Chapter 9
Public Expenditure on Defense and Economic Development: A Comparative Study on India and China

Partha Mukhopadhyay
National Institute of Technology Durgapur, India

Madhabendra Sinha
National Institute of Technology Durgapur, India

Partha Pratim Sengupta
National Institute of Technology Durgapur, India

ABSTRACT
There is a direct relationship between public expenditure on defense and economic development such as technological upgradation, increase in steel, and allied production, etc. To identify the impact of public expenditure on defense along with economic growth in India and China, this study investigates the long-run equilibrium relationship between them. This chapter uses Stockholm International Peace Research Institute (SIPRI) data and Johansen co-integration test approach to examine the relationship between public expenditure on defense and economic development in India and China on a comparative basis over the period of from 1989 to 2016. The findings imply a significant relationship between public expenditure on defense and economic development in India but no long-run cointegrating relation was found in case of China.

INTRODUCTION
An enormous investment on defense items particularly by the developed countries started after World War I and II. Military expenditure is an important component of public expenditure on the basis of perceived threat perception of political elites of nation states. It is argued and justified usually in terms of the need to maintain national security, law and order and to combat internal disturbances, etc. India and China have partially been stirred by the observed rising share of their military spending in the total global
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China and India will exercise increasing impact in worldwide issues in the coming decades. As prominent members of the G-20, their impact will be showing in the global economy, in global politics, and in the global security environment. China and India are the only country in the world with more than one billion people. In 1989, Military Expenditure Per Capita China was 10 and India was 12.4. In last 25 years, the changing scenario is revolutionary. In 2016, Military Expenditure Per Capita of China was 155.7 and India stands on 42.1. Expenditure composition to payments for the purchase of refined weapons of which, over 75% of global arms imports is made by developing nations. Such a huge expenditure initiated cries in economic development and resulting from negligence of education, health and infrastructure (UNDP, 1991; UN, 2006; Todaro & Smith, 2006). One of reasons for the increases in military expenditure has been given as the countries’ endorsement of military oriented education, health, infrastructure and innovations including *inter alia* nuclear and helicopter discoveries that benefit all citizens because they reject the country’s manufacturing possibilities (Benoit, 1978). Theoretical discussion of military expenditure just like any other fiscal component plus its security implication articulates a possible link between military outlays and economic growth. In this context the present study further reviews empirically whether there is any sort of causal link between Public Expenditure on Defense and Economic Development of the India and China of different status of developments for the period 1989-2016.

The classical school of thought argues that military expenditure can reduce economic growth. This argument is based on the evidence that the higher the cost of military spending and the low cost of domestic savings and lower collective demand, lower costs. This can be explained specifically as followed. The military expenditure will increase the interest rate of a higher level, which will be crowded by private investment. However, Keynesian thought that by increasing the burden of increasing military burden, increasing purchasing power and national production, and creating positive outlook (Narayan & Singh, 2007). Endogenous growth theory makes it clear that the public spending on long-term growth rates has an important effect. Its impact depends on government intervention and various aspects of government expenditure.

In addition, there has been discrimination in economic growth at various types of government expenditure. For example, public infrastructure, research and development and public education are often

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**Figure 1. Military expenditure in India and China, 1989-2016**

*Source: (Stockholm International Peace Research Institute (SIPRI), 2016)*