

Chapter 40

Trend and Impact of Military Expenditure on Economic Growth in South Asia

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ABSTRACT

The objective of the chapter is to analyze trend, pattern, and impact of military expenditure in South Asian countries, namely Bangladesh, India, Nepal, Pakistan, and Sri Lanka. The study is based on secondary data from World Bank database, South Asian report, and RBI macroeconomic indicators. The trend of military expenditure has been analyzed using line graphs for all five South Asian countries. Military spending is higher as percentage of GDP in Pakistan among all South Asian countries. Military expenditure has positive impact on economic growth in South Asian countries. The study suggested effective military expenditure strategies and expenditure which is important for improving economic productivity and growth of countries. There is positive correlation between total military personnel and per capita GDP in all South Asian countries except Pakistan.

INTRODUCTION

A military budget (or military expenditure) also known as the amount of financial resources dedicated by a nation to raising and maintaining an armed or other methods essential purpose. Military budgets often reflect how strongly an entity perceives the likelihood of threats against it, or the amount of aggression it wishes to employ. It also gives an idea of how much financing should be provided for the upcoming year. The size of a budget also reflects the entity's ability to fund military activities. National defence and security is of prime importance for any government or nation. National defence means protection of a country against foreign invasion or aggression. National security is a concept that expects the central government of a unitary state to protect the whole country and its people against any national crisis or emergency by adopting political, economic, diplomatic, military other means. Terrorism and the activities of terrorist organizations are perhaps the most serious threat to peace and security. The use of

DOI: 10.4018/978-1-5225-7912-0.ch040

terrorism as an instrument of policy by a few states has exacerbated intra and inter-State conflicts. Terrorist groups have invested new technologies, particularly in cyberspace, for trans-national mobilization and ideological radicalization, especially of the youth. No nation is safe from foreign aggression and intervention. There had been two world wars. Wars have been taking place in different regions of the world like, world war in Vietnam, Arab - Israel war, Iran Iraq war and the recent Iraq - Kuwait conflict and India's one with china and four with Pakistan including recent Cargill conflicts. During the period of over 70 years of our countries independence, there has been invasions and aggression. In order to maintain peace in the region and with a population of peace loving nationals, we have been forced to a great deal with the national defence.

The relationship between military expenditure and economic growth has been widely debated among economists. However, there is no specific prediction of the direction of causation between the military expenditure and economic growth. In general, studies have found that military expenditure can influence an economy both positively or negatively. Results are mixed and often contradicting. Military expenditure can affect economic growth through a number of channels. For example, military expenditure can affect an economy either positively as per the finding of Hassan, Waheeduzzaman, and Rahman (2003), through an expansion of aggregate demand or through increase security, and negatively (Deger, 1986) through a crowding out of investment. On top of that, there are findings showing no meaningful relationship as found by Galvin (2003) and Yildirim et al. (2005). In some cases, the results are mixed as found by Kollias et al. (2004) and Dakurah et al. (2000).

Military expenditures can stimulate an economy through the Keynesian multiplier mechanism especially in the period of high unemployment. According to Keynes, expenditure may stimulate growth, i.e. when aggregate expenditure increases, aggregate demand also increases. This will further increase the utilization of capital stock which in turn lead to higher profit and may induce higher investment, thus generating short run multiplier effects and higher growth rates. (Benoit, 1978). The main concern about the issue of military spending is that, we can see the world continuing to devote large amount of spending to the military sector. Higher military spending tends to correlate with higher economic growth and also as a protection to maintain the peaceful of the world. However, the public differs on this opinion in that the spending will lead to war. Besides, higher taxation needed to finance higher military spending, thus in long run, it will drag the economic growth down. This difference in arguments has led to different opinions on whether military expenditure has either positive or negative impact on economic growth. The intrinsic value of national security is perhaps the most important argument for defence spending. Definitely, national security allows for productive economic activities to be carried out without fear of foreign appropriation. Thus, defence spending is expected to provide national security and subsequently enhance economic growth in the long-run (Ram, 1996).

LITERATURE REVIEW

Lim (1983) obtained that there is a negative effect of military expenditure on growth through Foreign Capital Inflow (FCI) that may control investment and military expenditure together. Faini et al. (1984) also shows that military expenditure can influence investment negatively, hence growth of output, through absorptive capacity.

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