

MILITARY EXPENDITURE IN THE LDC'S A CASE STUDY OF SRI LANKA

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The recent IMF Conference in Bangkok focussed on the need to reduce defence expenditure of LDC's to the current global average of 4.5% of the Gross Domestic Product. In 1972 Robert McNamara stated "human degradation is the most dangerous pollutant there is." In his paper delivered at the World Bank Annual Conference on Development Economics in Washington DC, in April 1991, **Robert S McNamara**, former President of the World Bank, stated "The huge savings that many countries could make by reducing their security expenditures to this level could be used to address pressing economic and social needs. Even though the applications of conditionality may be contentious, it is an essential part of the solution to the waste represented by excessive military spending in poor countries today." IMF Managing Director, **Michel Camdessus** spoke in July 1991 at the United Nations Economic and Social Council (UNESC) meeting in Geneva on the urgent need for necessary global savings in the year ahead and the need to fill the gap between investment and savings. He spelt out the importance of curtailing "unproductive spending" including military expenditure.

Between 1960 and 1988 military expenditure of the poor LDC's quintupled in real terms, that is twice the rate at which their GDP per head increased. In the decade ending in 1988, the LDC's spent US \$439 Billion on importing arms, which was more than three quarters of the World trade in weapons. Between 1984-1987, 22 countries with a combined population of 1.8 Billion spent more on defence than they invested in the education and the health of their people. An estimated 400 Million people have been killed in more than 125 wars in the Third World since 1945. The major arms

exporters are the USSR (US \$ 236 Billion), USA (US \$ 149 Billion), France (US \$ 43 Billion), UK (US \$ 23 Billion), Germany (US \$ 14 Billion), Poland (US \$ 13 Billion), Italy (US \$ 11 Billion) and Switzerland (US \$ 5 Billion). The major arms importers between 1969-1988 in the Third World were : Iraq (US \$ 61.1 Billion), Saudi Arabia (US \$ 37.2 Billion), Vietnam (US \$ 29.0 Billion), Syria (US \$ 27.9 Billion), Libya (US \$ 26.6 Billion), India (US \$ 21.7 Billion), Cuba (US \$ 15.3 Billion), Egypt (US \$ 15.8 Billion), Angola (US \$ 11.3 Billion), Afghanistan (US \$ 10.2 Billion), Algeria (US \$ 9.8 Billion), Ethiopia (US \$ 9.3 Billion), Taiwan (US \$ 8.1 Billion), South Korea (US \$ 7.6 Billion), Turkey (US \$ 7.1 Billion), Jordan (US \$ 6.2 Billion), Greece (US \$ 5.9 Billion), Pakistan (US \$ 5.1 Billion), South Yemen (US \$ 4.9 Billion), (Source: Ruth Leger Sivard: World Military and Social expenditure 1991 Samuel Rubin Foundation, New York).

The same study revealed that the World arm sales in 1991 was US \$ 880 Billion (in 1987 Dollar prices) and the world has 26,000,000 people in regular armed forces, 40,000,000 as military reserves 51,000 nuclear weapons in stockpile. There were in 1991, 66 countries in the business of peddling arms 64 governments under some form of military control. The global military expenditure was US \$ 21 Trillion (at 1987 dollar prices).

The total Military expenditure of the developing LDC's in 1988 was \$ 170 Billion - which was 3/4% of their combined GNP. Until recently, the massive military expenditure by various LDC dictators with a penchant for waging destructive mini wars, (of the taking the form of civil war against their own people) was

accepted as an unfortunate fact of life. Cold War rivalry made it easier for poor LDC governments to raise cheap loans to buy guns. This is now changing - due to two main factors -

- (a) the collapse of the Soviet Union and this the ending of the cold war;
- (b) the global shortage of capital.

The IMF estimates that repairing the damage caused by the Gulf War, financing economic reforms in the former Soviet Union and in Eastern Europe and easing the former Soviet Union's entry into the world economy could absorb US \$ 100 Billion. This is where Michel Camdessus of the IMF comment that "the problem of global saving is not so much one of scarcity as one of the World Bank, has also stressed the need for the LDC's to grab the peace dividend from the end of the Cold War while they can. As Robert S. McNamara said "Commonsense and some evidence - suggests that general purpose balance of payments or budgetary financing from abroad enables a government to spend more on the military than would otherwise be possible." The Independent Group on Financial flows to Developing Countries - a lobby group chaired by Helmut Schmidt, which includes former heads of government from Nigeria, Peru, Canada and South Korea has recommended that when loans and grants are allocated, special consideration should be given to countries that spend less than 2% of their GNP on security."

Such proposals are and well received in many developing countries. They argue that defence is not the business of the Bretton Woods Institutions. They also argue that already environment and human rights are being used as excuses by these institutions to reduce the transfer

of resources with LDCs. South East Asia is often used to illustrate the dangers of applying generalised limits to military spending.

Military Expenditure in 1990

	US \$ at 1985 Prices	% of GNP/ GDP
North Korea	5010	8.6
Pakistan	2800	7.2
Burma	200	6.1
Brunei	210	6.0
Sri Lanka	360	5.9
Taiwan	5300	5.4
Singapore	1310	5.1
South Korea	6640	4.4
Malaysia	1570	3.8
India	8510	3.2
Thailand	880	2.6
Philippines	900	2.1
China	5690	1.7
Bangladesh	250	1.5
Indonesia	1650	1.5

Source: International Institute of Strategic Studies/FEER (07.11.91)

Armed Forces for 1000 Population 1989

Afghanistan	3.7
Bangladesh	0.9
Pakistan	4.6
Sri Lanka	1.3
Burma	5.6
Cambodia	6.2
Indonesia	1.6
North Korea	49.6
South Korea	17.4
Taiwan	18.3
Laos	13.8
Thailand	5.2
Vietnam	16.0
Fiji	6.8
India	1.5
Nepal	1.9
Papua New Guinea	1.0
Brunei	15.5
China	2.8
Malaysia	7.7
Mongolia	10.2
Philippines	1.8
Singapore	20.9

The reasons for increasing defence expenditure is South Asian Countries have been:

- (a) Competition with neighbours;
- (b) the need to replace outdated weapons;
- (c) Territorial disputes have to be backed with military muscles;

(d) U.S. Security umbrella in Asia is shrinking.

Asian nations spend 3.1% of their GDP on an average on arms. The trend is upwards. Asia is the largest and the fastest growing market for arms. The average annual increase has been approximately 4% since 1980-1990's. India is the regional power and has not hesitated to bully its neighbours. She has problems with Pakistan, Sri Lanka, Nepal, Bhutan and Bangladesh. If all the countries in the region limit their defence expenditure to 4.5% of their GNP, the small countries in the region would probably be subjugated by India. Pakistan is often cited as a case study. Pakistan has a Foreign debt of US \$ 20 Billion. Yet her defence budget was 6.9% of the GDP in 1988 and in 1990 it went upto 7.2% of GDP which is almost three times the total expenditure on health and education. The main result of the arms race with India has been the neglect of other vital functions of the government. Islamabad defence expenditure is to increase by 12% to the US \$ 3.2 Billion in 1991. This is 27% of government revenue whilst debt servicing takes 43% of the budget.

India trimmed back its defence outlay in real terms to Rs. 163.5 Billion (US \$ 6.3 Billion) in 1991 from Rs. 157.5 Billion or 32% of GDP the previous year as part of the government's effort to curb excessive expenditure.

Japan has already announced that it will take into consideration defence expenditure when giving aid to LDC's. Washington too has adopted a similar attitude. USA spends 5.5% of it's GDP on defence. In 1990 Japan spent US \$ 5.5 Billion on aid to the region whereas the World Bank disbursement was only US \$ 3.7 Billion. China claims that its defence expenditure is only 1.7% of the GDP. This, however, ignores R & D expenditure on weapons in the published defence budgets. Analysts say that actually it is twice as much. Afghanistan, Burma, North Korea and Vietnam do not completely reveal their defence expenditures.

The London based International Institute for strategic studies says that North Korea, Burma, Pakistan, Sri Lanka, Taiwan, Singapore exceed the IMF limits with regard to defence expenditure Brunei did so in 1985. Afghanistan,

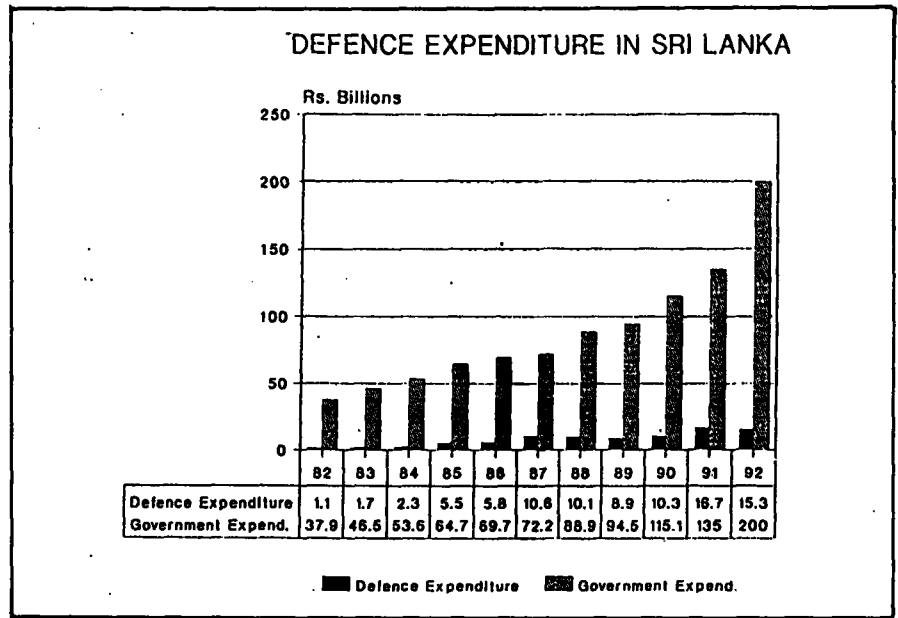
Cambodia, Laos, Mongolia and Vietnam also went above the 4.5% limit.

Military expenditure is often regarded as a form of economic development by many Asian countries. Roads and other socio-economic infra-structure are built by the army in countries like China and Indonesia and these items are part of the civilian budget. Most Asian countries hide information on the defence expenditure. In Thailand, there was a 13.5% increase in defence spending in 1991 to Bhat 68.7 Million (\$ 2.7 Billion) or 15% of the Thai Government's total revenue. The Thai military is pushing hard for extra budgetary provisions to cover additional purchases of tanks and a squadron of F-16 Fighters from the USA. Thailand is not alone. China, Burma, Pakistan, Taiwan and South Korea, also act in a similar manner. Burma's defence budget was US \$ 1.06 Billion in 1989-90 which was 1/3 to 1/2 of all government revenue. In India too, the defence chiefs are pushing for more funds to pay for their arms purchases. This includes productions of indigenously developed missiles, tanks and light fighter aircrafts, purchase of fighters, warships etc. from abroad. India is the third largest arms importer in the world. Singapore since 1970's has been spending 6% of GDP on defence. The Singaporean military expenditure was S. \$ 3.1 Billion (US \$ 1.8 Billion) in 1990. Singapore has bought latest US and European arms including combat aircrafts. The Philippines has also started purchasing arms. In August 1991 the Philippines Airforce ordered S-F 16 Fighters, counter insurgency aircraft, light attack jets/trainers. The Philippino Navy is in the process of acquiring fast patrol boats and corvettes. The defence expenditure of the North East Pacific Rim Asian countries has increased. High rates are evident in the 80's in Japan, South Korea. Taiwan has begun to reduce her defence expenditure. Japanese proposed defence expenditure in the 1991-1995 period shows a 3% annual growth rate as compared to 5% per year in 1980's. The East Asian Tigers have combined extremely rapid economic growth with military expenditure higher than the world average. Their governments regard military service as a useful way of inculcating a sense of loyalty and discipline in future workers. South Korea and Singapore have developed their own

defence industries with the help of military contractors from HDC countries.

The majority of the LDC's, any gains from military discipline are likely to be heavily outweighed by the costs. Military salaries which account for more than half of the third world's defence spending may be one way of redistributing income—an argument used by the Indonesian army. But there are better ways to achieve the same result. The scarce foreign resource of those countries are spent in economically unproductive manner on arms purchases.

Sri Lanka spent very little on defence country for many decades until the 1971 insurgency and the growth of the armed militant movements in the North East. But for the last two decades the defence expenditure has been on the rise.



Defence Expenditure in Sri Lanka

Year	Defence Exp. Rs. Billion	GDP Rs. Bln.	% of GDP	Total Govt. expenditure Rs. Bln.	1% of Govt. expenditure
1982	1.1	94.6	1.16	37.9	2.90
1983	1.7	114	1.49	46.5	3.65
1984	2.3	140	1.64	53.6	4.29
1985	5.5	148	3.72	64.7	8.50
1986	5.8	164	3.54	69.7	8.32
1987	10.6	178	5.95	72.2	14.68
1988	10.1	204	4.95	88.9	11.36
1989	8.9	228	3.90	94.5	9.42
1990	10.29	290	3.54	115.1	8.94
1991	16.7	304	5.49	135.0	12.37
1992	15.3	—	5.7(est)	—	20.0 (approx.)

Source: Estimates of the Government of Sri Lanka - Central Bank Annual Report.

When this defence expenditure is compared to the expenditure on health and education the emerging picture is very disturbing.

As a % of Total Government Expenditure

Year	Education	Health
1978	4.8%	3.7%
1986	5.1%	3.6%
1987	5.1%	3.3%
1988	4.5%	5.7%
1989	—	6.1%

In order to find the money for defence resources had to be diverted from economic development projects. The likely consequences of this trade off is a lower rate of economic growth. In this sense, excess military expenditure must be designated as "unproductive expenditure" and justification for the military must be based purely on realistic security needs.

