

**Defence Budget Based on GDP Ratio - Lowest in the World**  
**Colonel PK Vasudeva (Retd)\***

The Finance Minister, Mr Pranab Mukherjee has allocated defence outlay Rs 1,64,415 crore (about \$36 billion) for 2011-12 — 11.59 per cent over this year's Rs 1,47,344 crore (merely 3.9 per cent over the previous year 2009-10) on defence — 13 per cent of the entire country's budgetary outlay for the next financial year starting from April 1, 2011. A sum of Rs 69,199 crore, an increase of Rs 9,199 crore over the last years Rs 60,000 crore an increase of 15 per cent over the previous year has been earmarked as capital outlay for new acquisitions of weapons, planes, ships, equipment, naval dockyards and special classified projects. Neither the projection of growth of Defence expenditure — only at 8.3 per cent by the Thirteenth Finance Commission — nor his strenuous efforts in the pursuit of fiscal consolidation seems to have deterred him from being a pragmatist as far as Defence is concerned.

However, the most remarkable feature of this year's (2010-11) defence budget was that not only was the actual expenditure on purchase of equipment, or the capital outlay, exhausted, the three Services also spent more than they had been allotted.

On a more positive note, the budget will focus on vital aircrafts for the IAF and also helicopters for the Army. Out of the Rs 69,199 crore for new acquisitions, it appears that the budgeting exercise this time around is not merely a running account of the arithmetic of carrying forward the committed liabilities but a more realistic assessment of the needs, bearing in mind the major acquisitions in the pipeline [such as 126 Medium Multi-role Combat Aircraft (Rs 45,000 crore), C-17 Globemasters and Reconnaissance Surveillance Helicopters].

From the figures provided under the Revenue head, the performance of India's premier Defence equipment manufacturer — Ordnance Factories Board (OFB) — appears noteworthy. Unlike last year, when a budgetary support of Rs 246 crore was provided to the OFB, this year the allocation to OFB is Rs 1,176 crore. But an increase of merely 7.5 per cent for the Defence Research and Development Organisation (DRDO) at Rs 5,624 crore does not match the rhetoric of indigenous development in Defence Production Policy that was announced in January 2011. The increased allocation at Rs 64,251 crore for the Army and Rs 10,584 crore for the Navy (from Rs 57,326 crore and Rs 9,329 crore respectively in the previous year) appear generous compared to the Rs 15,927 crore granted to the Air Force (Rs 15,210 crore last year).

The other focus area is the Naval fleet. A sum of Rs 7,020 crore is set aside to pump in money for under construction ships like the sea-borne aircraft carrier, the stealth frigates and submarines. A sum of Rs 720 crore is allocated for naval dockyards, which, as per the stated policy of the ministry, are set to modernise and compete with global players in shipbuilding.

Despite the three Services spending the whole capital outlay for this financial year, for 2011-12, they have got only Rs 8,366 crore more than 2010-11 revised estimates. Earlier, several thousand crore rupees used to be returned to the central kitty every year because they could not be spent within time. This showed poor defence fund management.

China's defence spending is almost double that of India at \$ 78 billion. It is expected to announce a defence budget for 2011 later this week. Various experts have assessed China's defence spending at 7.5 per cent of its GDP.

China has already constructed airstrips, railways and broad roads in the difficult mountainous terrain up to the borders with India so that its forces remain within the striking distance to Indian strategic locations. China is also helping Pakistan defence forces in acquisition of the modern defence equipment and jet fighters for attaining air and marine superiority over India.

The defence expenditure of some of the important countries based on their GDP is given in the Table below.

**Table**

**Allocation of Defence Outlay of some Important Countries as per Percentage of their GDP**

| <b>Country</b> | <b>% GDP</b> |
|----------------|--------------|
| Oman           | 11.40        |
| Saudi Arabia   | 10.00        |
| Iraq           | 8.60         |
| China          | 7.50         |
| Israel         | 7.30         |
| Syria          | 5.90         |
| Pakistan       | 5.10         |
| United States  | 4.50         |
| Russia         | 3.90         |
| India          | 1.84         |

Interestingly, the share of India's defence spending out of its gross domestic product (GDP) has gone down. It now stands at 1.84 per cent of the GDP, down from 2.3 per cent this year which is of grave concern to the defence forces who are guarding the Country's frontiers under very difficult and hazardous environment.

Reckoned as a percentage of total Government expenditure, the Defence expenditure appears to be falling from 13.88 per cent in 2009-10 to 13.11 per cent but as a percentage of GDP it is mildly recovering from the drop at 2.12 per cent in 2010-11 to 2.18 per cent, despite the economy growing at close to nine per cent. Lowering of the share of the defence spending in GDP terms stems from the report of 13th Finance Commission. In its report in February last year the commission suggested "as a percentage of GDP, defence spending is to be progressively decreased to 1.76 per cent by 2014-15" which does not seem to be a sound recommendation considering the global security environment and India's security concerns. Budgeting generously for the Defence is not the flavour of the year across the world, so it seems. The UK is imposing a cut of 8 per cent, the USA is cutting \$78 billion over five years and even Russia, although suffering from an obsolete fighting machinery, has chalked out a slow-paced long haul plan extending till 2020 for rejuvenation of its conventional arms.

It is important to note from the above Table that both our adversaries are spending much more on their defence than India, which should be taken as a warning and to remain watchful of their future intent. We have to guard our frontiers with an extremely vigilant eye, lest we are caught unprepared like it happened in 1962.

Successive standing parliamentary committees on defence have recommended allocation to be raised to at least 3-3.5 per cent of the GDP if the Indian Armed Forces are to be rapidly modernised. In the past Prime Minister, Dr Manmohan Singh and Defence Minister AK Antony, on separate occasions, have pitched for a 3 per cent share of the GDP for defence. The GDP for the next fiscal has been projected at Rs 89,80,860 crore by the Finance Minister, Pranab Mukherjee.

India must therefore increase its defence outlay to 3 per cent of its GDP so that the Armed Forces remain well equipped with the latest modern equipment. However, we can make use of our industry to help overcome our immediate needs indigenously as it is capable of producing war equipment at a comparatively lower cost. Efforts should therefore be made to allocate more funds for the Defence Research and Development Organisation to produce defence equipment indigenously rather than depending heavily on imports.

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