

**WHY DOES CIVIL-MILITARY
INTEGRATION MATTER
TO CHINA'S OVERALL
DEVELOPMENT?**

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Executive Summary

1. China's dual-separation (两元分离) economic system causes mutual isolation of the defence sector and economic sector. The lack of collateral interactions between the two means that the state must allocate resources separately to develop the two sectors, leading to redundancies and high cost in both economic and defence development.
2. The civil-military integration policy promoted by Xi Jinping is to enable the "rational inter-flow and optimal use" of factors of production such as information, technologies, human resources, financial capital, facilities, management, standards and services across major industrial, science, technology and infrastructure sectors where there is traditionally a separation of civilian and military developments.
3. Such integration helps to avoid redundant development of functionally similar and dually usable resources, leading to an *optimal condition where "a single input can produce two outputs and multiple benefits"*.
4. This integration also enables the People's Liberation Army (PLA) to leverage comparative advantages of the civilian sector such as in science and technologies and in higher education to serve military needs.
5. It also helps to avoid the "crowding-out effects" on the civilian sector stemming from the increased allocation of resources to defence by imbedding the military needs in the civilian sector and optimising the use of defence expenditures by sharing risks and cutting costs.
6. Finally, the high and new technologies of the PLA can be utilised to generate "spin-off" benefits to improve civilian industries and technologies, contributing to enhanced rate and quality of civilian economic and technological growth.

7. Although major progress has been made, the policy of civil-military integration faces major challenges. Comparing US approaches to civil-military integration, for instance, may inflate expectations that may lead to future frustration.
8. With the influx of private contractors into the defence sector, “moral hazard” has become a major issue.
9. There is also the concern about the increasing reliance of the PLA on outsourcing critical military demands to civilian and private companies, which may contribute to the vulnerabilities of the PLA stemming from its overdependence on commercial suppliers of “core” military technologies.