

EDITORIAL

It is Merchant of Weapon, Not Security of Nation Stupid!

- Piyush Pant

If you look at the successive budgets presented by the Union Government, one feature which remains least discussed is the increasing allocations on Defence. Every year while making budget speech, the finance minister shares the minimum information with the members of the house and simply refers to the facts which are necessary to have the grants of the Defence Ministry approved, in the process, hiding the actual information on the militarization of country's armed forces. For instance, it has been the government practice to lament the less expenditure being incurred on defence needs (say 2 to 3 percent of GDP), but what is forgotten is the fact that apart from the budgetary allocation, crores of rupees are spent in the form of hidden subsidies for defence purchases through public sector manufacturers of armament components like Hindustan Aeronauticals, BHEL and BEML. Thus, in the year 2005 while the UPA government officially claimed that the defence spending was only 2.4 percent of India's GDP, the actual expenditure worked out to be 3.2 percent.

Now in the Interim Budget presented by the UPA government on 16th February 2009, the allocation for defence were raised to Rs. 1, 41, 703 crore. The total revised expenditure for 2008-2009 was Rs. 1,14, 600 crore. As per the Budget the plan expenditure was supposed to be to the tune of Rs. 86, 879 crore against Rs. 73,600 crore and was to include Rs. 54, 824 crore for capital expenditure as against Rs. 41, 000 crore in the revised estimate for 2008-2009. Earlier on February 29th 2008, the budget presented by Mr. Chidambaram hiked the defence expenditure for fiscal 2008-2009 by 10 per cent from Rs. 96,000 crore to Rs. One lakh five thousand six hundred crore (Rs. 1,056 billion). It is expected that the defence budget will further increase by 34 per cent in the forthcoming regular Budget 2009-10 of UPA Government. This is happening despite 11th Finance Commission laying down a limit of 3% of the GDP towards the aggregate cost of defence. But flouting this norm, the Government of India has been continuously increasing its spending on the defence. So much so that as per the information available for the year 2009-10, India with 32,700,000,000 USD now ranks 9th in the world as far as the military expenditures are concerned. In the year 2008, India's share in the global military spending was 30 billion dollars or 2.1 per cent. According to the latest figures released by the Stockholm International Peace Research Institute (SIPRI) the world's biggest military spenders in the year 2008 were the countries which were either permanent members of the United Nations Security Council or aspiring to hold that privileged rank and this include India, besides Germany, Japan and Brazil. In the year 2008 these four aspirants to the security council permanent membership spent USD 146.4 billion combined with Germany at 46.8 billion, Japan 46.3 billion, India 30 billion and Brazil 23.3 billion dollars.

Now the question arises why does India, which stands very low in the human development index and does not provide the required allocations in the successive budgets for the social sector, is continuously increasing its defence allocations. As for the social spending, India still spends too less on social sector particularly education and health. The budgetary allocations for education, in successive budgets, have been quite dismal at less than 3% of the GDP. Even a study conducted by the Associated Chambers of Commerce and Industry of India (Assocham) in 2008 says that despite strong growth, India lags far behind other BRIC countries (Brazil, Russia, India and China are collectively known as the BRIC economies.) in social sector achievements, spending lowest on education and health.

Varied explanations have been put forward for the increasing

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defence spending in India. Some commentators point out that it is so because of the growing strategic importance of India in the contemporary geo-political environment. They also raise the bogey of neighbour like Pakistan hell bent on fomenting trouble on India's borders. While some others point towards the growing militarization of China and Pakistan in the region. They say that India is now increasing its defence spending as China is developing its own state-of-the-art combat aircraft and Pakistan is in the process of getting F-16 aircraft from U.S.

Meanwhile, a study done by Assocham states that India's military equipment imports are expected to go up by 12-fold to US 30 billion dollars by 2012. This study also reveals that India has drawn up a concrete plan to purchase a range of high profile defence hardware including multirole combat aircraft, 1.55 -mm howitzers, helicopters, military transport aircraft as well as long range maritime surveillance aircraft. Not surprising, the consulting firm Ernst and Young Global Ltd. made the comment that India is the second largest buyer of conventional weapons system. In fact, the massive Indian offset business worth Rs. 40,000 million that the defence market presents is highly alluring to global defence contractors. As pointed out by a top ranking functionary of the Confederation of Indian Industry: "In the scenario, each foreign vendor will need multiple Indian partners to meet offset obligations "

It is not without reason that many leading foreign weapon merchant companies are lobbying hard to clinch the defence deals. The contract for 126 multi-role aircraft is at present like a hot-cake. Under the contract, 18 aircraft will be delivered in flyway condition and the rest will be produced by the Hindustan Aeronautics Ltd. The competitors for this mega Indian defence deal are Rafale of France, RSK Mig-35 of Russia, Saab Gripen of Sweden, F-16 of Lockheed Martin, F/A-18E/F-Super Hornet of Boeing and Euro-fighter Typhoon. Indeed Rick Kirkland, President of Lockheed's South Asian operations remarked that India is potentially the biggest growth market in Asia-Pacific region for Lockheed Martin and its competitors. He also said that India is likely to buy US 4 billion dollar worth of defence communications system and spend as much as 15 billion US dollars to expand its naval ships and submarine programmer. This is to be noted that Lockheed has already bagged an Indian order for six C- 130 J military transport aircraft.

In fact the lure of the Indian defence market for foreign vendors was clearly seen in a number of partnership ventures that foreign defence companies signed with the industrial majors at the Defence Expo 2008 held in New Delhi in February 2008. For example,.Banglore based Bharat Electronics (BEL) entered into agreements with three Israel-based defence companies. Similarly, Mumbai-based Tata Industry joined hands with Sikorsky to make S-92 helicopter cabins and also signed an agreement with Israel Aerospace Industries for an unspecified number of military hardware and software projects. Another Indian auto giant Mahindra and Mahindra joined hands with Whitehead Alenia Sistemi Subacquei, a subsidiary of the Italian firm Finmeccanica for developing underwater systems.

Thus it is amply clear why the Indian defence budget is continuously on the rise.



India's Interim Defence Budget 2009-10: An Assessment

By: LaxmanKumar Behera

In its interim budget for 2009-10 the Union Government has allocated Rs. 1,41,703 crores for the country's Defence Services that include three Armed Forces (i.e., the Army, the Navy and the Air Force), and other Departments, primarily Defence Research and Development Organisation (DRDO) and Defence Ordnance Factories. This is apart from Rs. 24,960 crores which have been earmarked to defray civil expenditures of Ministry of Defence (MoD) and its affiliated organisations, including, the Coast Guard, and for defence pension (Rs. 21,790 crores). In other words, the total resource available for the MoD and its various establishments is Rs. 1,66,663 crores. By convention, only budgetary provisions for the Defence Services constitute

words, the share of capital expenditure has gone down by nearly 7 percentage points in these two years (see Table). The faster growth of revenue expenditure is primarily due to the hefty increase in pay and allowances flowing from the implementation of Sixth Central Pay Commission (CPC). To put the figure in perspective, total budgeted pay and allowances debited from the Services' budgets has more than doubled from 21,891.67 crores in 2008-09 to Rs. 44,500.69 crores in 2009-10.

Service-wise, the Army accounts for the largest share of the 2009-10 budget with an approximate allocation of Rs. 76,680 crores, followed by the Air Force (Rs. 34,432 crores) and the Navy (Rs. 20,604 crores). While the Ordnance

Factories (OF) have a budget of Rs.1,505.45 crores, the DRDO's budget is Rs. 8,481.54 crores.

Impact on Modernisation

The Indian Armed Forces are on a modernisation drive. The shopping list of the Services includes virtually all types of weapons and systems, including big-guns, fighter aircrafts, armoured vehicles, radars, missiles, naval vessels, among others. The most pertinent

question is whether the latest budget makes necessary provisions to meet these requirements. Given the fact that the modernisation programme of the armed forces largely depends on capital acquisitions, it boils down to how capital budget is allocated.

Assuming that nearly 80 per cent of the capital budget is meant for capital acquisitions, the latter consisting of 60 per cent of committed liabilities and 40 per cent of new schemes, the main sub-divisions of the capital budget are as below:

Total Capital Budget:	Rs. 54,824 crores
Capital Acquisition:	Rs. 43,859 crores
Committed Liabilities:	Rs.26,316 crores
New Schemes:	Rs.17,544 crores

From the above, it is evident that a substantial amount will be available for capital procurement. Moreover, over Rs. 17,500 crores (nearly 30 per cent of the capital budget) will be available for new weapons and systems that the Armed Forces have planned for induction. While this augurs well from the modernisation point of view, much depends on how much and how the resources are spent in the coming fiscal.

Higher Allocation and Under-utilisation of Resources

The growth of over 34 per cent in India's defence budget is one of the highest in the country's history of defence spending (the last time the defence budget was increased by over 30 per cent was in 1987-88 when allocation was increased by 43.4 per cent to Rs. 12,512 cores). In the recent past, the defence budget, despite registering modest growth rates, has been subjected to criticism in view of its declining shares in total central government expenditure

Key Statistics of Defence Budgets 2008-09 and 2009-10		
	2008-09	2009-10
Defence Budget (Rs. in crores)	1,05,600	1,41,703
Growth of Defence Budget (%)	10.00	34.19
Revenue Expenditure (Rs in crores)	57,593	86,879
Share of Revenue Expenditure in Defence Budget (%)	54.54	61.31
Growth of Revenue Expenditure (%)	6.50	50.85
Capital Expenditure (Rs. in crores)	48,007	54,824
Share of Capital Expenditure in Defence Budget (%)	45.46	38.69
Growth of Capital Expenditure (%)	14.51	14.20

India's defence budget.

Though the allocations made in the interim budget are not binding for the next government to follow, it is unlikely that the new government will make any major changes in the allocation, given the mandatory increases in certain components of the defence budget, the worsening security situation in the country's neighbourhood and the gap in the country's defence preparedness. This commentary examines the various components of the defence budget, analyses the impact of the budget on the modernisation requirements of the Armed Forces, and the problem of under-utilisation of resources under the capital head.

Vital Components

The defence budget for 2009-10 has increased by 34.19 per cent over the previous year's budget estimate (BE) of Rs. 1,05,600 crores. However, BE of 2008-09 has been scaled upward by 8.52 per cent (Rs. 9,000 crores) to Rs. 1,14,600 crores at the revised estimate (RE) stage. This means, this year's allocations has increased by 23.65 per cent over the RE of 2008-09. Of the total defence budget, revenue expenditure, which caters to the 'running' or 'operating' expenditure of the three Services and other departments, is pegged at Rs. 86,879 crores. Capital expenditure, which mostly caters for modernisation requirements, accounts for Rs. 54,824 crores. Of these two, revenue expenditure has been increased - in comparison to its last year's growth of less than 7 per cent - at a much faster rate of 50.85 per cent (Rs. 29, 286 crores). The growth of capital expenditure has however declined, over the previous year's growth, to 14.20 per cent (Rs. 6,817 crores). The sharp rise in revenue expenditure has taken its share in the defence budget to 61.31 per cent, from 54.54 per cent a year before. In other

and gross domestic product. In fact, the defence budget had decreased to below two per cent of GDP in the last fiscal year. The new budget, defying all criticism, has made a substantial increase in allocations. From the perspective of resources allocation, the defence budget for 2009-10 represents 14.87 per cent of total central government expenditure, and 2.35 per cent of gross domestic product (GDP). The corresponding figures for 2008-09 are 14.06 per cent and 1.95 per cent respectively.

However, accompanying the growth in defence budget is the problem of utilisation of resources under the capital head. As the latest budget reveals, the budgeted capital expenditure for 2008-09 has decreased by Rs. 7,007 crores (15 per cent) from Rs. 48,007 crores to Rs. 41,000 crores at the RE stage. Its implication is also seen in the wide variation in the growth of the capital budget. If the defence establishments had fully spent the entire 2008-09 capital budget, the 2009-10 capital expenditure would have seen only 14.2 per cent growth instead of 33.72 per cent rise (Rs. 13,824 crores) that has been registered over the previous year's RE.

It is ironical that while capital expenditure has been increased substantially over the years, not sufficient attention has been devoted to spending those resources in a time-bound manner. As a result, under-utilisation of resources has increased with the growth in each year's capital expenditure. In absolute number, under-utilisation has increased by over four-and-a-half times between 2004-05 and 2008-09. In percentage terms, it has increased from 4 per cent to 15 per cent in the same period.

As the defence preparedness of the country largely depends on the firepower it possess, which in turn depends on capital expenditure, the latter's timely and efficient

utilisation deserves due consideration. Though MoD in recent years has tried to improve acquisition procedure, it appears inadequate to expedite the process. The recurring underutilisation of resources is a case in point to seriously examine the weakness in the system. If necessary a complete overhaul of the acquisition system may be considered to ensure that funds are utilised in a proper time frame and for the purpose it is envisaged for.

Conclusion

India's defence budget 2009-10 has no doubt registered an impressive growth of over 34 per cent. However, much of the growth is accounted for by the increase in revenue expenditure, which, in turn, has been inflated by the surge in pay and allowances necessitated by the implementation of the recommendations of the Sixth Pay Commission. The impact of the increased provision for pay and allowances is such that the revenue budget's share in the defence budget has increased to more than 61 per cent, compared to its previous year's share of less than 55 per cent. The consequent decrease in the share of capital expenditure has resulted in its modest 14.2 per cent growth amounting to an additional provision of Rs. 6,817 crores over last year's allocations. Nonetheless, the allocation of Rs. 54,824 crores under the capital head is still substantial in absolute terms. Considering that around 80 per cent of the capital budget would be available for procurement of weapons and systems, including some new ones, the defence establishment would be under pressure to spend the resources in a time-bound manner. Experience in the recent past shows that under-utilisation of capital budget has increased with each year's allocations. This necessitates a critical examination of the acquisition system to ensure that the Armed Forces are equipped with the right equipment at the right time.

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Antony favours defence budget at 3 percent of GDP

New Delhi, June 10 (IANS) Defence Minister A.K. Antony says India's budget for the military should be pegged at three percent of the GDP to match that of the country's neighbours. "Actually, considering our economic boom, our allocation for defence is not matching. Every year it is now coming down. It is below two percent while the average (for the neighbourhood) is three percent," he told reporters on the sidelines of the two-day Unified Commanders Conference here Tuesday.

"It is below two percent. Actually it is 1.9 percent. It should be three percent. Our defence budget, compared to all the major countries, is one of the lowest in the world," the minister added. Successive parliamentary committees have recommended that the defence budget be raised to at least three percent if the armed forces are to rapidly modernise.

Finance Minister P. Chidambaram had in February hiked the defence expenditure for fiscal 2008-09 by 10 percent of what it was the previous year to Rs.1,056 billion (\$26.5 billion) - and promised even more funds if these were required.

The allocation accounts for 14 percent of the government's total spending of Rs.7,508 billion during the fiscal that began April 1. "The allocation for defence is being raised by 10 percent from Rs.96,000 crore (Rs.960 billion) to Rs. One lakh five thousand six hundred crore (Rs.1,056 billion)," Chidambaram said while presenting the budget in the Lok Sabha Feb 29.

"I have assured the raksha mantri (defence minister) that more money would also be provided if necessary, especially for capital expenditure," he added.

The 10 percent hike exceeds the 7.8 percent increase granted for the 2007-08 fiscal. Of the total allocation, Rs.480 billion has been earmarked for the purchase of hardware and Rs.579 billion for the three services and for R&D.

India's Defence Expenditure: Can it be Reduced?

By: P R Chari

Establishing the Problematique

The phenomenon is worth noting that global defence expenditure has shown a secular decline following the end of the Cold War, but Asia has proved resistant to these winds of change in the international system. Thus: "Global defence expenditure, which stood at an all time peak of \$ 1,360 billion (in constant 1995 dollars) in 1987, was down to \$ 864.5 billion in 1995. From here it slid down to \$ 727 billion in 1996 and it stood at \$ 714.22 billion in 1997". However, defence expenditure in real terms rose in several countries and regions around the world, especially Asia. "Defence expenditure in the 42 countries of Asia went up from \$ 183.51 billion in 1987-88 to \$ 270.59 billion in 1997 in current dollars. Asia's total defence expenditure, which

1998. But, as a share of Central Government expenditure, military expenditure has leveled off in India; it was an estimated 13.4 % in 1989 and 13 % in 1998. Incidentally, the share of military expenditure in the GDP of Pakistan dropped from 6.6 % in 1989 to 4.9 % in 1998; over this period, military expenditure as a share of Central Government expenditure also leveled off-it was 24.5 % in 1989 and 24 % in 1998.

These criteria for comparing military expenditure (ME) by nations have their obvious limitations. ME/GDP comparisons are especially misleading. The proportion of national resources allocated to defence reflects the perceptions of national elite and decision-making circles, which is largely founded on the security milieu in which a country finds itself. For instance, the ME/GDP ratio

No question of scaling down defence expenditure: Antony

Bangalore, Feb 11 (IANS) India will continue with its arms acquisition programmes and defence preparedness despite the economic recession, Defence Minister A.K. Antony said here Wednesday. "There is no question of scaling down our defence expenditure, which is 2.5 percent of our GDP (gross domestic product) or compromise with our (arms) acquisition programmes despite the economic recession," Antony said at the seventh edition of Aero India 2009 international air show here.

Claiming that India was among the fastest expanding aerospace markets in the world, Antony said state-run defence behemoth Hindustan Aeronautics Ltd (HAL) had evolved into an integrated aerospace organisation.

"India has emerged as an attractive market and a key outsourcing hub for global aerospace firms due to low-cost, skilled engineers, good organisations, software and technology," Antony said at the inaugural show of the five-day event.

Expressing confidence that the biennial event would provide ample opportunities to domestic and overseas players to explore the business potential in the aerospace and aviation sector, the minister said the defence industry was opened up to 100 percent participation for the Indian private sector and up to 26 percent for foreign direct investment.

"Over the years, Aero India has increased its reach, both in terms of participation and infrastructure. This year, the domestic participation has gone up to 40 percent over the previous show in 2007," Antony noted.

"It is also heartening to know that 50 foreign delegations and 16 ministerial delegations have come calling for the air show," he added.

At the politico-security level, India has always been recognised as a responsible power and a stabilising factor in the South Asian region despite facing various security challenges originating from different sources.

"Our sustained economic growth provides ample opportunities to our neighbours to tap into this economic dynamism. The onus lies with them to derive gains from it," Antony said in his inaugural address at the Indian Air Force station in Yelahanka, about 20 km from the city.

was approximately half of the US defence expenditure ten years ago, reached a level nearly equal to the defence expenditure of the United States in 1997".

South Asia confirms this trend. Military expenditure in the region increased from \$ 11.3 bn. to 14.3 bn over the 1989-98 period in terms of constant 1995 prices and exchange rates, indicating an increase of 27 % in this period. Illustrating this trend military expenditure in India rose by 27 % from \$ 7.8 bn. to 9.8 bn. As a share of GDP it fell from 3.1 % in 1989 to 2.5 % in

of Iran ranged between 7.7 and 5.1, and that for Iraq fluctuated between 41.2 and 74.9 between 1985 and 1991; this is unusually high, but corresponds to the years of the Iran-Iraq war. Israel's ME/ GDP ratio has hovered between 20.3 and 9.6 over the 1985-95 decade, but this reflects its asymmetric position within the hostile Arab world. On the other hand, Japan's ME of over \$ 50 bn in 1995 is around 1 % of its GNP; still Japan is the fourth largest military spender in the world after the United States, Russia and China. Consequently

ME/ GDP comparisons can be skewed and misleading completely.

A more useful basis for comparison is the ME/CGE ratio, which informs what proportion of the Central Government's revenues have been pre-empted for defence. These revenues reflect the income acquired by the Government through fiscal measures and other appropriations to perform its functions, including the ensuring of national security, which is acceptable to the population. In a democratic society the people do have a voice regarding the preemption of national resources for the competing ends of development and defence. ME/CGE comparisons provide a more accurate basis for comparing military expenditure and evaluating its burden on the national economy. There are other comparisons possible by, for instance, estimating the military expenditure per capita of the country's population or military expenditure per member of the armed forces; but they are not very useful for our purposes.

Evaluated in terms of ME/GDP or ME/CGE ratios India's current defence expenditure of around 2.5 % of its GDP and 13 % of its CGE is low in comparison to its major adversaries, Pakistan and China. India takes credit in the MOD Annual Reports for allocating only the minimum, irreducible amount to defence; they state: "The endeavour of defence planners is to balance the minimum maintenance requirements of defence forces and the need to modernize them, without unduly straining the economy. Given India's size and security concerns, the outlay on Defence, assessed either as a percentage of the total Central Government expenditure or of the Gross Domestic Product, continues to be one of the lowest among neighbouring countries". This assertion has been repeated over several years.

Nevertheless, military expenditure does involve significant opportunity costs, although special pleadings do not want to quantify the benefits that accrue to the national economy by enlarging the defence budget. This observation needs emphasizing since a sizeable increase in military expenditure in the next budget is likely to ostensibly make up for the deficiencies revealed by the Kargil conflict and increased terrorist activities in Kashmir. Hopefully, this increased defence budget will be used to raise forces and procure equipment relevant for combat in mountainous terrain and counter-insurgency/counter-terrorism operations. There are even chances, however, that it would be used to indulge the wish list of the three Services and procure weapon systems that have little relevance to ensuring national security.

It is admittedly impossible to determine with finality what portion of the national resources should be allocated to military security or to human security, and to developmental purposes: therefore, the conundrum

"how much is enough" continues to elude a precise answer, although this exercise can engage academic fancies. In practice an arbitrary line is drawn between the resources allocated to defence, social services and administrative expenditure after meeting such obligatory liabilities as interest payments/loan installments and the political commitments embodied in subsidies. Elite perceptions of the threat to national security underlie force structuring and defence planning exercises; this governs the size of the defence budget. Before discussing these perceptions and the fuller dimensions of India's national security in the foreseeable future, it would be useful to describe the structure of the defence budget to discover the economies possible.

Structure of the Indian Defence Budget

The broad features of the Indian defence budget would be discussed first before debating whether expenditure currently out of account should be included therein.

A broad differentiation is effected in the defence budget between Service/ Department-wise expenditure. For the last (1999-2000) financial year it was distributed over 5 major heads viz. Defence Production and Supply (1.34 %), R & D (6.07 %), Navy (14.80 %), Air Force (22.50 %), and Army (55.29 %). In line with inherited British practices, a further distinction is made between revenue and capital expenditure. Revenue outlays are recognized as expenditure that does not result in creating permanent assets. Capital expenditure is incurred on acquisition of permanent assets like land, buildings, and machinery. This distinction is not very satisfactory; small or temporary structures have been classified as revenue expenditure. Before 1985-86 the expenditure on aircraft, aero-engines and the naval fleet acquired by the Air Force and Navy were classified as revenue expenditure, which was unrealistic. From 1987-88 onwards, such outlays are displayed under capital expenditure along with the expenditure on heavy and medium vehicles or equipment having a value of Rs. two lakhs each and a life of seven years.

Beyond such classifications Service/ Department-wise revenue expenditure is divided into minor heads pertaining to pay and allowances, transportation, stores, works and miscellaneous costs. Capital expenditure is differentiated into cost of land, construction costs, procurement of rolling stock, besides outlays, as noted above, on aircraft, aero-engines, naval fleet, heavy and medium vehicles or equipment. Yet another functional method of classifying expenditure on the Services is to differentiate between personnel and personnel-related costs, maintenance costs and modernization costs. This is a traditional means of disaggregating defence expenditure in terms of its major functions, so that existing outlays could be utilised more efficiently. In U.S. experience, it was noted that: "Historically, budgets have squeezed R & D (mortgaging the future), stretched

out modernization programs (decreasing long-term readiness and increasing unit costs), and slashed Operations and Maintenance (reducing near-term readiness). Manpower levels have been held constant, but manpower costs been reduced somewhat by reduction of real wages".

No "reduction of real wages" can occur in India due to the indexing of dearness allowance, which is a major component of total wages, to the inflation rate. But other aspects of the American situation are wholly relevant to India. The empirical evidence informs that any reduction in the defence budget or any unexpected expenditure that needs accommodation therein has led to modernization effort first getting affected, followed next by maintenance costs. Personnel related costs are deemed sacrosanct, and remain untouched. Indeed, a major reason for the strains in the defence budget, as is occurring in the civil budget, is the fact that manpower costs have been escalating steadily over the years due to inflation, and implementation of the decadal Pay Commission Reports that have always recommended increases in real wages and secular improvements in service conditions.

No systematic effort has proceeded, however, to reduce the strength of the armed forces despite the upgrading of their firepower and mobility, just as reduction of the hugely redundant work force is inconceivable in the civil sector despite the computerization of offices and modernization of procedures. This question is of special significance to the Indian Army since manpower and manpower-related costs account for some 60 % of its budget. The proportion of these costs in the Navy and Air Force budgets are reversed due to their maintenance and modernization costs being higher, but their manpower and manpower-related costs account for some 40 % of their budgets. Unless this issue is seriously addressed serious efforts to reduce defence outlays are unlikely to succeed. How the existing manpower in the armed forces, particularly the Army, could be reduced and better utilised would be addressed somewhat later in this paper. It would suffice to flag the issue of personnel and personnel-related costs here as requiring attention to reduce military expenditure.

The several allegations made in India and abroad that some part of India's military expenditure is disguised under other heads of account can be examined now.

Firstly, the pension liabilities of the armed forces are included in the civil estimates since 1984; they have risen dramatically following the revision of pensions following the Fifth Pay Commissions' recommendations that became applicable from January 1996. This is apparent from the pension figures: 1994-95-2704.10 crores; 1995-96-3197.12 crores; 1996-97-3683.00 crores; 1997-98-4947.42 crores; and 1998-99 (B.E.)-

5923.58 crores. This amounts to 14.37 % of the defence budget. It is arguable that defence pensions should form part of the defence budget and not part of civil pensions, as obtained before 1984.

Secondly, the outlay on the Ministry of Defence Secretariat (some 550 crores) is also debited to civil estimates. But this conforms to the general convention established in the Government of India and relates to all Ministries.

Thirdly, the expenditure on para-military forces like the Border Security Force, Central Reserve Police Force, Indo-Tibetan Border Police and Assam Rifles is borne by the Home Ministry. These para-military forces come under the operational control of the Army when they are employed in combined counter-insurgency or counter-terrorism duties. Some of them are earmarked to come under the Army's operational control during a conflict. India's total allocations on its paramilitary forces, numbering in excess of 1 million, amounted to \$ 773 million (Rs. 3300 crores) in 1998-9, which was debited to the budget of the Ministry of Home Affairs. It can be argued that the outlays on the para-military forces should be borne by the Ministry of Defence as they have been raised and are being utilised for purposes of maintaining internal security and augmenting external security. However, the normal functions of these forces are allied to police duties, and their placement under the Home Ministry conforms to the system followed in most democratic countries in the world. It is fitting that expenditure on them is borne by the Home Ministry.

Fourth, a similar argument could justify the exclusion of expenditure on the Border Roads Organization from the defence budget; at present, this is included in the budget of the Surface Transport Ministry. Army Engineer officers man this Organization but these roads, though meant for strategic purposes, are largely used during times of normalcy by civil traffic. A similar logic informs the inclusion of the outlays on the National Security Guard under the Cabinet Secretariat. Specially selected Army officers trained for anti-terrorist operations and providing VIP security man this force.

Fifth, the argument that "space and nuclear programs that relate to military, and some items under the heading "strategic electronics" such as radar research that fall within the expenditure of the department of electronics" should be included in the defence estimates is not well conceived. There is an insuperable difficulty in segregating the expenditure pertaining to military activities from the budgets of the Atomic Energy, Space and Electronics Departments, since their primary responsibilities are of a non-military character. The truth of the matter is that India's military achievements in the nuclear, missile and electronics areas have been derived from its civilian programmes, but the precise linkage between the two is opaque. The role of the

Atomic Energy Commission in the development of India's nuclear devices was clarified after it tested them in May 1998, but its manufacture was jointly undertaken by it with the Defence Research and Development Organization. Still, India's unequivocal military programmes like the development and production of missiles proceeds within its Integrated Missile Development Programme; similarly, the Advanced Technology Vehicle (nuclear submarine) programme proceeds within the Navy.

The in brief conclusion possible at this juncture is that no conscious effort is made like in India to disguise its defence budget, which is difficult in a democracy especially in India where transparency is demanded by the Opposition parties in ever-increasing measure. The issues whether defence pensions should be debited to the defence estimates and what proportion of security-related activities in other Ministries that have a nexus with defence should be treated as military expenditure can be endlessly argued without reaching any conclusion. Whilst seeking an answer to the question how military expenditure might be reduced it would be profitable to discuss the nature of threats to India's national security.

The Fuller Dimensions of National Security

Clearly their prejudices and biases condition the threat perceptions of the national decision-making elite. The first chapter of the Annual Reports put out by the Ministry of Defence in India entitled 'National Security Environment' articulates these threat perceptions. It is drawn up each year in consultation with the External Affairs Ministry; indeed, the MOD has consciously sought to achieve a closer mesh with the Ministry of External Affairs to assess national security threats.

A cursory look at this chapter over the years reveals a certain pattern in its basic structure. After commenting on the international security situation, this chapter deals at some length with the security threat from China and Pakistan, then from other countries in South Asia, Southeast Asia, Central Asia, West Asia/Gulf and the Indian Ocean region. More recently, following India's nuclear tests in May 1998, its general policy towards nuclear and conventional disarmament issues and international security are also mentioned. Apart from recognizing the significance of energy security, a welcome sensitivity to the non-military challenges to India's national security can also be found in the latest reports; these non-military challenges have been identified as terrorism, insurgency, and acquisition of WMD-related technologies by non-state actors, currency counterfeiting, drug trafficking, and organised crime.

This is a distinct improvement from the Defence Secretary's often-quoted evidence before the Estimates Committee, when he affirmed that India's Defence

Policy "has been basically a policy to defend our territory, our sovereignty and our freedom and no more than that". Whilst rebutting the criticism that India has, in effect, no defence policy, Prime Minister Narasimha Rao informed Parliament that: "We do not have a document called India's National Defence Policy. But we have got several guidelines, which are followed, strictly followed and observed, and those can be summed up as follows:

1. Defence of National Territory over land, sea and air encompassing among others the inviolability of our land borders, island territories, offshore assets and our maritime trade routes.

2. To secure an internal environment whereby our National State is insured against any threats to its unity or progress on the basis of religion, language, ethnicity or socio-economic dissonance.

3. To be able to exercise a degree of influence over the nations in our neighbourhood to promote harmonious relationships in tune with our national interests.

4. To be able to effectively contribute towards regional and international stability and to possess an effective out-of-the-country contingency capability to prevent destabilization of the small nations in our immediate neighbourhood that could have adverse security implications for us". This declaration can be faulted on several grounds; that it is altogether too vague and general, that it does not provide any serious guidance for defence planning and budgeting exercises and so on. But a more serious line of criticism of this formulation would be the objective to "exercise a degree of influence over nations in our immediate neighbourhood" and, towards that end, "to possess an effective out-of-the-country contingency capability to prevent destabilization of the small nations in our immediate neighbourhood". This suggests that India wishes to operate a version of the Monroe Doctrine in South Asia by pursuing an interventionist role if developments occur in the regions that are deemed inimical to its interests. The far-reaching implications of this affirmation of India's extra-territorial responsibilities have, fortunately, not received much attention.

A national defence policy is essentially premised on its foreign policy which, in turn, is based on its desire to optimize the country's national interests. Therefore, the starting point of any holistic exercise to discern the requirements of the defence budget and military expenditure must be the identification of India's national interests as contained in its strategic objectives. These have been identified in the latest 1998-99 Annual Report of the Ministry of Defence as under:

Defending the country's borders as defined by law and enshrined in the constitution and protecting the lives and property of its citizens against terrorism and

insurgencies.

Having a secure, effective and credible minimum deterrent against the use or the threat of use of weapons of mass destruction against India. The profile of this deterrent, including accurate and refined delivery systems, will not be circumscribed in range and payload by any outside pressure or influence, but will be determined by the country's threat perception at any point of time.

Insulating the country from the effect of individual or group restrictions on the transfer of material, equipment and technologies that have a bearing on India's security, particularly its defence preparedness. This involves a greater emphasis on in-house research, development and production of the nation's requirements and recourse to feasible alternative sources.

Promoting further co-operation and understanding with neighbouring countries and implementing mutually agreed confidence-building measures.

Working with countries of the Non-Aligned Movement to address key challenges before the international community and engaging in co-operative security initiatives such as the ASEAN Regional Forum (ARF).

Pursuing security and strategic dialogues with major powers and key partners.

Following a consistent and principled policy on disarmament and international security issues based on the principles of supreme national interest, universality, non-discrimination and equal security for all.

It is a matter of satisfaction that the Government of India has since realized that national security has larger dimensions beyond its perception through the traditional prism of military security viz. maintenance of territorial integrity by defending against external attack or irredentism or internal revolt involving defence of the borders, protection of the airspace and sea-lanes. The need to proceed beyond these historical concerns of national security and compulsions of a bygone era is gaining greater recognition now in the security debate in India, although the fixation with Pakistan and China, in that order, persists in policy-making circles.

This obsession becomes clear from Prime Minister Vajpayee's letter to President Clinton after the nuclear tests in May 1998, which leaked to the press. In a circumlocutory manner it states that: "I have been deeply concerned at the deteriorating security environment, specially the nuclear environment, faced by India for some years past. We have an overt nuclear weapon state on our borders, a state which committed armed aggression against India in 1962. Although our relations with that country have improved in the last decade or so, an atmosphere of distrust persists mainly due to the unresolved border problem. To add to the distrust that country has materially helped another

neighbour of ours to become a covert nuclear weapons state. At the hands of this bitter neighbour we have suffered three aggressions in the last 50 years. And for the last 10 years we have been the victim of unremitting terrorism and militancy sponsored by it in several parts of the country, specially Punjab and Jammu & Kashmir". Different segments of the BJP Government have their personal anxieties in regard to China and Pakistan. Defence Minister, George Fernandes, is greatly concerned with China, whilst Ministers close to the RSS are obsessed with Pakistan. Of course, there are some others who have sought to urge that India's nuclear weapons are not meant to be country-specific but must possess an all-azimuth content to express India's global concerns with the slow progress of nuclear disarmament; this is unconvincing because the Government had vehemently argued that security imperatives impelled its nuclear tests and not considerations of prestige as alleged by its critics. These views are important to understand the present Government's national security perceptions, which is obsessively concerned with the nuclear dimension.

The draft nuclear doctrine unveiled in August 1999 specifies that India would establish nuclear forces to provide a "credible nuclear deterrent". These forces "will be based on a triad of aircraft, mobile land-based missiles and sea-based assets", to acquire an assured nuclear deterrent capability against China and Pakistan. Such a nuclear force would closely resemble that deployed by the five nuclear weapon powers, but its costs could add up to an impressive total. An effort was made by Foreign Minister Jaswant Singh to downplay the significance of the draft nuclear doctrine in a newspaper interview and suggest that it was only a discussion document; however, this denial has not carried much credibility, although it has added to the prevailing confusions in the country and abroad.

The direct costs of a nuclear force are difficult to compute; this has led to widely differing estimates being made. The Human Development Report for 1999 notes that, "...subsequent to the nuclear tests in May 1998, the Indian government declared an allocation of 9.9 billion dollars (Indian Rs. 412 bn) for defence from its 1998-9 budget, an increase of \$ 1.2 billion or 14 per cent in nominal terms over the previous year...new estimates for maintaining full-scale nuclear arsenals-including command and control with nuclear safeguards, training, and delivery systems-are expected to run (sic) India and Pakistan each, at a bare minimum, \$ 750 million per annum. Over a ten-year period, a projected \$ 15 billion may be spent by the two adversaries on the production and maintenance of these instruments of war".

There is a further dimension to this question. It was forcefully argued before the tests that the weaponization

of India's nuclear option would allow expenditure on its conventional forces to be reduced based on the thesis that nuclear deterrence subsumes conventional deterrence. This was seen during the Cold War in Europe when the non-nuclear members of NATO were able to keep their defence expenditures low whilst sheltering under the American nuclear umbrella. The contrary argument is that such a reduction in the costs of conventional forces was plainly illusory on doctrinal considerations. "Consequent to the deployment of nuclear forces, the necessity would arise to ensure that they would only be contemplated for use as a very last resort. Raising the nuclear threshold would, in turn, require the periodical modernization of conventional forces to ensure that deterrent patterns would remain in place against the adversary with upgraded conventional forces, and not require recourse to nuclear arms". This prognostication has unfortunately come true. The draft nuclear doctrine states that: "2.7. Highly effective conventional military capabilities shall be maintained to raise the threshold of outbreak both of conventional military conflict as well as that of threat or use of nuclear weapons; and 7.1. India should step up efforts in research and development to keep up with technological advances in this [nuclear weapons] field". The foregoing citation makes clear that, apart from the costs of a nuclear force premised on a triad of nuclear forces, the expenditure on conventional forces could also increase in an exponential fashion. The conclusion is clear. If India proceeds ahead with weaponizing and deploying its nuclear weapons there would be substantial direct and indirect costs involved, but this will not allow the costs of modernizing its conventional forces to be reduced.

Reverting to our primary theme of identifying the fuller dimensions of national security it is apparent that internal threats are cardinal to India's national security; intra-State conflicts are more frequent than inter-State conflicts; and the loss of life and property from terrorism, insurgency and sub-conventional conflict has been far greater than during all its conventional conflicts taken together. For instance the loss of life in the decade-long insurgency in Punjab, which concluded some years back, far exceeded that incurred by India in all the past four Indo-Pak conflicts taken together; insurgency has continued in Kashmir since 1989 and has taken an even higher toll of life. It has nevertheless been noted at the global level that: " In 1998 there were 27 major armed conflicts in 26 locations throughout the world. All but two-those between India and Pakistan and between Eritrea and Ethiopia-were internal". The definition of " major armed conflict" is: "Prolonged use of armed force between the military forces of two or more governments, or of one government and at least one organized armed group, incurring battle-related deaths of at least 1000 people during the entire conflict,

and in which the incompatibility concerns government and/or territory".

If a broader definition of national security were adopted to include human security, a different approach to defence expenditure would suggest itself. Poverty and deprivation obviously exacerbate the problems of human security; they could provoke social unrest in India no less certainly than visible threats to internal security. Indeed, poverty and deprivation have aggravated the incidence of social unrest, it has manifested itself in class wars based on caste and communal fragmentation. The need to provide adequate outlays for the social sectors of the economy consequently are clearly as important as making provisions for the armed forces.

The challenges to human security are evident from the dismal statistics relating to illiteracy, population growth, infant mortality, and women's empowerment in India; they highlight the people's lack of access to food, shelter, clean drinking water, basic health and educational facilities. Apropos, the Human Development Report for South Asia (1997) declaims that: " South Asia is fast emerging as the poorest, the most illiterate, the most malnourished, the least gender-sensitive-indeed, the most deprived region in the world. Yet it continues to make more investment in arms than in the education and health of its people".The evidence adduced informs that:

South Asia contains 22 per cent of the world's population, but it produces only 1.3 per cent of the world's income. There are more children out of school in South Asia than in the rest of the world, and two-thirds of this wasted generation is female.

Half the children in South Asia are underweight, compared to 30 per cent in sub-Saharan Africa.

South Asia is the only region that defies the global biological norm, with only 94 women for every 100 men (instead of 106 women to 100 men as in the rest of the world); so 74 million women are simply 'missing'. About 260 million people lack access to rudimentary health facilities; 337 million lack safe drinking water; over 400 million people go hungry every day.

A holistic view of national security, comprising both military and human security, would require their simultaneous recognition for administrative and budgetary purposes. There is no mechanism presently available with the Government of India to conduct this exercise. Still the National Agenda for Governance issued by the BJP Government had noted that: "We will establish a National Security Council to analyze the military, economic and political threats to the nation, also to continuously advise the government. This Council will undertake India's first ever Strategic Defence Review". The National Security Advisory Board constituted under the aegis of the National Security Council is believed to have submitted its draft

Strategic Defence Review to the Government, but its contents are not known at the time of this writing. It is unlikely, however, to have considered the problems of Indian national security in any composite manner, and taken into consideration the ends of human security. It is possible that this concept of budgeting is well ahead of its times.

Reducing the Military Expenditure: Devil's Advocacy

It would be useful at this stage to notice the arguments for an increase in military spending. These gain currency after every crisis, and are currently being strenuously promoted after the Kargil war revealed serious deficiencies in the equipment of Indian Army personnel deployed in these inhospitable heights. They include special equipment for utilisation in mountain warfare like lightweight jackets, rucksacks, tents, night vision devices, and similar low-cost equipment, which represents a failure of the system. That apart, the major reasons advanced for increasing military expenditure over the years have urged that:

No real increase had occurred in defence outlays after accounting for inflation;

Allocations for the Army had been marginally increased, but remained almost static for the Navy and Air Force; Capital outlay of around 30 % of the defence budget was insufficient to meet even priority modernization and re-equipment programmes; and Effects of the Pay Commission Report were not configured into the budget.

These reasons for increasing military expenditure subsume some generic problems afflicting the armed forces in India. They include the serious deficiency of spares and ancillary equipment to maintain ex-Soviet equipment. There is no real solution to this problem considering the confusion prevailing in Russia and the former Republics of the Soviet Union. This issue especially affects the Navy and Air Force, since they are equipment-intensive and possess over 70 % of ex-Soviet equipment; but also because ships and aircraft in these two Services have reached the end of their life-cycles and are becoming obsolescent. Lack of resources has led to the Defence Plan not being finalised for years since there was no assurance of funds. This is delaying the modernization and re-equipment programmes of the armed forces and has inspired the wry comment that "the real North-South divide is between the North Block [Finance Ministry] and South Block [Defence Ministry]".

The Manpower Issue

Another major reason for concern is the difficulty of getting high calibre young persons to join the armed forces as officers. The remedy suggested by the armed forces was to markedly improve the emoluments of officers and men to attract the best available talent.

This solution was accepted by the Fourth and Fifth Pay Commissions, resulting in the armed forces becoming a high wage island within the public services but without any noticeable improvement in recruitment figures. This parlous situation can be dramatised by noting that the annual planned intake by the three Army officer's training institutions is 1600, whilst the annual retirement is around 2000, leaving an unfilled gap of 400 each year, which is increasing the number of deficiencies. An identical situation obtains in the Navy and Air Force, where the accumulated shortfall was estimated some four years ago to be around 600 and 1500 officers respectively. It was also estimated that shortages in the ranks of captains and majors and their equivalents in the Navy and Air Force-which reflects the junior leadership of the armed forces-was as high as 12000; this deficiency was compounded by an estimated 3500 senior officers seeking voluntary retirement over the preceding four years.

The suggestion commonly made to remedy the officer situation is to dramatically improve promotion avenues within the armed forces. The logic advanced is that 97 % of armed forces' officers have a service life of only 18 to 24 years, and only 0.6 % reach the rank of Major General, which is equivalent to a Joint Secretary on the civil side. This is a singularly ill-conceived idea, and would only give birth to the same problem in the armed forces that currently afflicts the civil services, where a large number of senior posts have been created without any meaningful content, resulting in their incumbents marking time and becoming increasingly frustrated over the years. The command structure in the armed forces has perforce to remain narrow in the interests of effective line management. Apropos, the combined effect of the two Cadre Reviews undertaken in the eighties, ostensibly to streamline the administrative structure in the three Services, but in reality to improve career prospects, has distorted their hierarchy at the field and command levels. Deterioration in operational efficiency has occurred in consequence. Incidentally, several innovative recruitment schemes have been devised to improve the intake, including special entry schemes for recruiting women and personnel from within the Services, apart from lowering physical and academic standards for entrants to attract a fair share of the available talent. But the fact remains that there has been not much improvement in recruitment levels. This may, of course, reflect the disinclination of young persons to suffer the discomforts of life in the armed forces, which is in line with the global trend against military service and the physical dangers it unavoidably involves. This trend is unfortunate since weapon systems are becoming increasingly complex; this requires high caliber personnel to use and maintain them. Recruitment standards cannot therefore be continuously lowered

as a solution.

What needs greater thought, however, is the wisdom of increasing the strength of the armed forces over the years, whilst secular improvements were being made to their mobility and firepower. This is evident from the total Indian armed forces' strength revealed by the Military Balance published each year by the International Institute for Strategic Studies; 925,000 (1969-70); 956,000 (1974-75); 1,120,000 (1984-85); 1,265,000 (1994-95), and 1,173,000 in 1998-99. This shows a steady increase in manpower levels over the last thirty years; but a welcome realization recently that amelioration in the threat from China could permit a reduction in the strength of the Indian armed forces.

In theory, the United States believes that a radical decrease in manpower levels is only possible if "off-budget" compensatory measures are effected, like treaties being concluded to mitigate the military threat or an increase in the warning time for attack. The conclusion of an agreement (1993) with China to maintain peace and tranquility in border areas and another agreement (1996) to avoid the use of force and establish confidence building measures had improved relations between the two countries before India's nuclear tests intervened, preceded by the Defence Minister's designation of China as a major security threat. There are hints now of India-China relations improving, which could reassure India to contemplate a larger reduction of its forces facing China along the northern borders.

Further, a state of non-weaponized deterrence was established against Pakistan in the eighties; this had inhibited the eruption of hostilities despite several crises in Indo-Pak relations occurring during the intervening years. This state of non-weaponized deterrence became more transparent and Indo-Pak nuclear deterrence became firmly established after their nuclear tests. To illustrate, the Kargil war remained delimited in terms of time and space; this was largely due to the operations of nuclear deterrence, which inhibited the intensification or extension of the conflict by either side. The inhibition of large-scale conventional conflict on the pattern of past Indo-Pak wars, involving the extensive use of armour and combat aircraft, suggests a restructuring in the configuration and equipment patterns of the armed forces. A case can also be made for reducing their size in view of this altered future conflict scenario in the sub-continent.

Further, counter-insurgency and counter-terrorism operations have now become the staple of the Indian Army, despite its disinclination to perform such "aid-to-civil" functions, and only concern itself with "the higher end of the conflict spectrum" on the thesis that the Army is "the ultimate instrument of national power".³⁴ This is an arguable proposition, since the armed forces have always been associated with non-

military duties like the maintenance of law and order and essential services, besides assisting the civil administration during natural emergencies. The Army's involvement in counter-insurgency and counter-terrorism operations shows no signs of letting up; this has obvious implications for its future recruitment, training and equipment.

The middle path discovered by the Indian Army has been to raise the Rashtriya Rifles, a para-military force committed to counter-insurgency duties, which remains under the operational control of the Army. The logic informing this step is that "...militants today are not only equipped with more sophisticated weapons, equipment and communications systems, but are also well trained and organized ... [hence] the necessity of a para military force with the training and ethos of the Army was felt". With a force level of 36 battalions, the Rashtriya Rifles have a strength equivalent to around 15 % of the infantry corps. This has obvious implications for training and equipment that would impact on the defence budget. For that matter, the pattern of conventional conflict is changing as the Kargil war demonstrated. High altitude warfare in the moonscape of the Himalayas requires personnel to acquire the skills of a mountaineer in addition to fighting in arctic conditions. This need Special Forces trained and equipped for mountain warfare, which has its own budgetary implications.

Could a basic change be effected in the organization of the armed forces by manning the Services with a small body of professional and technically qualified personnel supporting a large volunteer force with shorter periods of recruitment? In other words, does India require two armies? One premised on the Rashtriya Rifles structure for counter-insurgency and counter-terrorism duties? And the other trained and equipped for conventional operations? Strengthening the counter-insurgency/counter-terrorism forces, but reducing the personnel trained and equipped for conventional conflict on the World War II pattern, would permit sizeable reductions in defence expenditure. The question whether the political will obtains to take such radical steps and challenge military conservatism is another matter; especially since the present BJP Government approves the pursuit of military strength and nuclear arms for ideological considerations.

The issue of restructuring and reducing manpower in the armed forces, especially in the Indian Army, is of cardinal importance to reducing military expenditure. Several ideas relating to the employment of Service personnel released after completing their stints in the armed forces have been discussed in a desultory fashion over the years. The Arun Singh Committee on Defence Expenditure went into this question and is believed to have made several useful suggestions; the

Government has not acted on them, nor has the Report been made public. This issue is included within the larger question of reforming the higher defence decision-making apparatus. This requires unavoidable steps being taken like merging the Ministry of Defence and Services Headquarters, drawing the Ministry of Finance closer into the decision-making processes, integrating common-user functions within the Services and so on. The reasons for this resistance are patent-vested interests would be affected by these reforms.

Reverting to the manpower issue there is scope for reducing its costs by pursuing the civilianising modality. The proportion of civilians in the three Services is highest in the Navy and lowest in the Army. Even allowing for Service particularities, a harder look at the job content of their various functions would suggest that non-uniformed personnel could perform some of them with equal efficiency. Atypically, large numbers of servicemen on general and logistics duties could be replaced by civilians, yielding considerable economies in manpower costs, since the emoluments and perquisites of civilians are roughly one-third that of service personnel.

Other Areas of Economy-Traditional and Non-traditional

There are many traditional and well-recognized areas of defence expenditure in India where economies are possible like scaling down the authorised holdings of tanks, heavy vehicles and other equipment in units; reducing the consumption of fuel, oil and lubricants by imposing quantitative restrictions; renovating the ordnance depots and effecting better inventory management in stores' holdings; effecting greater capacity utilisation in the ordnance factories and defence public sector undertakings, and so on. These areas for achieving economy in military expenditure are obviously of greater significance than cutting down costs on stationery, telephones, travelling allowances, office furniture and so on, to which governments are inclined when wishing to reduce State expenditure!

Indeed, a basic reform of the defence production sector is overdue, since it has long been recognized that their working is inefficient and manufacturing costs are prohibitive. For instance, it was computed that an ordnance factory had supplied a pair of socks for \$ 1.28 and a jersey for \$ 6.38 when they were available in the civil market for \$ 0.63 and \$ 3.10 respectively. A pair of binoculars that could be supplied by private industry for \$ 108 cost the defence public sector unit manufacturing them \$ 236. The scope for economy possible by purchasing them from the private sector can be appreciated from the fact that the total sales by ordnance factories and defence public sector undertakings in 1998-99 was Rs. 2155 crores and Rs. 2855 crores respectively.³⁸ Clearly, private industry

is advantaged in contrast to the public sector since it can take autonomous decisions on the product-mix, scale of investments, choice of technology, deployment of employees and so on, and work in line with commercial principles. Besides, not all segments of the defence production sector can be privatized without a total recasting of India's mixed economy in a capitalist direction. Appreciating the current phase of reform and genuflection being made by the Government towards the liberalization and globalisation of the economy, a greater privatization of defence production is possible; this is proceeding at a glacial pace. The appreciable savings in military expenditure that would result justify this process being hastened.

More generically, a partial solution to the high modernization and replacement costs of expensive weapon systems could be explored in two directions.

First, by recourse to force multipliers as, for instance, by improving surveillance capabilities; or exploring the refurbishment and retrofit option by upgrading weapons delivery systems and electronic suites in existing equipment. An informed opinion suggests that: " A strategy for achieving modernization that relies on force multipliers and retrofitting happens to suit the current Indian inventory and force structure...Because India has a number of relatively under-equipped, relatively modern platforms, it can achieve significant gains by means of weapons and sensor refits, refits that will be increasingly able to accomplish through indigenous technology".³⁹ Naturally, these options will not come cheap, but they will be far less expensive than procuring new weapon systems that are becoming exponentially costlier every year. Domestic R & D capabilities in the defence and civil sectors could be harnessed for this purpose.

Second, by adopting the high-low mix option. This envisages the acquisition of a small number of high-cost/ high-performance platforms and a large number of low-cost/ low-performance weapon systems to equip the armed forces. A three-tier equipment policy has also been suggested comprising a first tier (high technology items), second tier (upgraded or retrofitted items), and a third tier (equipment being phased out). This modality, too, has its merits; what it commends is the need for innovative thinking to modernize the armed forces, taking note of the inevitable constraints on budgetary resources.

Conclusions

The foregoing makes clear that there is scope for reducing military expenditure in India. But, it must be conceded that no radical economies could be effected unless basic structural reforms are effected in the higher decision-making apparatus and the present configuration of the Services. It would be tempting to answer the question posed in the title of this paper-can military

expenditure be reduced? -in the affirmative; but pragmatism suggests caution in making this assertion. It would be more accurate to state that military expenditure in India can be reduced if the political will is found to undertake these reforms; they are well

of revenue outlays-they include politically sensitive concessions like food, fertilizers, electricity and so on. They are virtually inflexible, but are constantly being augmented for gaining the support of sectoral interests. A similar inflexibility obtains in regard to yet another

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weaponize and deploy its nuclear arsenal. As argued earlier, proceeding thereafter to establish a Triad of nuclear weapons (aircraft-deliverable bombs, land-based missiles and submarine-based missiles) would greatly add to defence costs. Indeed, the draft nuclear doctrine, which envisaged the establishment of this Triad, also visualised that conventional military capabilities would simultaneously be improved. This is a sure-fire prescription for an arms race with China and Pakistan at the nuclear and conventional levels; this would also ensure that the sanctions imposed after the tests will remain in place and international financial assistance would become more difficult to obtain.

made by the Finance Commission.

Despite the possibility of India's nuclearization adding to military expenditure it could be asserted that defence expenditure would only creep along around present levels in the foreseeable future. The reason for this assessment is the general state of the national economy and the commitments made to outlays that cannot be reduced without political turmoil. The scope for taxation is limited to the services sector, and the budgetary deficit is obstinately hovering around 6.5 % of the GDP if the contribution of the States were added up. Outlays for defence, as noted earlier, amount to around 13 %. Subsidy charges, pertaining to the Centre, States and Public Sector Undertakings account for another 15 %

It requires to be emphasized that revenue expenditure, as computed above, exceeds revenue income. The balance is being met from capital revenues; hence the scope for making any large additions to military expenditure is circumscribed by these budgetary realities unless a political decision is taken to raise taxes and/or effect economies in administrative expenditure and/or reduce subsidies. These would meet great resistance in India since great disillusionment obtains with the workings of the public and civic services. It is improbable that the weak coalition governments, that India seems destined to have in the foreseeable future, would have the political strength to raise the defence budget in any radical manner.

The greater likelihood arises of military expenditure in India remaining around its present levels, and any major allocations to the defence budget being episodic as, for instance, to undertake some limited re-equipment of the Indian Army, or replace obsolescent weapon systems. The conundrum whether and when India would deploy its nuclear weapons is an area of some uncertainty; this could add dramatically to defence costs. India's friends and adversaries would, no doubt, watch how India proceeds in this regard with great interest.

(Courtesy: Regional Centre for Strategic Studies)

