

TRENDS IN DEFENCE EXPENDITURE: INDIA, CHINA AND PAKISTAN

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Defence expenditure is viewed as wasteful expenditure by some. Critics often argue that expenditure on defence is incurred at the expense of development. Notwithstanding this criticism, nations continue to build up and try to strengthen their defence forces, for it is one of the primary responsibilities of governance. Global military expenditure crossed the figure of \$ 1 trillion for the first time, since the end of the Cold War. It reached a figure of \$ 1035 billion in 2004. This equals 2.6 per cent of world gross domestic product (GDP). Led by the US with a 47 per cent share of global defence expenditure, the top 15 spenders account for 82 per cent of total expenditure. In fact, the top five countries i.e. the US, UK, France, Japan and China contribute more than 62 per cent of total expenditure. This figure would be much higher, if counted in terms of purchasing power parity, a method extensively used by the World Bank in estimates of the world economy.¹

This paper attempts to take an overview of the defence expenditure of India, China and Pakistan in recent years. China and Pakistan have been chosen for obvious reasons considering the history of India's relations with these countries in the past as also the geopolitical situation obtaining in the region. However, a major portion of the analysis is concentrated on India's defence expenditure.

MEASUREMENT OF DEFENCE EXPENDITURE

Comparative analysis of defence expenditure of different nations is a complex

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1. <http://www.military.com>, as reported by Associated Press June 8, 2005.

The question as to how much of national resources should be diverted for the sake of defence does not find a precise answer as there is a huge fluctuation in defence spending among nations vis-a-vis their GDP.

task because of exchange rate variations, widely fluctuating inflationary trends, etc. The off-budget defence expenditure compounds this problem further. However, one universally accepted norm is the military expenditure vs GDP ratio. It reflects the proportion of national resources allocated towards the security of a nation. Another useful indicator would be comparison of military expenditure with the government expenditure, which

indicates the proportion of the government revenues allocated for defence. The question as to how much of national resources should be diverted for the sake of defence does not find a precise answer as there is a huge fluctuation in defence spending among nations vis-a-vis their GDP.

TRENDS IN INDIA'S DEFENCE EXPENDITURE

For the first 12 years after Independence, the defence expenditure of India as a per cent of GDP was as low as 1.8. Following the Sino-Indian War of 1962, this figure witnessed a 3 per cent average mark over the next 25 years.² Trends of military expenditure/GDP in the past two decades i.e. the period 1985-2005 reflect that this figure has been around 2.75 per cent. The average figure for the first of the last two decades was 3 per cent and for the latter decade, this was around 2.5 per cent. In absolute figures, the expenditure moved up from Rs 7,987 crore in 1985-86 to Rs 26,562 crore in 1995-96, a 3.3 fold increase. Ten years later, in 2005-06, the budgeted figure for defence was Rs 83,000 crore. Again, in a ten-year period, the allocation has gone up by 3.1 times.

As a per cent of Central Government Expenditure (CGE), defence expenditure in the last two decades has been around 15 per cent. The defence expenditure as a per cent of GDP and CGE from 1985-86 to 2004-05 is shown in Table 1.

2. Air Cmde Jasjit Singh, *India's Defence Spending: Assessing Future Needs* (New Delhi: Knowledge World, 2001), Ch. 2, p. 22.

**Table 1. Defence Expenditure, GDP and Central Govt Expenditure
1985-86 - 2004-05 (Rs crore)**

Financial Year	Defence Expenditure at Current Prices	GDP (at Current Prices)	% of Def Exp/GDP	CGE	% of Def Exp/CGE
1985-86	7,987.49	2,62,243	3.05	53,112.4	15.04
1986-87	10,477.46	2,92,949	3.58	64,023.1	16.37
1987-88	11,967.49	3,33,201	3.59	70,304.6	17.02
1988-89	13,341.02	3,95,782	3.37	81,402.3	16.39
1989-90	14,416.17	4,56,821	3.16	95,049.4	15.17
1990-91	15,426.48	5,35,534	2.88	1,04,972.9	14.70
1991-92	16,347.04	6,16,799	2.65	1,12,730.7	14.50
1992-93	17,581.79	7,05,918	2.49	1,25,926.9	13.96
1993-94	21,844.73	8,76,952	2.49	1,45,788.0	14.98
1994-95	23,245.23	9,17,058	2.53	1,66,998.4	13.92
1995-96	26,856.29	10,73,271	2.50	1,85,232.8	14.50
1996-97	29,505.08	12,43,547	2.37	2,11,259.6	13.97
1997-98	35,277.99	13,90,148	2.54	2,24,366.0	15.72
1998-99	39,897.57	15,98,127	2.50	2,637,55.0	15.13
1999-00	47,070.63	17,61,838	2.67	3,07,509.1	15.31
2000-01	49,622.04	19,02,999	2.61	3,28,264.7	15.12
2001-02	54,265.73	20,81,474	2.61	3,60,616.3	15.05
2002-03	55,661.83	22,54,888	2.47	3,98,878.9	13.95
2003-04	60,065.86	25,197,85	2.38	4,29,690.5	13.98
2004-05	77,000.00	N/A	3.05	4,76,171.0	16.17

Source : Economic Survey of India, Government of India, 2004-05.

Trends in Current Vs Constant Rupees

When the expenditure is considered in its absolute value, without any adjustment for inflation or any other fluctuations such as exchange rate variations, etc, it is supposed to reflect the trend of a given period or year. However, when this figure is adjusted for inflation with a given year as the base year and further comparison is done with reference to the base year, the comparison is supposed to reflect the trends with reference to that base year. In our case, the base year indicating the rupee value in the public finance

domain is determined by the Central Statistical Organisation (CSO), Government of India. Until 1993-94, the base year was 1980-81. The CSO decided to revise this base year to 1993-94 in 2000. Further, the relative analysis of expenditure could also be undertaken in 'real terms' taking into consideration the

exchange rate variations and other defence related inflation/deflation fluctuations. Comparison of current and constant values helps the purpose of analysis of trends with reference to a given base year, so that an assessment of growth rates of defence expenditure can be made. However, in the absence of accurate data, comparison of figures in real terms is a difficult exercise.

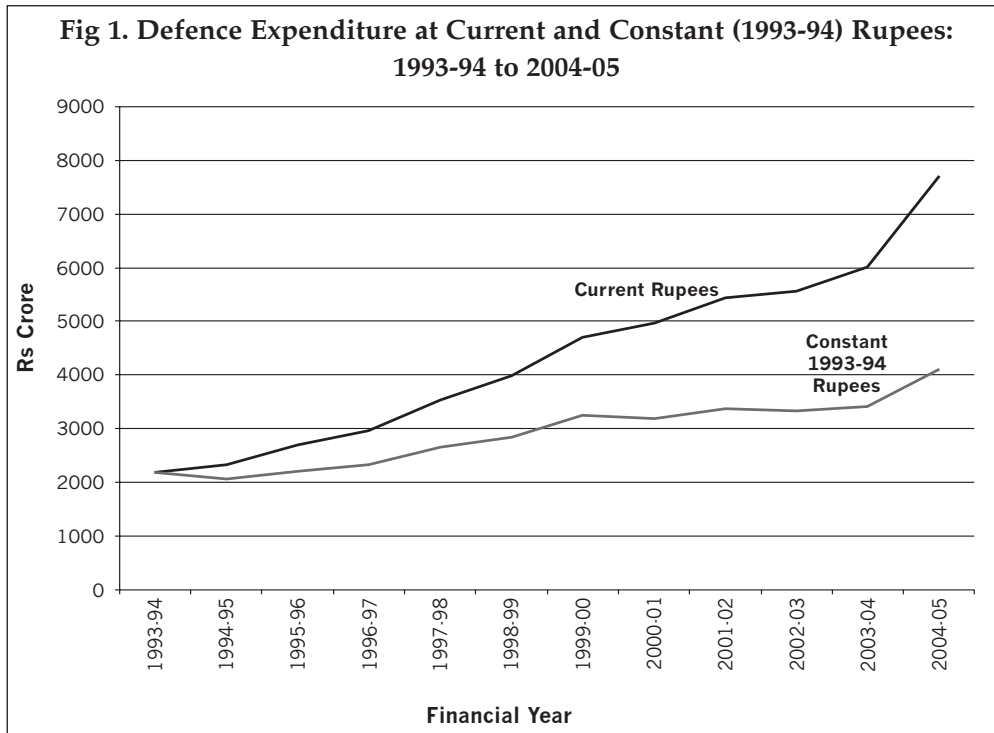
Between 1993-94 and 2005-06, the defence expenditure grew at an average of 11.30 per cent per annum, in current rupees. However, the increase has been a mere 5.6 per cent, in constant rupees. The data is depicted in Table 2.

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**Table 2. Defence Budget in Current and Constant (1993-94) Rupees:
1993-94 - 2004-05 (Rs crore)**

Financial Year	Defence Budget (in current rupees)	Defence Budget (in constant 1993-94 prices)
1993-94	21,844.73	21,844.73
1994-95	23,245.23	20,644.07
1995-96	26,856.29	22,085.76
1996-97	29,505.08	23,195.81
1997-98	35,277.99	26,564.75
1998-99	41,363.50	29,398.36
1999-00	48,656.52	33,486.93
2000-01	54,481.63	34,991.41
2001-02	56,326.00	34,920.02
2002-03	57,955.00	34,745.20
2003-04	62,429.07	35,491.22
2004-05	77,000.00	41,110.51

Source: Government of India, Defence Services Estimates for relevant years; WPI as per Economic Survey of India, Government of India, 2004-05



Defence Expenditure: Share of the Services

During the ten-year period between 1996-97 and 2005-06, the average share of expenditure of the army, navy and air force was 57 per cent, 15 per cent and 24 per cent (rounded off) respectively. However, there has been considerable fluctuation of allocations among the Services. For example, the army's share rose from 58 per cent in 1997-98 to 64 per cent in 1999-2000 and remained steady at 62 per cent for the next two years, before it gradually started receding. It touched a low of 47 per cent in 2004-05 and marginally went up to 49 per cent in 2005-06. In absolute terms, taking the deviation from the decade's average into account, the cut in the army's share is Rs 6,640 crore in 2005-06 alone. In the case of the navy, the share has been steadily ascending. Its share has gone up from 13 per cent in 1996-97 to 14 per cent in the following year and to 15 per cent in the next four years; 17 per cent in 2002-03 and 2003-04, before reaching a peak of 17.84 per cent in 2005-06. (However, it must be noted that the budget of the Joint Staff (JS) was

included in the naval budget with effect from 2001-02). In the case of the air force, the share fell from 26 per cent in 1997-98 to 23 per cent in the following year and hovered between 21 and 22 per cent for the next five years. Its share reached a peak of 31 per cent in 2004-05 before coming down to 26 per cent in 2005-06. The share of the Services is shown in Table 3. The hike in the shares of the navy and air force could probably be due to the high value acquisition agreements entered into during these years i.e. agreements pertaining to *Admiral Gorshkov* and advanced joint trainer (AJT). The word "probably" has a significance here and that is owing to transparency vis-à-vis the defence expenditure and defence deals. The issue of level of transparency pertaining to defence related information in India, China and Pakistan will be examined a little later.

Table 3. Defence Expenditure: Share of Services 1996-97 to 2005-06

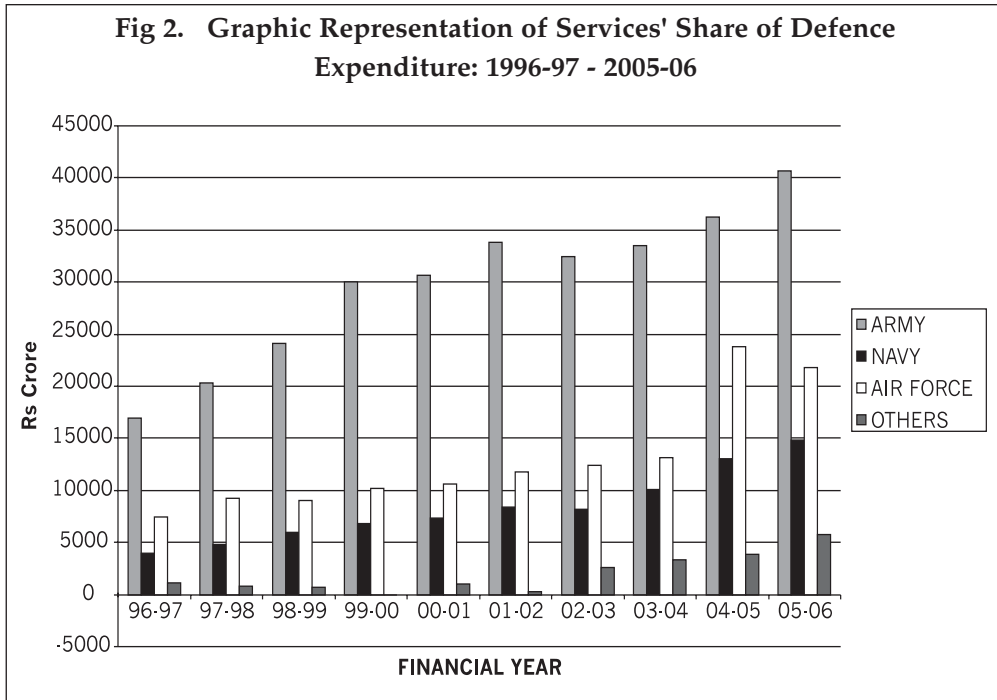
Financial Year	(Rs crore)							
	Army	Navy	Air Force	Others	Grand Total	Army %	Navy %	Air Force %
1996-97	16,922.76	3,976.15	7,492.26	1,113.80	29,504.97	57.36	13.48	25.39
1997-98	20,351.36	4,814.20	9,300.28	812.15	35,277.99	57.69	13.65	26.36
1998-99	24,168.84	6,015.63	9,046.01	667.12	39,897.60	60.58	15.08	22.67
1999-00	30,014.34	6,836.90	10,242.71	-23.00	47,070.95	63.76	14.52	21.76
2000-01	30,649.67	7,384.23	10,610.73	977.35	49,621.98	61.77	14.88	21.38
2001-02	33,794.89	8,368.72	11,783.78	318.42	54,265.81	62.28	15.42	21.71
2002-03	32,481.88	8,155.62	12,384.73	2,639.74	55,661.97	58.36	14.65	22.25
2003-04	33,521.33	10,034.86	13,186.69	3,321.94	60,064.82	55.81	16.71	21.95
2004-05	36,248.75	13,079.42	23,783.55	3,888.28	77,000.00	47.08	16.99	30.89
2005-06	40,669.70	14,808.35	21,808.61	5,713.34	83,000.00	49.00	17.84	26.28
Average						57.37	15.32	24.07

Source: Government of India, Defence Services Estimates for relevant years.

Ratio of Capital and Revenue Expenditure

The running or operating expenditure of the Services is classified as "revenue expenditure" and includes expenditure on pay and allowances, transportation, revenue stores (like rations, petroleum, oil, lubricants (POL) and spares, etc), revenue works (which include maintenance of buildings, water and electricity

supplies, rents, rates and taxes, etc) and other miscellaneous expenditure.³ The expenditure under "capital budget" is utilised for building future capabilities.⁴ The capital expenditure includes expenditure on land, construction works, plant



and machinery, naval fleet, aircraft and aero-engines, heavy and medium vehicles and an omnibus classification called other equipment.⁵

During the last decade and for many years before that, the ratio of revenue and capital expenditure has been around 70:30. However, there is a huge variation among the Services on this account. In the case of the army, the average ratio in the last decade has been 85:15; and in the case of the navy, this ratio was 48:52. In the case of the air force, the ratio was around 55:45. In the case of the army, the ratio is skewed in favour of revenue expenditure, predominantly due to the manpower intensive nature of the organisation. These figures are shown

3. Amiya Kumar Ghosh, *India's Defence Budget and Expenditure Management in a Wider Context* (New Delhi: Lancer Publishers, 1996), Ch. 1, p. 16.
 4. Singh, n.2, p. 47.
 5. Ghosh, n. 3.

Table 4. Average Ratio of Revenue and Capital Expenditure: 1996-97 – 2005-06

Budget	Army	Navy	Air Force	Overall
Revenue	85	48	55	70
Capital	15	52	45	30

in Table 4. The impact of expenditure on manpower and stores has been analysed separately.

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India. It is not a reflection on force capabilities. The allocations under capital budget predominantly determine the trend of modernisation, although this does not mean that revenue expenditure does not aid the process of modernisation. Building capabilities is as important as maintenance of such capabilities, so as to be available for operations at any given time. Every equipment has a life cycle and

as the usage of equipment progresses, outflows on account of maintenance keep shooting up.

Capital Budget: Share of Services

The share of the capital budget reveals certain interesting facts. The army's share of the capital budget was 30 per cent, the navy's share was 27 per cent and the air force had a share of 36 per cent during the last decade. Despite a huge difference in size, the shares of the army and navy were very close, while the air force had a larger share of the capital budget. These figures are depicted in Table 5.

The Impact of Expenditure on Manpower and Stores

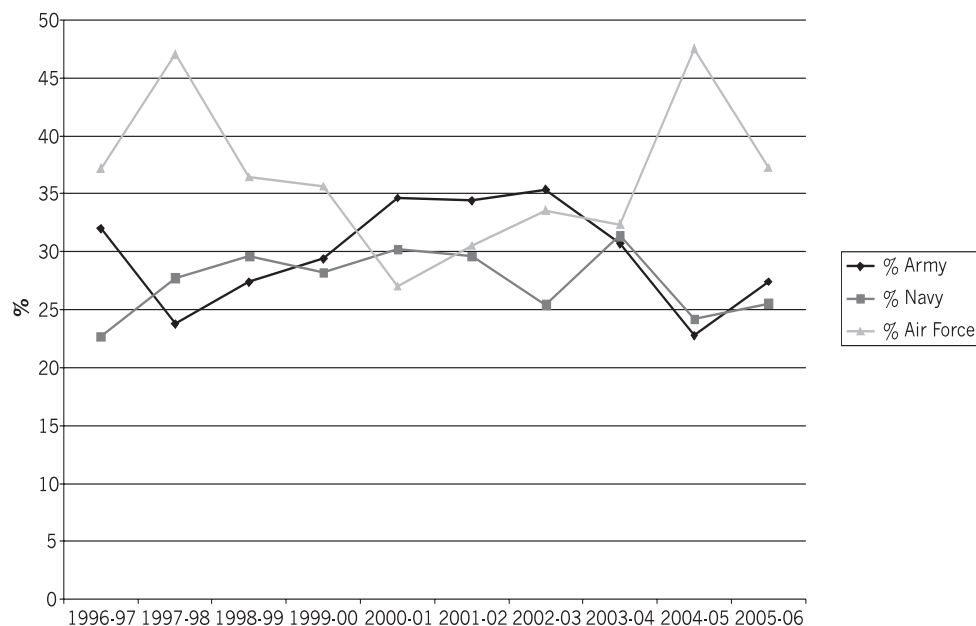
Being manpower intensive, the impact of expenditure on pay and allowances is heavy in the case of the army as compared to the other two Services. The average

Table 5. Share of Services : Capital Budget 1996-97-2005-06 (Rs crore)

Financial Year	Army	Navy	Air Force	Others	Total Capital Exp	Army %	Navy %	Air Force %
1996-97	2,723.73	1,930.64	3,163.76	690.29	8,508.42	32.01	22.69	37.18
1997-98	2,003.34	2,337.35	3,962.44	121.69	8,424.82	23.78	27.74	47.03
1998-99	2,748.00	2,973.00	3,658.00	657.00	10,036.00	27.38	29.62	36.45
1999-00	3,485.00	3,342.00	4,224.00	804.00	11,855.00	29.40	28.19	35.6
2000-01	4,291.00	3,741.00	3,346.00	1,006.00	12,384.00	34.65	30.21	27.02
2001-02	5,574.00	4,800.00	4,948.00	885.00	16,207.00	34.39	29.62	30.53
2002-03	5,291.00	3,805.00	5,016.00	841.00	14,953.00	35.38	25.45	33.55
2003-04	5,173.00	5,292.00	5,455.00	941.63	16,861.63	30.68	31.38	32.35
2004-05	7,320.00	7,780.00	15,276.00	1,771.00	32,147.00	22.77	24.20	47.52
2005-06	9,427.00	8,781.00	12,804.00	3,363.10	34,375.10	27.42	25.54	37.25
Average						29.79	27.47	36.45

Source: Government of India, Defence Services Estimates for relevant years.

Fig 3. Services' Share of Capital Budget: 1996-97 - 2005-06



expenditure on pay and allowances accounted for 46 per cent of the revenue budget at an average. In the case of the navy and air force, the impact on account of pay and allowances has been 29 per cent and 31 per cent respectively. The expenditure on stores accounted for 33, 41 and 62 per cent of revenue expenditure of the army, navy and air force respectively. In the case of the army, expenditure on account of pay and allowances and stores accounted for close to 80 per cent of the revenue budget. The high percentage of expenditure towards manpower in the army, and stores in the case of the air force, could be examined as potential areas of savings, considering their predominant share in the overall expenditure of the respective Service.

Budgeted Estimates (BE), Revised Estimates (RE), Actual Expenditure and Surrender of Funds

The surrender of funds in the past few years has become a matter of serious concern, leading to important debates in the Parliament. Surrender of funds year after year is a reflection of improper planning and decision-making resulting in an inability to meet the critical requirements of the Services. There is a host of reasons for such surrender of funds such as bureaucratic delays; delay in conclusion of price negotiations with approved vendors; non-pursuing of the procurement cases with the desired earnestness; non-release of stage payments to the vendors, again to owing to a variety of reasons such as not meeting the contractual obligations, etc. In addition, the Ministry of Finance would also indicate cuts in the defence budget, at times at the fag end

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of the financial year, in order to address the more important problem of reducing the fiscal deficit of the government. While some of the problems encountered in full utilisation of funds are genuine, most of them can be overcome through time-bound actions involved in procurement at various levels in the Service Headquarters and Ministry of Defence. Towards this

Financial Year	BE	RE	Actual Expenditure	Surrender with reference to BE	Surrender with reference to RE
1996-97	27,798	29,498	29,505	-	-
1997-98	35,620	36,099	35,278	342 (0.96 %)	821 (2.27 %)
1998-99	41,200	41,200	39,898	-	1,302 (3.16 %)
1999-00	45,694	48,504	47,070	-	-
2000-01	58,587	54,461	49,622	8,965 (5.30 %)	4,839 (8.88 %)
2001-02	62,000	57,000	54,266	7,734 (12.47 %)	2,734 (4.79 %)
2002-03	65,000	56,000	55,662	9,338 (14.36 %)	338 (0.60 %)
2003-04	65,300	60,300	60,065	5,235 (7.65 %)	235 (0.38 %)
2004-05	77,000	77,000	N/A	-	-
Total				31,614	10,269

Source: Government of India, Defence Services Estimates for relevant years.

end, a thoroughly revised Defence Procurement Procedure has been promulgated in 2005 and hopefully the situation should improve in the coming years. The surrender of funds with reference to BE can be viewed as less serious since a mechanism exists in the system in the form of revising these estimates (RE) during the course of the financial year. However, such surrenders must become unacceptable with reference to RE. Table 6 depicts the figure of surrendered funds between 1996-97 and 2004-05 with reference to BE and RE.

TRENDS OF MILITARY EXPENDITURE : CHINA

China has always been secretive about information on almost all areas pertaining to the country. The official military expenditure figures have been available for a long time, with a more detailed picture in the Chinese defence White Paper being published every two years in the past decade or so. However, there is a huge variation between the actual expenditure incurred on defence and the official figures. There is also a huge off-budget expenditure, besides the tendency of debiting military expenditure to other departments of the state.

China's defence spending is by no means transparent. However, the largest problem in estimating defence spending arises from inadequate accounting methods of the People's Liberation Army(PLA). Budgeted functions are hidden under construction, administrative expenses, and under state organisations such as the Commission on Science, Technology and Industry for National Defence (COSTIND). They also consist of the PLA and other state and regional government expenses for local army contributions, pensions, militia upkeep and off-budget income from PLA commercial enterprises and defence industries, as well as income from international arms sales and unit-level production such as farming, etc. China's expenditure on national defence falls into the following categories: personnel expenses, mainly including pay, food and clothing of military and non-military personnel; costs for maintenance activities, mainly including military training, construction and maintenance of facilities and running expenses; and costs for equipment, including research and experimentation, procurement, maintenance, transportation and storage. In addition, a large amount of spending is used to fund activities associated with social welfare, mainly pensions for some of the retired officers, schools for children of military personnel, supporting national economic construction, and participation in emergency rescue and disaster relief operations.⁶

6. <http://www.globalsecurity.org/military/world/China/budget.htm>

Official and Estimated Defence Expenditure Between 2000-2004

The GDP, official and estimated China's defence expenditure figures are reflected in Table 7.

Year	GDP	Official	% of GDP	Estimated Def Exp	% of GDP Def Exp
2000	1100	14.5	1.31	42	3.81
2001	1200	17	1.41	43.5	3.62
2002	1300	20	1.53	51	3.92
2003	1430	22.4	1.56	56	3.91
2004	1680	25	1.48	62.5	3.72

Sources : 1. *Modernizing China's Military*, RAND Corporation, 2005.
2. <http://www.globalsecurity.org/military/world/china/budget.htm>

The official Chinese defence budget includes only a portion of the total defence budget. It includes most personnel, operations and maintenance, and equipment costs, but excludes:⁷

- Procurements of weapons from abroad.
- Expenses for paramilitaries (People's Armed Police).
- Nuclear weapons and strategic rocket programmes.
- State subsidies for the defence-industrial complex.
- Some defence related research and development.
- Extra-budget revenue.

Chinese defence expenditure reflected a double digit growth every year between 1989 and 2002. In 2003, the expenditure grew by 9.6 per cent. Since the PLA put down demonstrations in Tiananmen Square in 1989, a number of indicators suggest that the Chinese government has significantly raised the priority given to military spending. Although the number of people in uniform

7. "China's Military Expenditures," in *Modernising China's Military* (RAND Corporation, 2005), p. 103.

Between the years 1988 and 2003, officially reported spending on defence in China rose by 9.8 per cent per year on an average in real terms.

has fallen, military pay and benefits have risen sharply. Since the mid-1990s, China has increased expenditure on military procurement to purchase a number of modern aircraft and naval ships, many of which have come from abroad. The 2005 RAND Corporation study on Chinese military modernisation says that the recent rates of increase in military spending may not be sustainable in the future. Between the years 1988 and 2003, officially reported spending on defence in China rose by 9.8 per cent per year on an average in real terms. If the Chinese government should attempt to keep defence budgets growing at 9.8 per cent per year, while the economy grows at the projected rates (of the RAND study), military expenditures would take between 6.2 and 7.6 per cent of the GDP by 2025, starting from lower and higher estimates of military expenditure which would be US \$ 185 to 403 billion in absolute terms⁸.

China brought out its latest White Paper on defence in 2004. It recognises the worldwide momentum being gained by the revolution in military affairs (RMA) and outlines the importance of changing forms of war from mechanisation to “informationalisation.” Since the mid-1980s, China has twice downsized its military by a total of 1.5 million. It has decided to reduce troops by another 200,000 by the end of 2005, to maintain the size of the PLA at 2.3 million. This restructuring aims at optimal force structures with better quality. In October 2002, the Central Military Commission promulgated a revised armament procurement procedure, introducing an element of competition in military procurements, cost cutting through standardisation and large scale procurement.⁹

TRENDS OF DEFENCE EXPENDITURE: PAKISTAN

Pakistan spent an average of 6.50 per cent of its GDP on defence between 1980 and 1990. Between 1990 and 2000, the average defence expenditure to GDP ratio

8. Ibid.

9. PRC's White Paper: China's National Defense in 2004.

Table 8. Pakistan's Defence Expenditure , GDP and Federal Government Expenditure (Pak Rs billion)

Year	Def Exp	GDP	Def Exp/ GDP %	Federal Govt Exp	Def Exp/ Federal Govt Exp%
1994-95	104.512	1882.071	5.55	295.017	35.43
1995-96	115.250	2165.598	5.32	334.737	34.43
1996-97	127.441	2404.633	5.30	398.209	32.00
1997-98	136.164	2759.525	4.93	461.907	29.48
1998-99	143.471	2960.000	4.85	606.300	23.66
1999-00	150.440	3793.436	3.97	680.410	22.11
2000-01	133.500	3863.994	3.45	691.700	19.30
2001-02	151.600	3988.377	3.80	648.600	23.37
2002-03	159.700	4193.757	3.81	706.300	22.61
2003-04	180.536	4445.805	4.06	753.300	23.97
2004-05	212.625	N/A	-	902.800	23.55
2005-06	223.501	N/A	-	1098.500	20.35

Sources:

1. Economic Survey of Pakistan for relevant years, Government of Pakistan.
2. Pakistan Government Budget data (defence expenditure) for relevant years.

came down to 5.46 per cent. However, between 2000 and 2003, this figure slid further to 4.57 per cent. The defence expenditure figures between 1995 and 2003 are shown in Table 8.

Right from 1947, Pakistan has always made higher allocations towards defence expenditure. Various phases in the political history of the country during the past 50 years or so dictated the budgetary allocations for defence. In the 1960s and 1970s, it was wars with India; in the 1980s, it was the Soviet occupation of Afghanistan, and so on.

Due to lack of fiscal prudence and consistently high levels of defence spending over the years, Pakistan was placed in a situation wherein its growing economic crisis could not support the level of defence spending it has indulged in. As a result, there were pressures from the International Monetary Fund

During the ten-year period from 1994-95 to 2003-04, Pakistan's average defence expenditure as a percentage of GDP was 4.5. As a percentage of federal government expenditure for the same period, the average stood at 26.64.

(IMF)/World Bank on Pakistan to reduce its defence expenditure in order to restructure the economy. The nuclear tests and subsequent sanctions worsened the fragile economy. The effect of these pressures has resulted in a reluctant reduction in the proportion of national resources allocated to defence since the mid-1990s¹⁰.

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Some important factors that mostly influenced higher defence allocations are as follows:

- (a) **Pakistan's Perceived Threats.** Almost all governments in Pakistan have justified periodic increases in allocation of resources for defence by employing arguments revolving around the geopolitical realities facing the country. Since the threat perception of the Pakistanis remained somewhat consistent, efforts to reduce defence allocations never attracted much attention or even warranted concerted public discussion.
- (b) **Role of the Military.** The second factor that facilitated large allocations to defence revolves around the inability of the resource managers to either suggest alternatives or to logically make a case for reduced defence allocations, as the governance was dominated by the authoritarian regimes for long periods. The armed forces played a key role in determining the higher allocations towards defence. This led to burgeoning fiscal deficit during the mid-1980s and early 1990s. The annual fiscal deficit was the major cause of annoyance of the aid-donor agencies such as the IMF and World Bank. Islamabad was asked time and again to reduce the gap.

10. "Trends in Asian Defence Expenditure," in Jasjit Singh ed., *Asian Strategic Review 1998-99* (New Delhi: IDSA), p. 81.

Reducing defence expenditure was one of the options, but neither of the aid donors insisted upon it. The main objective was decrease in fiscal deficit, a problem which Pakistan's successive governments chose to address by increasing taxes. The security budget, on the other hand, was never reduced, to decrease the gap between revenue and expenditure.

TRANSPARENCY IN DEFENCE EXPENDITURE: INDIA, CHINA AND PAKISTAN

Information pertaining to defence expenditure is not generally transparent in Third World countries. There is a variety of off-budget programmes that do not form part of officially disclosed figures. In the case of China and Pakistan, expenditure on arms imports does not form part of official defence allocations. Though estimates vary, actual defence expenditure is three to four times more than the Official Defence Estimates (ODE) in the case of China. In the absence of accurate data,

**Table 9. Defence Expenditure Transparency Matrix :
India, China and Pakistan**

Issue	India	China	Pakistan
1. Annual Defence Expenditure Figures	Yes	Yes	Yes
2. Breakdown of Expenditure among Services	Yes	No	No
3. Details of Expenditure	Yes	No	No
4. Details and Cost of Acquisitions	No	No	No
5. Debate in Parliament	Yes	No	No
6. Off-Budget Expenditure	Limited	Widespread	Widespread
7. Expenditure Related to Development of Nuclear Technology	No	No	No
8. Committed / Carry Forward Liabilities	No	No	No
9. Budgeted Expenditure and Actual Expenditure	Yes	No	Yes
10. Inclusion of Expenditure on Para-Military Forces	Yes	No	No

comparison becomes difficult, and any comparison needs to be made based only on estimated expenditure. However, there is usually wide variation in estimated figures. Even in the case of India, certain items of expenditure do not form part of defence expenditure such as defence pensions and expenditure on the Ministry of Defence. Table 9 depicts a transparency matrix based on the publicly available information on defence expenditure in these countries.

As can be seen from the above matrix, most of the information related to defence expenditure in India is in the public domain, in a true democratic fashion. In the case of China and Pakistan, very little information is known barring the officially

Exaggeration of an external threat and the correspondingly higher military preparedness could, at one level, lead to counter-measures by the potential adversary, thus, escalating the threat environment to a higher plane, and, at another, demand excessive resources, eroding the developmental process.

published figures. In Pakistan, the defence budget is not even discussed in Parliament. Even in the budget documents, there is only a one-line reference to the defence budget. However, in India, the information that is not available for public discussion is: the nature and cost of acquisitions; the five-year defence plans and planned acquisitions; the committed liabilities on account of acquisitions that are in the pipeline, etc. Transparency becomes essential in the light of the never ending debate on defence vs development, particularly in developing countries, where there is always stiff competition for resources towards defence

expenditure and other state activities. Higher transparency would also result in public discussions which could aid policy-making and decisions.

HOW MUCH IS ENOUGH: THE DEFENCE VS DEVELOPMENT DILEMMA

Critics of excessive defence expenditure tend to view resources allocated towards security as a wasteful expenditure or at best a necessary evil. Thus, the debate on defence vs development is never ending. An underestimation of an external threat

with a correspondingly lower military preparedness to permit greater resources allocated to development could lead to the erosion of national security, if an attack does take place. This indeed, was the experience of India in the first 15 years after independent existence, culminating in the 1962 debacle. On the other hand, the exaggeration of an external threat and the correspondingly higher military preparedness could, at one level, lead to counter-measures by the potential adversary, thus, escalating the threat environment to a higher plane, and, at another, demand excessive resources, eroding the developmental process within the state and possibly creating conditions inimical to domestic security. The history of Iran during the 1970s under the Shah's rule and thereafter is representative of this phenomenon. The answer lies in viewing defence and development as concurrent goals to be sought in an objective balance rather than in a mutually excessive paradigm¹¹.

Modernisation of the military, not only of its equipment but also its structures and institutions is vital for national security.

In the light of what we have seen, let us now see as to what proportion of GDP needs to be allocated to defence in the Indian context. As brought out during the initial part of this paper, the defence allocations averaged 2.9 to 3 per cent of the GDP from 1960 right up to 1990. However, thereafter, this ratio came down to around 2.5 per cent. There have been arguments in the recent past that defence allocation must at least be 3 per cent of the GDP. India is already an established regional power. If it needs to be recognised as a global power in the coming decades and with the kind of economic development that is being witnessed in the last few years, the need to raise defence allocations is paramount. A strong and credible military is an essential element of a regional power. Military strength depends not only on size but also on firepower, capability to launch operations in the shortest time, ability to fight in all weather and terrain, standard of training, status of equipment in terms of capability, reliability, availability, and morale. Credibility is the combination of the ability to employ a force effectively and the willingness to use it when necessary. Modernisation of

11. Jasjit Singh "Vision of Peace in 2020," in *India Vision 2020*, a report by the Planning Commission, Government of India, 2004, p. 921.

the military, not only of its equipment but also its structures and institutions is vital for national security. Military steadfastness does help in progressing peace initiatives more positively.¹² Military build-up does not take place only with the purpose of fighting a war. The military is a symbol of power. And in order to hold this power and its manifestations, it is imperative that the allocations to defence are enhanced in the years ahead.

(The views expressed in this paper are those of the author and not of any organisation)

12. Air Chief Marshal(Retd) S. Krishnaswamy, "India's Defence Structure: The Crucial Decade," *SP's Military Year Book*, 2005-06.