferential trade agreements or weapons sales that provide non-security benefits to the patron state.<sup>56</sup>

The US-Taiwan relationship is *de facto*, if not *de jure*, an asymmetric alliance. During the martial law years, the US side had only to worry about dealing with the KMT leadership—and for most of that period, the single paramount leader, either Chiang Kai-shek or Chiang Ching-kuo. The US could be confident that the Chiangs had the ability, if not necessarily the motive, to follow through on their commitments. At key points, the United States was able to restrain the Chiang regime from military adventures against the PRC, to advise on land reform and economic development plans, and to influence the treatment of political prisoners and the conduct of elections.<sup>57</sup>

Democratization greatly complicated this relationship in several ways. For one, the greatest threat to the political survival of Taiwanese leaders no longer came from across the Strait but from their own constituents; and while the United States could do a great deal to affect the external threat, it could do much less to influence the outcome of newly-competitive elections in Taiwan. Thus, elected politicians from Lee Teng-hui on down started to take actions intended for a domestic audience that were at odds with the interests of the United States. For another, the US side could no longer be confident that Taiwanese leaders would deliver on their commitments, because they first had to win the approval of the legislature.

The consequence is that Taiwanese leaders since the transition to democracy have been more constrained by public opinion in addressing key US concerns. And because this is common knowledge—legislative debates and public opinion polls are readily

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<sup>56</sup> Poon et al. 2006; Fordham 2010.

<sup>57</sup> Bush 2004.

available—it has limited what the US side is able to demand and greatly complicated its ability to constrain policy change in Taiwan. The issue of Taiwan’s international status is only the most obvious of a set of concerns, ranging from the promotion of a new referendum law to bans on US beef and pork imports, whose resolution to US satisfaction has been hampered by an independent legislature, critical media, and active civil society.

This change has extended to how Taiwanese politicians and the public view the threat from the PRC. Not all relevant domestic political actors in Taiwan agree that the island’s security is in imminent danger, or view as credible US attempts to limit the conditions under which it would come to Taiwan’s aid. In this, they are merely reflecting public opinion: polls in Taiwan indicate widespread confidence in a response from the United States in the event of a conflict. A survey in 2011 found that 56.4 percent of respondents expected the United States to come to Taiwan’s defense even if an attack came as the result of a declaration of independence; the percentage rose to 73.5 percent if the attack were unprovoked.<sup>58</sup> Thus, the majority of the Taiwanese public remains confident in the US security guarantee and convinced that relying on the US military, rather than Taiwan’s, will ultimately better protect Taiwan against a PRC threat. Democracy has compelled Taiwanese leaders to free-ride on the U.S. alliance.<sup>59</sup>

One additional piece of evidence for this interpretation is what happened after Chen Shui-bian left office in 2008: defense spending has still not risen appreciably under his successor, the KMT’s Ma Ying-jeou. Ma’s election marked a clear break with the partisan turmoil of the Chen years: the KMT won a large majority in the legislature, and as both the president and chairman of the party, Ma held extraordinary authority over the

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<sup>58</sup> Cited in Wang 2013.

<sup>59</sup> Cf. Lague 2004; Logan and Carpenter 2007.

direction of government policy. As a candidate for president, Ma had vowed to increase the defense budget to at least three percent of GDP during his first term, and he certainly had the numbers in the legislature to see through increases in military spending. But since he took office, Ma's administration has in practice kept defense spending flat, as the figures in Section 1 show. Taiwan's actualized military expenditure in 2012 was only about 2.1 percent of GDP.

Several factors have worked to constrain new military spending under President Ma. For one, from his first days in office, Ma's primary security strategy has been to pursue closer economic relations with the PRC—in effect, a form of bargaining rather than arming against the military threat from across the Strait.<sup>60</sup> To the extent that increases in the military budget, and especially weapons purchases, might upset this initiative, they were put on the back-burner. In addition, Ma's outreach to the PRC quickly yielded a set of agreements on investment, tourism, direct flights, educational exchanges, and other interactions.<sup>61</sup> Along with the softer, friendlier rhetoric coming out of Beijing, these actions made the threat from the PRC appear less salient to most Taiwanese, although the PLA's modernization program continued apace. Taiwan was also hit badly by the global financial crisis in 2008-09. Its economy sank into a deep recession, and the Ma government faced a huge revenue shortfall at the same time that demands for unemployment relief increased. A major typhoon hit southern Taiwan in 2009, as well, and a large relief package was appropriated for recovery work, putting further short-term pressure on government finances.<sup>62</sup> More worryingly, Taiwan's

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<sup>60</sup> Zhang 2011.

<sup>61</sup> Bush (2013, 45-68) has a succinct review of these agreements and other cross-Strait developments after 2008.

<sup>62</sup> Lin 2014.

relative tax take has been declining as a share of the economy for years, hitting an all-time low of 12.8 percent of GDP in 2012, and recent efforts to impose new taxes have not reversed the trend.<sup>63</sup> Thus, even if Ma had wanted to, dire economic circumstances and revenue shortfalls forestalled any serious injection of new resources into national defense in his first term.

Nevertheless, the burden-shifting to the US is likely to continue even if Ma or his successor seeks to reverse the trend. As Taiwan's democracy has consolidated, the legislature's authority has risen at the expense of the executive, in what is probably an irreversible shift in power.<sup>64</sup> On defense issues, this newfound assertiveness has not been accompanied by an increase in legislative expertise in defense policy. Few legislators in either political camp have significant military or security-related backgrounds. There is also little incentive to acquire this expertise, because knowledge about national defense does not usually win votes.<sup>65</sup> Moreover, committee chairmanships rotate on a regular basis, and the members of the Defense Committee, which has responsibility for authorizing funding, often change. As a consequence, since 2000, voices from across the political spectrum in the LY have advocated spending less on defense and rejecting new arms packages without a deep understanding of what purposes these sales might serve in the U.S.-Taiwan relationship.

Criticism from legislators has taken one of three forms, each calculated to appeal to domestic electoral constituencies. The first is that US arms sales do little in practical terms to improve Taiwan's ability to withstand a PRC attack, and are instead a payoff to US arms dealers to ensure the United States continues to protect Taiwan. For instance, in

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<sup>63</sup> Shapiro 2013; Bush 2013, 159-60.

<sup>64</sup> Chu 2014.

<sup>65</sup> Stokes 2006, 4.

2002 DPP legislator Lin Chin-hsin claimed, “The US has been treating Taiwan as a junkyard for its unwanted military equipment. It has been dumping useless weaponry on the island.”<sup>66</sup> On the other side of the political aisle, PFP member Ku Chung-lien, who as a former commander in chief of the Navy and vice defense minister was one of the few legislators with a military background, came out in opposition to the purchase of used Kidd-class destroyers because it would run counter to the non-offensive national defense strategy adopted by the armed forces.<sup>67</sup>

The second is that the cost is simply too high, and Taiwan should not be expected to shoulder such a heavy financial burden. For instance, in 2003 the KMT party whip Lee Chia-ching warned that the country already had a debt of NT \$4.79 trillion and simply could not afford to pay for new weapons systems.<sup>68</sup> In 2004, the PFP chairman James Soong claimed that his party was “not against the military sale, but we have to think about whether we can afford it... We must do good shopping. We must get what is best for us.”<sup>69</sup> And in 2006, when an American official threatened a “downward spiral” in bilateral relations if the legislature continued to block arms purchases, legislators from across the political spectrum lashed out publicly at the United States, arguing that the price was too high and that the special arms budget’s passage would require unacceptably deep cuts to health and educational spending.<sup>70</sup>

The third objection is that no matter how much Taiwan improves its security forces, it will still remain at a disadvantage to China, and therefore trying to win an arms race is futile. For instance, Hsu Hsin-liang, a former DPP party chairman and a nominal

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<sup>66</sup> Hsu 2002.

<sup>67</sup> *China Post* 2002.

<sup>68</sup> *Taipei Times* 2003; Lu 2003.

<sup>69</sup> Cody 2004.

<sup>70</sup> *China Post* 2006.

ally of Chen Shui-bian, came out against the special arms budget in 2004, arguing: “There is no way Taiwan can compete against China in military build-up. This kind of military build-up is against peace. The more you buy weapons the more dangers we face.”<sup>71</sup> Civil society groups also made this the centerpiece of their opposition in 2004, urging voters not to support legislators who publicly supported the arms deal. The idea that arms sales were a central component of the U.S.-Taiwan alliance did not register with many activists, including a spokesman for the Democratic Advancement Alliance, an anti-arms sales group. “We think Taiwan peace is more important than an arms race,” he argued. “This big amount of weapons cannot protect Taiwan...China is such a big country. How can Taiwan win an arms race with China?”<sup>72</sup>

Overall, then, the transition to democracy in Taiwan has given the legislature a more central role in defense issues and made it much more responsive to public opinion. And because public support for new defense spending is lukewarm at best, democratization has considerably strengthened the incentives and ability of Taiwanese leaders to shift the burden for security onto their U.S. ally.

#### 4. CONCLUSION

At first glance, the shifting cross-Strait military balance is puzzling. As the PRC’s force modernization program and military spending increases continue, Taiwan’s defense

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<sup>71</sup> Gluck 2004.

<sup>72</sup> Cody 2004.

budget has remained stagnant for the last 20 years. Nor has Taiwan added new allies. And while cross-Strait relations have improved markedly since the election of Ma Ying-jeou as president in 2008, much of the budgetary shift away from defense occurred well before then, under the administrations of Lee Teng-hui and Chen Shui-bian. Both Lee and Chen came to be viewed with extreme suspicion by decision-makers in Beijing, and as a consequence serious bargaining between the two sides simply did not occur for at least 15 years, from 1993-2008. Rather than successfully bargaining with the PRC, arming to increase deterrence against the rising threat, or strengthening existing alliances, Taiwan's security posture did not change.

Our explanation for this apparent paradox is straightforward: democratization did it. The transition to democracy unleashed demands for new social spending that crowded out increases for defense. It introduced additional veto players into the budgetary process and turned military spending into a partisan issue. And it increased the incentives for Taiwanese political leaders to free-ride on the American alliance, while making it more difficult for the American side to influence policy decisions in Taiwan. Put simply, in Taiwan the democratization effect has swamped the external threat effect.

This explanation should be of interest to both theorists and policy-makers. It is consistent with existing findings that democracies tend to under-provide security and prepare less effectively for military conflicts than do non-democracies. More counterintuitive is our claim that asymmetric alliances between democracies result in a greater free-rider problem, and are *more* difficult for the patron state in the relationship to manage. That possibility has important implications for other US bilateral alliances around the world: democratic consolidation in its allies may force the United States to



shoulder a larger share of the security burden in many cases. Yet military spending patterns among US allies have varied greatly over time. For instance, despite a similar external security and alliance situation and a transition to democracy that parallels Taiwan's, South Korea now spends considerably more on its own defense. We do not have a good understanding of why the arming behavior of these two US allies in East Asia has diverged so much over the last two decades—a question that could be fruitfully explored in future research.

Our explanation should also be sobering to American policy-makers. Taiwan's defense budget level is now determined mostly by domestic political concerns, rather than developments in China or the preferences of the United States. The legislature, rather than the president, is now the locus of decision-making on budgetary issues. American diplomatic efforts to get Taiwan to provide more resources for defense will need to acknowledge this new reality and adjust accordingly. Otherwise, the cross-Strait military imbalance will continue to shift toward the PRC, leaving the United States bearing an increasing share of the security burden for an independent-minded ally.

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Figure 1

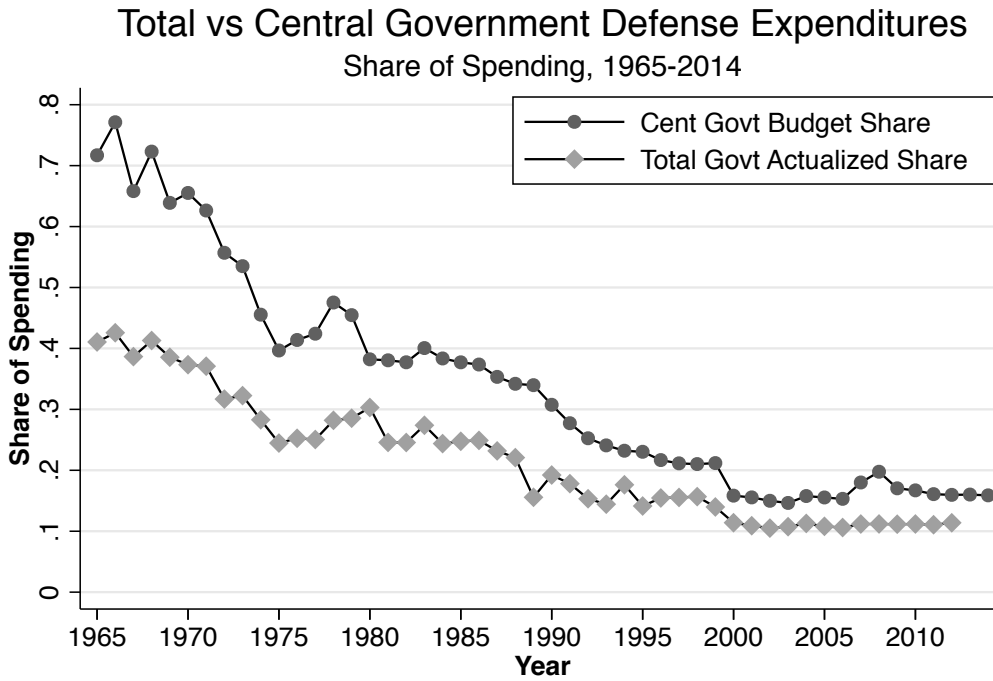


Figure 2

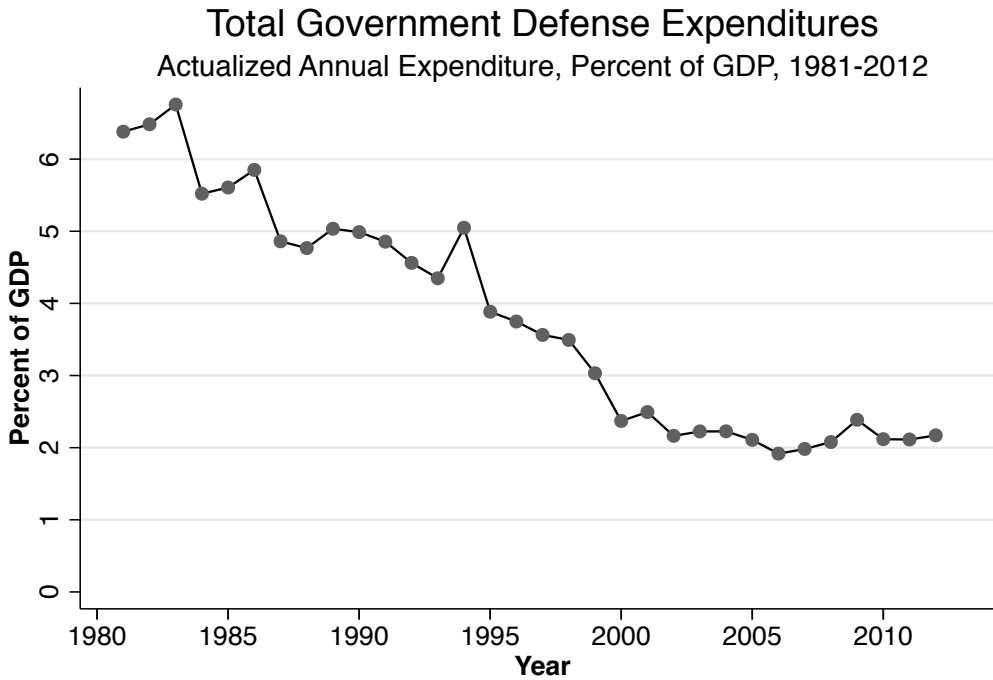


Figure 3

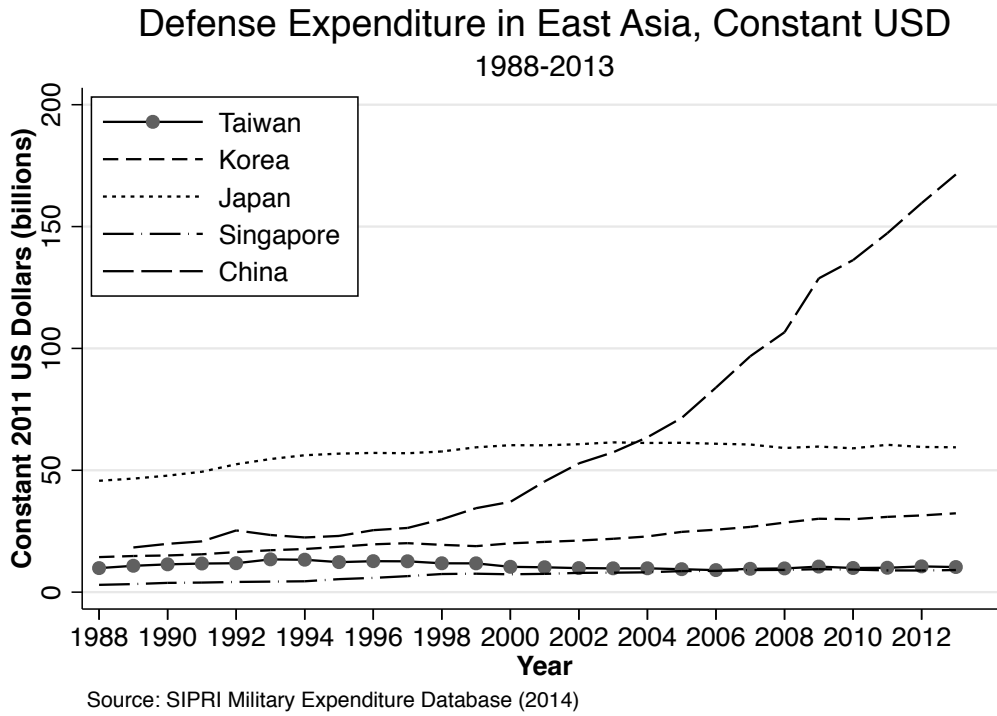


Figure 4

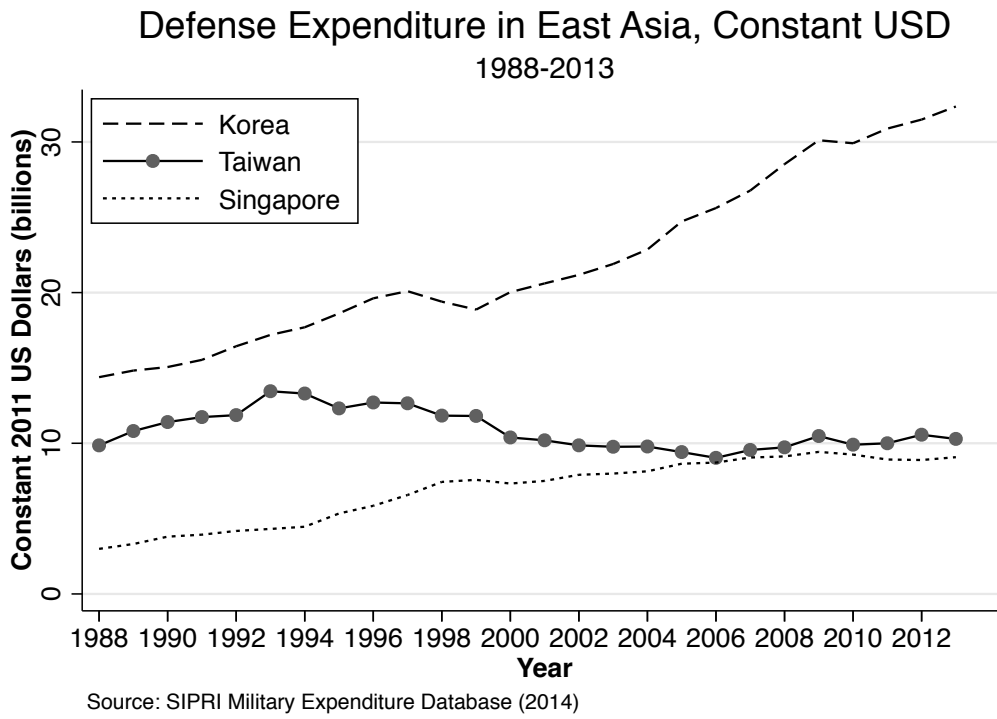
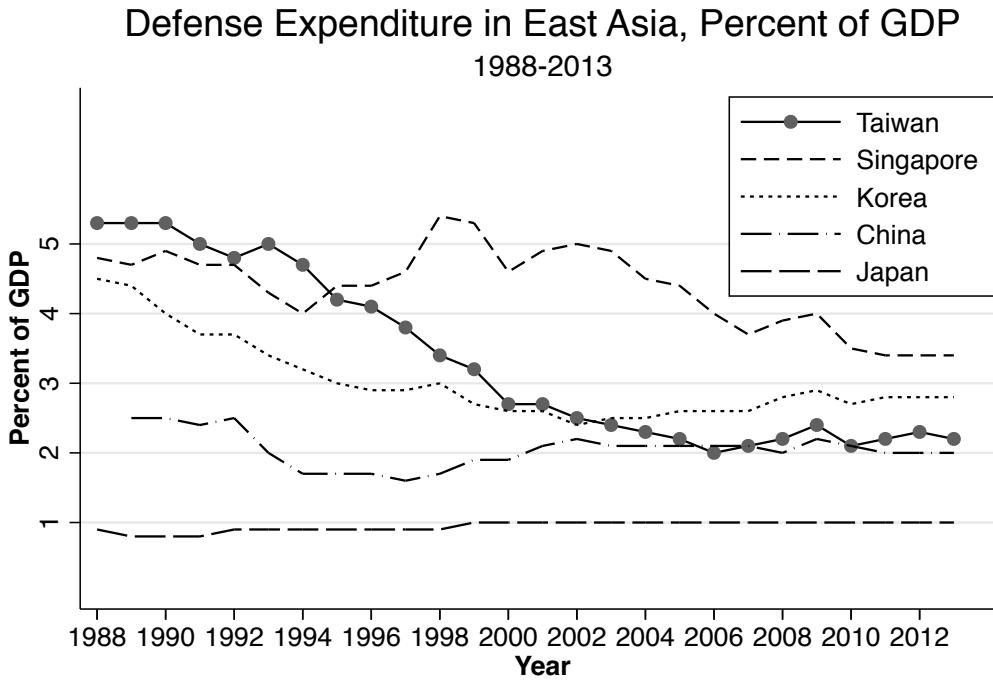
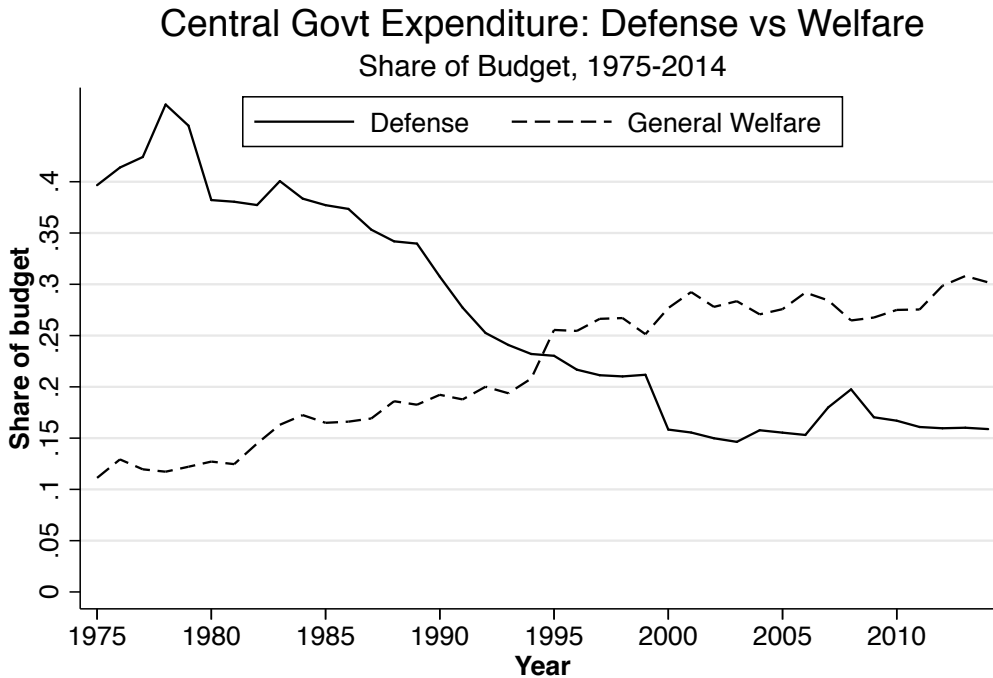


Figure 5



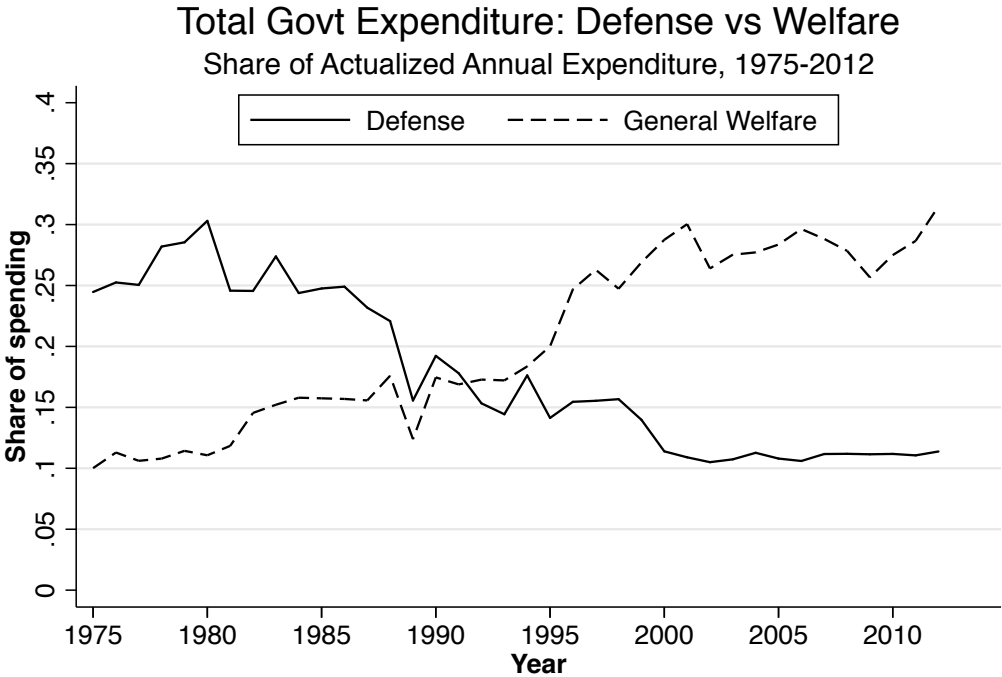
Source: SIPRI Military Expenditure Database (2014)

Figure 6



Source: ROC Yearbook of Financial Statistics

Figure 7



Source: ROC Yearbook of Financial Statistics

**APPENDIX TO “THREATS, ALLIANCES, AND ELECTORATES”**

Identifying a consistent, reliable, annual estimate of net defense spending in Taiwan is challenging. There are at least four distinct sources of data on Taiwan’s defense expenditures: the Correlates of War (COW) and Stockholm International Peace Research Institute (SIPRI) military expenditure databases, and the Republic of China National Defense Reports (published bi-annually by the Ministry of National Defense) and Financial Statistical Yearbooks (published annually by the Ministry of Finance). While these sources agree on the broad spending trends, they also differ substantially at key moments in Taiwan’s recent history. Thus, we devote considerable space here to describing and attempting to account for these differences.

***Data Sources for Taiwan’s Defense Spending Numbers***

The two widely used comparative sources on military expenditures are the COW and SIPRI databases, shown in Figure A1. Both include data for Taiwan, although their ranges only partially overlap: COW extends from 1950-2007 (only 1988-2007 is shown in Figure A1), while SIPRI covers 1988-2013. Both are measured in nominal US dollars—i.e. unadjusted for inflation.

*[Figure A1 about here]*

Despite the much longer coverage, the COW data series is problematic even at a glance: the estimate of spending in the late 1990s diverges sharply from that of SIPRI and indeed all other sources that describe Taiwan's defense outlays during this period. For instance, Taiwan's own Ministry of National Defense report notes a total budget figure of NT \$284.5 billion for the 1999 fiscal year, which at that year's average exchange rate of about NT \$31 to US \$1 works out to about US \$9.17 billion, very close to the SIPRI estimate. By contrast, the COW estimate is about \$15 billion. Rather than attempting to account for this large discrepancy, we do not employ the COW expenditure data in the rest of this paper, and rely on SIPRI for all inter-state comparisons.

SIPRI provides estimates of spending in both nominal terms in the local currency, and in real terms in constant 2011 US dollars, shown in Figures A2 and A3, respectively. In nominal terms, spending grew substantially from 1988 to about 1994, then leveled off. It began to decline by at least 1997, so that by 2002 the amount spent on the military had returned to the level of 1989. In real terms, the decline is even starker and longer, as Figure A3 shows, extending from 1993 until 2006, when total spending was significantly *below* the 1989 level. There was a modest increase from 2006-2008, and from there spending has been relatively stable at a bit over \$10 billion in constant 2011 US dollars.

*[Figure A2 and A3 about here]*

Taiwanese sources show similar trends, albeit with some significant differences at key moments. The most widely-cited<sup>73</sup> of these is the series of Congressional Research Service (CRS) reports on Taiwan's annual defense expenditure and arms purchases, written and regularly updated by Shirley Kan. The spending figures in these reports are in turn drawn<sup>74</sup> from the ROC Ministry of National Defense's (MND) own National Defense Reports, published every two years beginning in 1992.<sup>75</sup> The MND budget numbers, shown in Figure A4 next to the equivalent SIPRI numbers in the local currency, the New Taiwan Dollar, paint a similar picture: an increase until 1993; a decline from 1999 to 2006, when the raw budget number was at the level of 1989 in nominal terms; a significant increase from 2006-2008; and a leveling off or modest decline afterwards.

*[Figure A4 about here]*

Although the SIPRI and MND numbers track each other fairly closely, they differ significantly during two periods: 1993-1999, when SIPRI reports expenditures well above the official defense budget, and 2006-08, when SIPRI data indicate a much more modest rise in spending than does the MND. (The spike in 2000 in the MND budget is an accounting artifact and not substantively important, as we discuss in more detail below.) These differences are due in part to the fact that SIPRI attempts to identify actual

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<sup>73</sup> Among many sources, see Cole 2006, 173; Hickey 2013, 44; Murray 2013, 2; USCESRC 2013 fn. 72.

<sup>74</sup> There are slight discrepancies between the budget numbers reported in CRS and MND for 2004 and 2008.

<sup>75</sup> *Guofang Baogao Shu* (國防報告書), volumes published in 1992, 1993-4, 1996, 1998, 2000, 2002, 2004, 2006, 2008, 2009, 2011, 2013.



expenditure on defense-related activities in a given calendar year, while the MND numbers report that year's total appropriation for the defense ministry according to the annual budget law. In Taiwan, the official annual budget appropriation for the MND and total defense expenditures can be quite different, for at least three reasons.

First, some defense-related spending is done through “special budgets” (*tebie yusuan* 特別預算) approved outside the normal annual budgetary process. In the 1990s, for instance, special budgets were used to purchase a series of major arms packages, most notably a sale of 150 F-16A/B fighter jets approved by the US in September 1992, and the funding for these budgets was spread out over nearly a decade.<sup>76</sup> Thus, the MND budget number undercounts defense expenditure in fiscal years where special budgets are active, as was the case between 1993-1999.

Second, like every other ministry of Taiwan's executive branch, the Executive Yuan, the MND's budget is subject to oversight by the legislature. The Legislative Yuan's Committee on Foreign Affairs and Defense (*lifayuan waijiao ji guofang weiyuanhui* 立法院外交及國防委員會) has the power to delay or “freeze” parts of the MND's budget, preventing funds that have already been appropriated according to the budget law from being spent until the ministry responds to legislators' concerns. These inter-branch conflicts became more common after the first non-KMT president, Chen Shui-bian, took office in 2000 and faced an opposition majority in the legislature. In addition, trouble with acquisitions of weapons packages purchased from the United States meant that in these years, money that was appropriated for this purpose was not spent in the planned year, and sometimes not spent at all. For instance, between 2006-2009 funds

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<sup>76</sup> Kan 2008, 56; *National Defense Report* 1993-94, 96.

were appropriated through the normal annual budgetary process to procure a package of F16C/D fighters, a submarine design, and Black Hawk helicopters. When the United States did not approve these sales, the funds were not spent and instead returned to the general treasury.<sup>77</sup> Thus, the budget numbers for this period overstate actual spending on defense, a difference reflected in the gap between SIPRI's estimates and those reported as the defense ministry's budget.

Third, even leaving aside the complications of special budgets and budgetary freezes, the official budget for the MND has never all been dedicated strictly to defense-related functions. This was particularly true in the authoritarian era before about 1989, when defense was by far the largest single component of the central government budget.<sup>78</sup> Notably, until the mid-1990s, the regime's social welfare schemes, including health care, social security, and pensions, were mostly limited to civil servants and servicemen and their dependents, and the costs of providing benefits to the large number of retired military personnel were covered by the Ministry of National Defense.<sup>79</sup> Since the beginning of Taiwan's transition to democracy, by contrast, the military budget has become more narrowly focused on its core mission of providing national security against external threats, and most non-defense spending has been shifted out of the defense budget into other ministries.<sup>80</sup> In order to get a consistent picture over time of national

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<sup>77</sup> Kan 2014, 39.

<sup>78</sup> It was also highly opaque: government yearbooks that include otherwise detailed breakdowns of spending by administrative branch lump the entire defense budget in with foreign affairs and the Commission of Atomic Energy under a blanket category of "Other Expenditures," which as late as 1992 made up more than 40 percent of the central government budget. The first public report on national defense was published by the MND only in 1992, and the budget is only broken down into broad categories of operations, maintenance, and personnel.

<sup>79</sup> Wong 2004, 48-51.

<sup>80</sup> For instance, the MND *National Defense Report* from 2000 presents a breakdown of the defense budget by the Ministry of Finance's functional categories: of the total MND budget, 87.5

resources going to core defense activities, then, one needs to account for this shift: looking only at the total defense budget number will overstate the decline in “defense” spending over time.

To make this adjustment, we use data from the ROC’s Director-General of Budget, Accounting, and Statistics (DGBAS), which has since at least the 1970s published regular, annually compiled records of government spending in the form of Statistical Yearbooks.<sup>81</sup> The numbers reported in the Yearbooks differ in two important respects from those in the MND reports. First, they provide an annual “final account” (*juesuan* 決算) or actualized estimate of funds actually spent on defense *from all sources*, including special budgets, and so provide a more comprehensive picture of the resources allocated to national defense in a given year. (This estimate also includes funding from local governments, which have occasionally kicked in additional resources.)

Second, in addition to expenditure by executive ministry, the Statistical Yearbooks also include an alternative categorization of spending into nine broad functions: general administration; national defense; education, science and culture; economic development; social welfare; community development and environmental protection; pensions and dependents’ benefits; debt obligations; and miscellaneous

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percent goes to “defense” functions, with the other 12.5 percent divided between “social welfare,” “pensions and survivors’ benefits,” “community development and environmental protection,” “science and education,” and “other.” The total budget number for the “defense” category matches the number reported in the Yearbook of Financial Statistics for the central government budget expenditure on defense that fiscal year (MND NDR 2000, 111; *Yearbook of Financial Statistics* 2005).

<sup>81</sup> The most comprehensive is the *Yearbook of Financial Statistics of the Republic of China* (中華民國財政統計年報), which presents several different breakdowns of government spending by level (central vs. all), administrative branch and administrative function, and annual budget law vs final account. The *Yearbook of Statistics* (中華民國統計年報) presents only a subset: figures only for aggregate (local + central) government spending, and only by final account.

expenditure.<sup>82</sup> This classification has been reported annually back to the 1950s using a standard definition of each category, and so provides a consistent data source that allows us to track trends in budget allocations more accurately over time. While the MND budget numbers are widely used in published research on the cross-Strait military balance, in our view the functional classifications in the Statistical Yearbooks give a better picture of changing financial support for core defense activities, and are better-suited for understanding how Taiwan's commitment to its own defense has been balanced against competing priorities.<sup>83</sup>

*[Figure A5 about here]*

Figure A5 shows the difference in defense spending between the MND budget numbers and the “defense expenditure” (*guofang zhichu* 國防支出) category reported in the yearbooks. A couple details are worth mentioning here. First, the fall in the overall MND budget from 1989 to 1990 is because benefits for retired servicemen were separated from the defense budget; hence, while the overall defense budget declined in 1990, resources going to core defense functions did not.<sup>84</sup> The difference between the two measures at this point illustrates nicely why the Statistical Yearbook figures, rather than MND reports, better capture real trends in defense spending over time. Thus, unless specifically noted, all figures presented in the main text draw from the Statistical Yearbook categories.

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<sup>82</sup> The name of the categorization table in Chinese is: 中央政府歲出總預算數 (一) 政事別.

<sup>83</sup> The statistical yearbooks also have the advantage of providing a much longer time series. We were able to find comparable data back to 1964, versus 1987 for the MND reports.

<sup>84</sup> *National Defense Report* 1993-4, 94fn1.

Second, the large “spike” in 2000 is due not to a sudden surge in spending but instead to an accounting change in the fiscal year from July-June to January-December. To accomplish this switch, FY2000 was extended to cover 18 months instead of 12, so that subsequent years match the calendar year. To make interpreting these data easier, in the main text we present defense spending as a share of government budgets and expenditure, as in Figure A7, rather than showing the raw numbers as in Figure A6.

*[Figure A6 and A7 about here]*

We can also take a broader view and look at total, rather than just central, government spending. To do this, we use the figures for “total final accounts” (*zong juesuan shu* 總決算數), or actualized annual spending, which include special budgets and adjustments and so reflect actual outlays in a given year. The fraction of total (i.e. central and local government and special budgets) spending dedicated to defense over the 1965-2014 time period is shown in Figure A8. The picture is generally quite similar: a steady decline to about 25 percent of total government outlays in 1975, then remaining at this baseline, albeit with considerable volatility, until about 1989. Defense’s share of total government spending then drops to about 15 percent in the late 1990s, and drops again to a little over 10 percent in 2000, where it has more or less remained until the present time.

*[Figure A8 and A9 about here]*

Yet another way to measure defense spending is as a share of GDP, which eliminates the effects of expansions or contractions in government spending relative to the size of the economy. That percentage is shown in Figure A9 and reproduced in the main text as Figure 2. Viewed this way, the decline in commitment to defense relative to other priorities is quite apparent: defense expenditure has dropped from nearly 5 percent of GDP in 1990 to a little over 2 percent now. The only significant increases relative to GDP in the last 30 years came in 1994, with the outlay for the purchase of 150 F16A/Bs from the United States, and from 2006-08 in the final years of the Chen Shui-bian administration. Taiwan's defense expenditure today consumes only a third of the relative economic output it did in 1981.

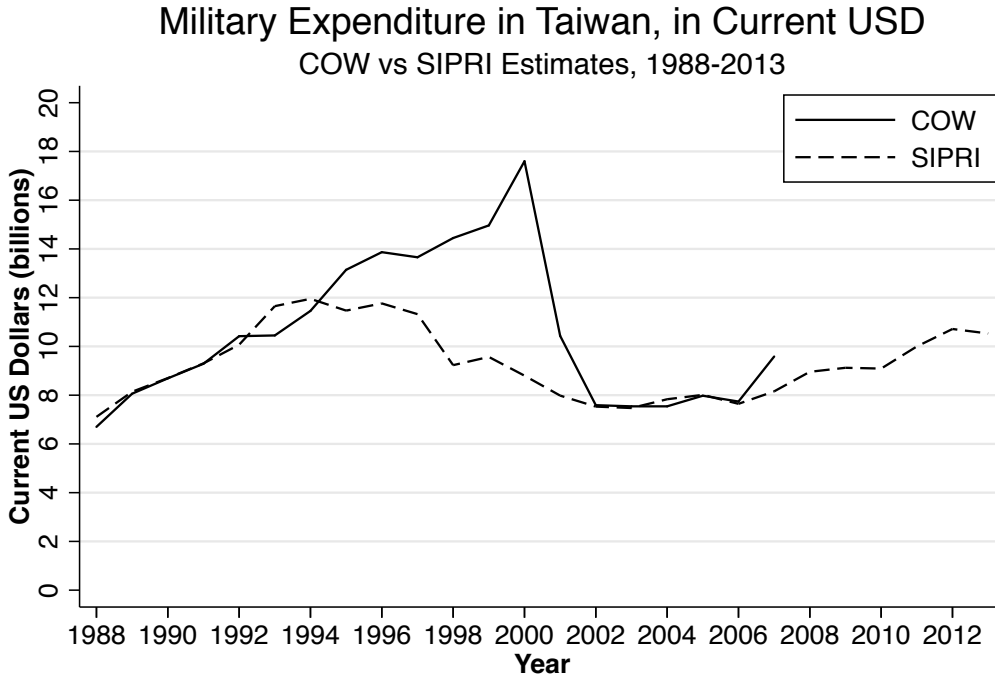
*[Figure A10 about here]*

Overall, these data indicate in several different ways a long-term relative decline in the Taiwanese state's financial commitment to its own defense. Defense's share of the budget fell dramatically from the mid-1980s until about the year 2000, and since then it has remained relatively steady at only about 11 percent of total government spending. As a share of GDP, it declined from five percent in 1989 to a little over two percent in 2000, where it has hovered for the last 15 years. And even in absolute (real) terms, Taiwan today spends about 25 percent less on defense today than it did at its peak in 1993.

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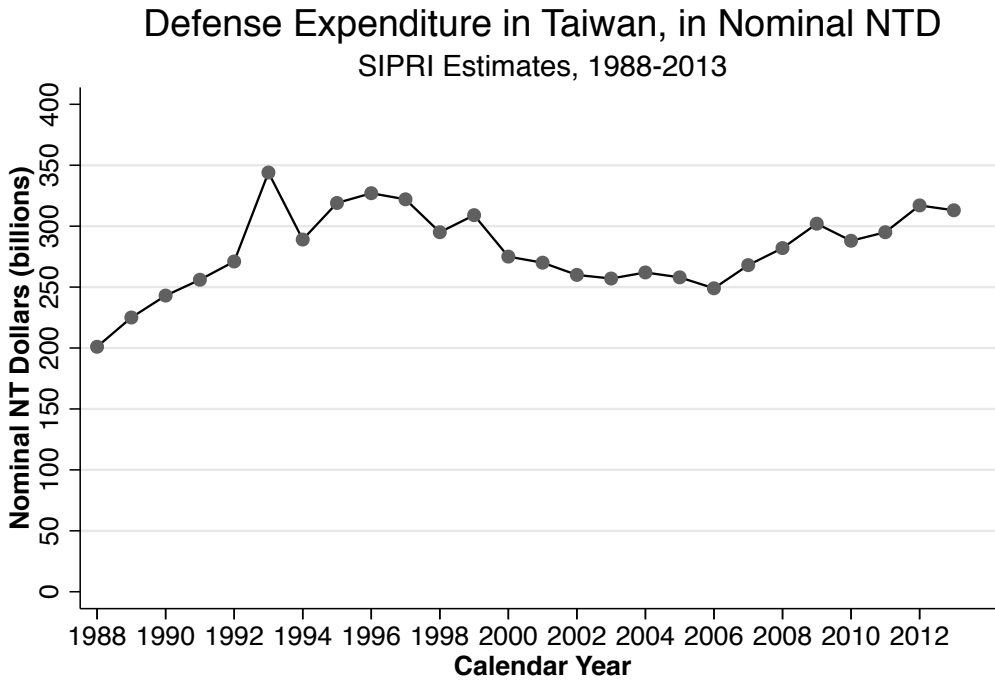
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Figure A1



Sources: Correlates of War NMC Database v4.0; SIPRI Military Expenditure Database (2014)

Figure A2



Source: SIPRI Military Expenditure Database (2014)



Figure A3

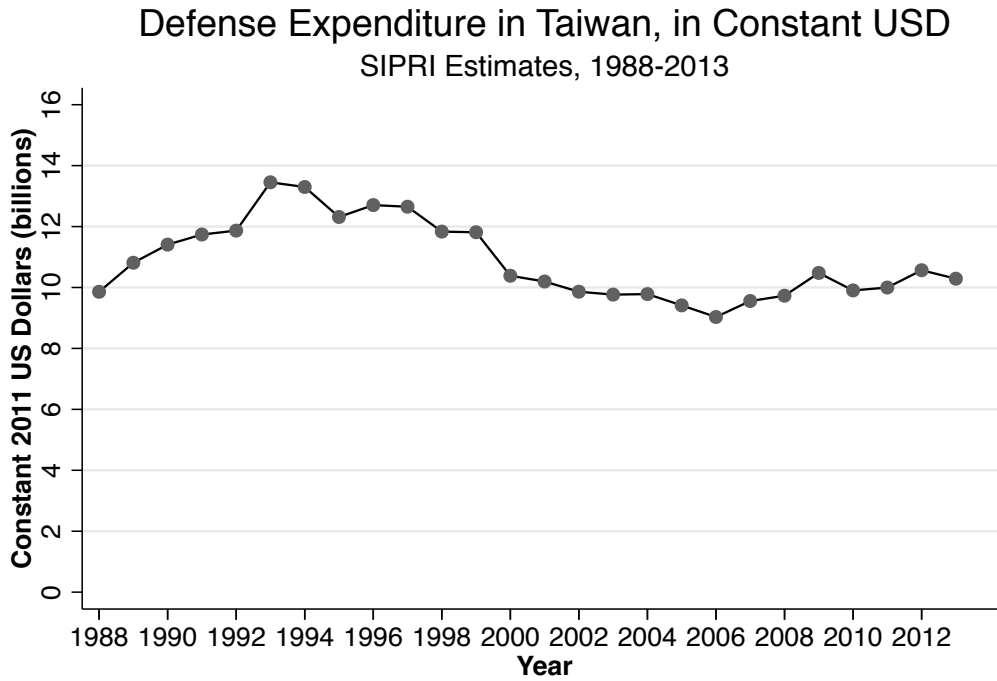


Figure A4

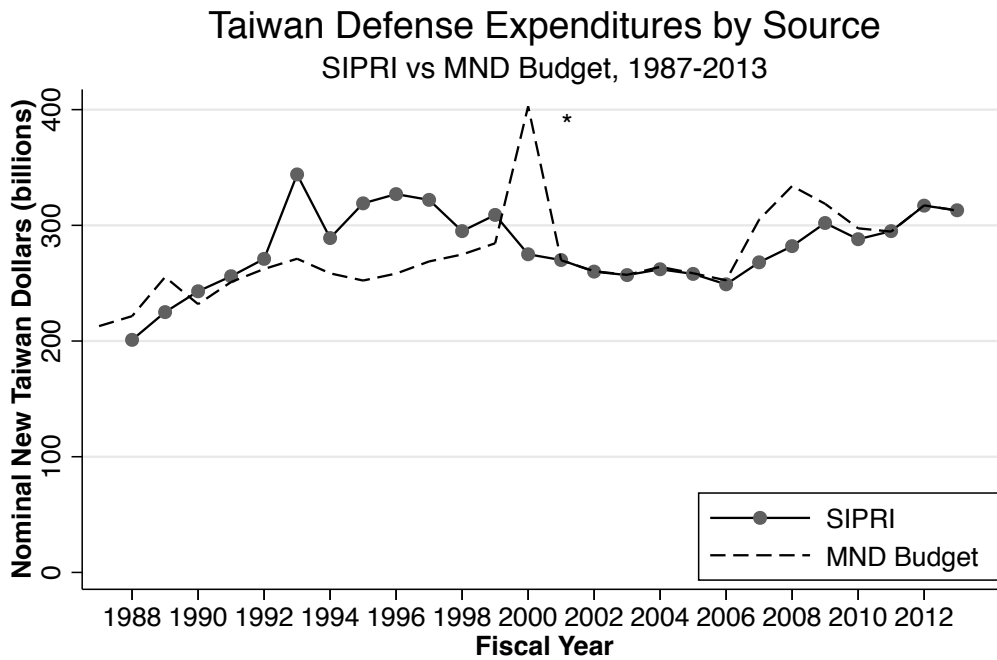
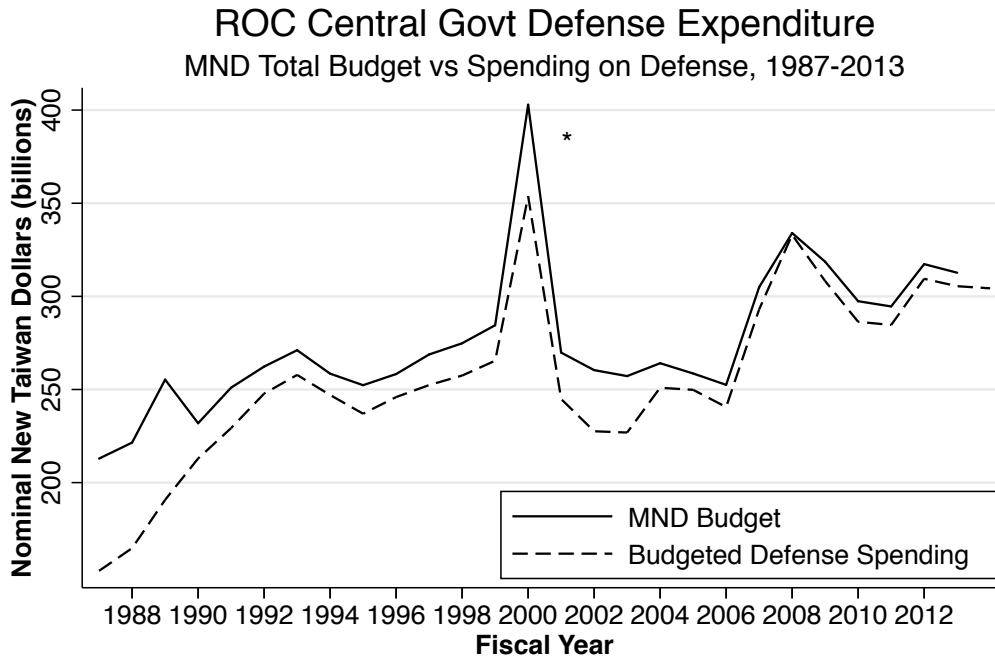


Figure A5



\*FY2000 spans 18 months  
 Sources: MND National Defense Report; ROC Yearbook of Financial Statistics

Figure A6



\*FY2000 spans 18 months  
 Source: ROC Yearbook of Financial Statistics

Figure A7



Figure A8

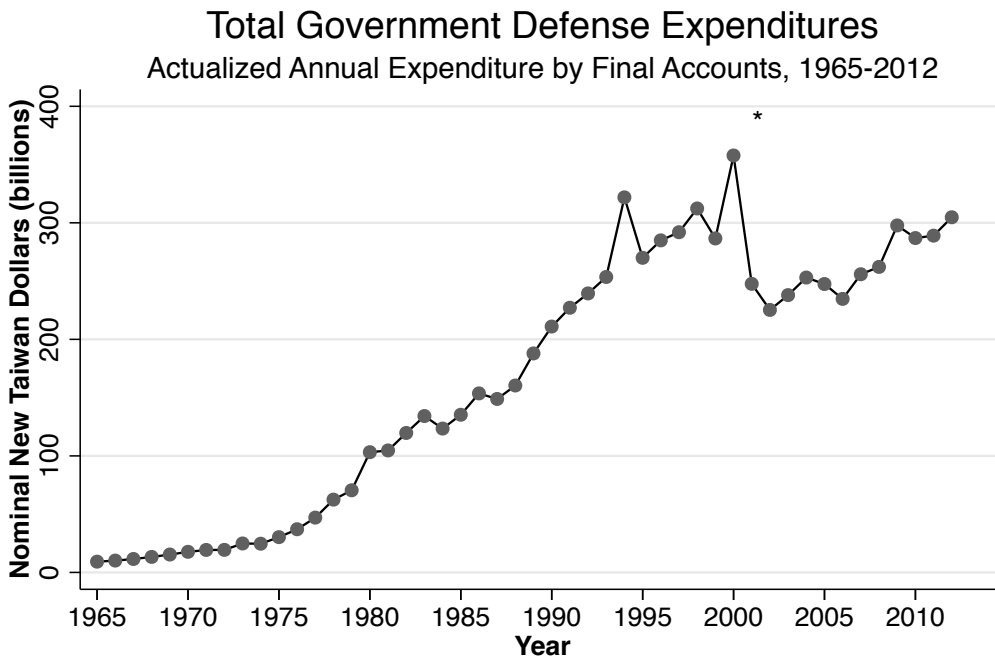


Figure A9

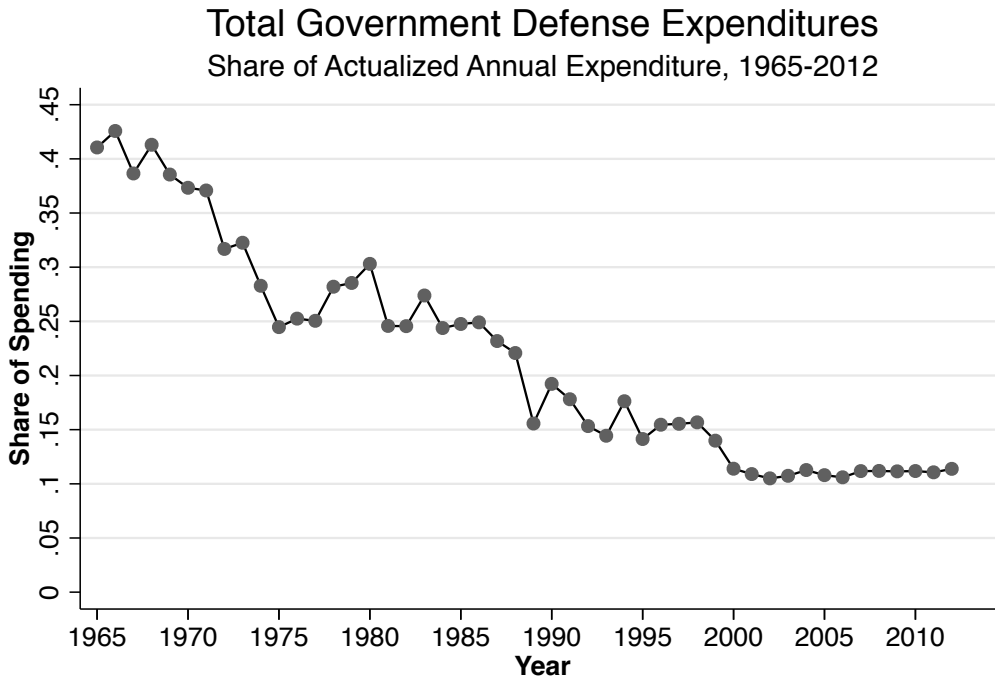


Figure A10

