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**EMERGING TRENDS IN MILITARY
EXPENDITURE OF INDIA AND CHINA:
IMPLICATIONS FOR MILITARY
MODERNISATION**



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**Manipal
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**Manipal Academy of Higher Education
Department of Geopolitics and International Relations**

**EMERGING TRENDS IN MILITARY
EXPENDITURE OF INDIA AND CHINA:
IMPLICATIONS FOR MILITARY
MODERNISATION**

**A Dissertation Submitted to the Department of Geopolitics and
International Relations in Partial Fulfilment for Master's Degree
in Geopolitics and International Relations**

Supervisor

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By

MAYANK SESHADRI CHARI

June 2021



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Date: 28/06/2021

DECLARATION

I declare that the dissertation entitled “**Emerging Trends in Military Expenditure of India and China: Implications for Military Modernisation**” submitted by me for the award of the degree of Master of Arts in Geopolitics and International Relations of Manipal Academy of Higher Education is my own work. The dissertation has not been submitted for any other degree of this University or any other University.

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CERTIFICATE

I recommend that this dissertation be placed before the examiners for evaluation.

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ABBREVIATIONS

| | |
|---------|--|
| A2AD | Anti-Access-Area Denial |
| AEW&C | Airborne Early Warning and Control |
| ASAT | Anti-Satellite |
| ASCM | Anti-ship Cruise Missiles |
| ASEAN | Association of Southeast Asian Nations |
| AVIC | Aviation Industry Corporation of China |
| BBIN | Bangladesh, Bhutan, India, Nepal |
| BEL | Bharat Electronics Limited |
| BEML | Bharat Earth Movers Limited |
| BIMSTEC | The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation |
| BRI | Belt and Road Initiative |
| BWC | Budgetary Work Committee |
| CAB | Current Account Balance |
| CAGR | Compound Annual Growth Rate |
| CCIMCD | Commission for Integrated Military and Civilian Development |
| CDS | Chief of Defence Staff |
| CETC | China Electronics Technology Group Corporation |
| CMC | Central Military Commission |
| CMD | Credible Minimum Deterrence |
| CoBRA | Commando Battalion for Resolute Action |
| CPEC | China-Pakistan Economic Corridor |
| CRPF | Central Reserve Police Force |
| DPEPP | Defence Production and Export Promotion Policy |
| DRDO | Defence Research and Development Organisation |
| FDI | Foreign Direct Investment |
| FEC | Finance and Economics Committee |
| FOIP | Free and Open Indo-Pacific |
| GAD | General Armament Department |
| GDP | Gross Domestic Product |
| GDSP | Ground Self Defence Force |
| GLBM | Ground-launched Ballistic Missile |
| GLCM | Ground-launched Cruise Missiles |

| | |
|---------------|---|
| GPS | Global Positioning System |
| IBG | Integrated Battle Group |
| IC | Indigenous Content |
| IMAC | Information Management and Analysis Centre |
| IMF | International Monetary Fund |
| INS | Indian Navy Ship |
| IOR | Indian Ocean Region |
| IORA | Indian Ocean Rim Association |
| IPOI | Indo-Pacific Oceans Initiative |
| LAC | Line of Actual Control |
| LMG | Light Machine Guns |
| LPG | Liberalisation, Privatisation and Globalisation (Reforms) |
| LTTE | Liberation Tigers of Tamil Elam |
| MCF | Military-Civil Fusion |
| NATGRID | National Intelligence Grid |
| NATO | North Atlantic Treaty Organisation |
| NFU | No-First Use |
| NORINCO | The China North Industries Group Corporation |
| NPC | The National People's Congress |
| OECD | Organisation for Economic Co-operation and Development |
| PLA | People's Liberation Army |
| PLAA | People's Liberation Army-Army |
| PLAAF | People's Liberation Army Air Force |
| PLAN | People's Liberation Army Navy |
| PLARF | People's Liberation Army Rocket Force |
| PLASSF | People's Liberation Army Strategic Support Force |
| PRC | People's Republic of China |
| PSU | Public Sector Undertakings |
| QSD & QUAD | Quadrilateral Security Dialogue |
| RAPID | Reorganized Army Plains Infantry Divisions |
| RBI | Reserve Bank of India |
| RSC | Regional Security Complex |
| SAGAR | Security and Growth for All in the Region |
| SAM | Surface-to-air Missiles |
| SCOD | Standing Committee on Defence |

| | |
|-------|--|
| SIPRI | Stockholm International Peace Research Institute |
| SLOC | Sea Lines of Communication |
| SLR | Self-Loading Rifle |
| SSBN | This refers to nuclear powered ballistic missile submarine |
| SSN | SS denotes a submarine and the N denotes nuclear power |
| TAR | Tibetan Autonomous Region |
| USD | United States Dollar |

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ABSTRACT

The dissertation on the theme ‘Emerging Trends in Military Expenditure of India and China: Implications for Military Modernisation’ is an attempt to assess and analyse the changing contours of military expenditure in India and China; its impact on the political, economic and strategic domains of the India-China bilateral relationship. What transpires in the bilateral between the two giant militaries and economies of Asia, in turn has implications for the regional security environment. The changing dynamic between India and China has led to greater avenues for cooperation and competition. With greater international focus on the Indo-Pacific region, the two countries have come to become major international players. As two nuclear powers that have considerable sway over international events, the potential for conflict between the two sides has become a major avenue of concern. Events such as the Dokhlam Stand-off and the Galwan valley clash, which allude to greater avenues of conflict, are a cause of considerable concern for the international community.

India and China have experienced considerable economic growth and this has translated to increased government budgets. As the two countries become centres of economic progress, they are set to play a bigger role in the international arena and the Indo-Pacific theatre. As far as military expenditure is concerned, the two countries have experienced a steady increase over the decades. This indicates a greater realisation of the fact that even though the economic relations between the two countries stand strong, due to geopolitical considerations, there shall always be a need to protect one’s assets. In the case of India, the last few years have heralded a greater realisation for bolstering defence related commitments. Especially since China and Pakistan have started to cooperate more on matters of trade, infrastructure, security and diplomacy. As a result, India too has moved closer to the United States, which has raised alarm for Beijing. In this game of international politics, there is a need for both countries to maintain parity in terms of ensuring favourable strategic outcomes. Hence, analysing military expenditures has become more important than ever.

The historical trends of military expenditure show that for the longest time, the two countries maintained similar levels of spending. However, Chinese military spending started to take a more decisive lead post the 1995 period; presumably due to the economic benefits it received as consequence of liberalising its economy prior to that of India. From a strategic perspective,

the two countries initially relied heavily on foreign sources of equipment procurement and man-power heavy armies. However, as technology has started to play a greater role in security operations, there has been a growing convergence in the policies adopted by the two countries. The two countries have decided to increase spending considering the urgent need to modernise in an efficient manner.

From a global perspective, the two countries have recently occupied the positions of the second and third highest military spenders behind the United States. Although discrepancies in China's budget make many commentators remark that it is likely to meet American spending levels before suggested by the publicly available data- India too has made significant policy decisions to maintain and increase spending efforts to gain strategic parity. There has also been a considerable effort on part of the two countries to increase naval modernisation and strengthen the ability of the two sides to patrol and securitize greater parts of the Indo-Pacific region. As International trade becomes vital for the growth of the two Asian giants' maritime chokepoints and ports become very important for the two countries to safeguard. Hence, the avenues for conflict have increased and require the two sides to gain greater insight into dealing with the threats posed by the other.

The practices for modernisation adopted for the two sides also indicate a growing similarity of trends. The two countries have tried to lay greater emphasis on indigenous defence production, reduce the number of serving personnel in support of reducing costs incurred on salaries and pensions and introduce theatre commands to bolster joint functioning of the armed forces. This clearly shows that the two sides have come to prefer envisaging future conflict as limited and highly technical over smaller yet equally important strategic objectives. Furthermore, there has to be a sincere effort on part of both the countries to limit the chances of conflict given the nuclear shadow and deep economic interdependence between the two countries. In such a complex geopolitical environment, the military strategies adopted by the two countries is bound to have vital insights about the future of the relationship based on the perceptions the two countries have about each other.

There are significant challenges ahead for both the countries in achieving their strategic goals. For India, the recent economic crisis caused due to the Covid-19 pandemic has become a tiresome reminder of the limits of government allocations given concerns of managing other areas of expenditure for 1.8 billion people. In the case of China, it is bad reputation and growing

conflict with the United States has made it tough for the country to procure technology transfers from Europe and other western countries. Furthermore, government underreporting of data and figures, accusations of military espionage and illicit acquisition of technological information has made it even harder for companies and countries alike to cooperate with China to promote military industrial growth. There are also other significant challenges that China faces. Diplomatically, the establishment of the Quadilateral security dialogue (QUAD) by the United States, Japan, Australia and India has led to the fears of an 'Asian NATO' in Beijing. However, diplomatic problems also exist for India as China gets more comfortable in the South Asian strategic atmosphere and builds relations with Nepal, Sri Lanka, Pakistan and Bangladesh.

India and China will continue to experience a complex relationship as the two countries work through their modernisation ambitions. The future of the Indo-Pacific rest on what the two countries will be able to achieve as two of the most dominant powers in Asia. This research study seeks to evaluate the bilateral relationship and the trends in military expenditures from theoretical, strategic, geopolitical and politico-economic perspectives. This has been done through gathering quantitative insights and implying them to qualitative arguments.