Economic Growth Effects of Military Expenditure in the Absence and Presence of Armed Conflicts: The Case of Pakistan and India

By Hafsa Shoukat

Non-Technical Summary

- This paper examines the relationship between military expenditure and economic growth in the absence and presence of armed conflicts (internal and external), in the context of Pakistan and India from 1960-2019.

- The empirical findings indicate a positive and significant impact of military expenditure on economic growth in the absence of armed conflicts in the case of Pakistan.

- The findings confirm that external armed conflicts have a significantly negative effect on economic growth in both contexts, but external armed conflicts are more harmful to the Indian economy as compared to its counterpart.

- The results also suggest that military expenditure stimulates economic growth in the presence of significantly higher external armed conflicts.

- This implies higher military expenditure attenuates the intensity of conflicts and help strengthen the confidence of national and international investors to invest by providing a peaceful environment.

- However, military spending in the absence of armed conflict has stronger growth-stimulating effects than in the presence of armed conflict. This implies that conflicts offset some of the positive effects of defence expenditures.

- To the best of our knowledge, this is the first analysis on Pakistan and India that has considered threat measures while determining the relationship between military expenditure and economic growth. The inclusion of armed conflicts with defence expenditure into a growth equation gives a better explanation to countries that experience higher threat levels and military expenditures such as Pakistan and India, as both countries have serious internal and external security concerns.

You can read the full paper here.