Delhi Policy Group

Advancing India's Rise as a Leading Power

POLICY BRIEF

Managing The Cost of India's National Security

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Cover Photographs:

Union Minister of Finance and Corporate Affairs Smt Nirmala Sitharaman, accompanied by Ministers of State for Finance and Senior Officials, departing from North Block in New Delhi to present the Union Budget 2023-24 on February 01, 2023. Source: PIB

Raksha Mantri Shri Rajnath Singh at INS Baaz, India's Southernmost Airport in the Andaman and Nicobar Islands on January 6, 2023. Source: MoD Photo Gallery

INS Mormugao, India's Newest Project 15B Destroyer Commissioned by Raksha Mantri Shri Rajnath Singh at Mumbai on December 18, 2022. Source: MoD Photo Gallery

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Managing The Cost of India's National Security

by

Lalit Kapur

The complexity of India's security environment is well recognised.

To the west, the festering Af-Pak hub of international terrorism demands constant management. Though Pakistan is currently preoccupied with its economic crisis and has its own disagreements with Afghanistan, India must remain on guard against state-sponsored terror.

To the east, the December 2022 border clash at Yangtse provides continuing evidence that China's attempts to change the status quo along the LAC pose a constant threat. India continues to emphasise the critical importance of peace and tranquillity along the border with China, but to prevent further salami-slicing, India has no option but to strengthen its own border management.

To the south lies the Indian Ocean, of which Prime Minister Narendra Modi had said, "India is at the crossroads of the Indian Ocean. ... We will be more dependent than before on the ocean and surrounding regions. We must also assume our responsibility to shape its future"[1]. A Chinese task force has been present off the Horn of Africa, in the Indian Ocean, continuously now since December 2008. Apart from its base at Djibouti, China is "considering Myanmar, Thailand, Singapore, Indonesia, Pakistan, Sri Lanka, United Arab Emirates, Kenya, Seychelles and Tanzania as potential military logistics facilities to allow it to project power into the Indian Ocean"[2]. The continued expansion of China's regional influence necessitates action by India to step up its own role in determining the region's future. Domestically in India, small-scale insurgencies and the terror threat continue to demand attention.

[1] Text of PM's Remarks on the Commissioning of Coast Ship Barracuda, March 12, 2015, https://www.pmindia.gov.in/en/news_updates/text-of-the-pms-remarks-on-the-commissioning-of-coast-ship-barracuda/

[2] US Department of Defense Military and Security Developments Involving the People's Republic of China 2022, P 144

It is in this prevailing environment that Finance Minister Nirmala Sitharaman presented the national budget on February 1, 2023, providing an opportunity to assess the priority assigned by the Modi government to its various security challenges and the resources needed to deal with them. So, let us examine what the FY 2023-24 budget provides for national and regional security.

India's nominal GDP for the purpose of Budget Estimates has been assumed by the Government to be Rs 3,01,75,065 crores ($ 3.67 trillion)[3]. The budget seeks approval of Parliament to spend Rs 45,03,097.45 crores (about $ 547.88 billion)[4]. GOI expenditure is thus about 14.9% of the GDP. Of this, Rs 35,02,136.44 crores ($426.097 billion) is on the revenue account and the balance Rs 10,00,961.01 crores ($ 121.785 billion) is on the capital account. The major consumers of government spending are tabulated below.

Table 1: Major Consumers of Government Spending

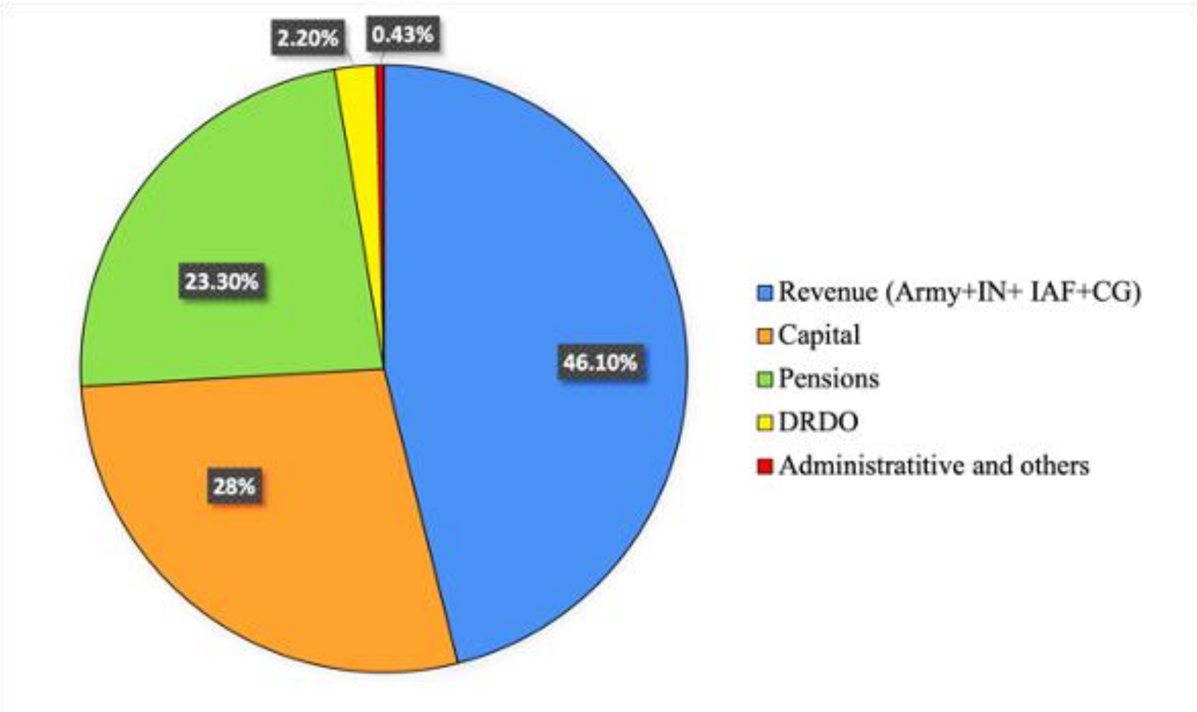
Ministry	Allocation (Rs Crores)	Percentage of GDP	Percentage of GOI Spending
Finance (Interest pay-out)	16,89,719.17 (10,79,971.0)	5.6 (3.6)	37.7 (24.0)
Defence	5,93,537.64 (US $ 72.2 billion)[5]	1.97	13.18
Road Transport & Highways	2,70,434.71	0.9	6.0
Railways	2,41,287.61	0.89	5.35
Consumer Affairs, Food and Public Distribution	2,05,764.80	0.68	4.57
Home Affairs	1,96,034.94 (US $ 23.85 billion)	0.65	4.35
Chemicals and Fertiliser	1,78,477.21	0.59	3.96
Rural Development	1,59,964.23	0.53	3.55
Agriculture and Farmers' Welfare	1,25,035.79	0.42	2.78
Communications	1,23,393.05	0.41	2.74
Education	1,12,899.47	0.37	2.51
Jal Shakti	97,277.67	0.32	2.16
Ministry of External Affairs	18,050.00 (US $ 2.2 billion)	0.06	0.40
40 other ministries; Departments of Space and	5,09,271.16	1.69	11.31

[3] Budget at a Glance, https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag1.pdf
[4] All figures cited have been drawn from Government of India Expenditure Budget 2023-24 published by the Ministry of Finance, Budget Division on February 1, 2023. All conversion from INR to USD is based on the rate of exchange at the time of writing, 1 USD = INR 82.19
[5] US $ 1= Rs 82.19

Ministry	Allocation (Rs Crores)	Percentage of GDP	Percentage of GOI Spending
Atomic Energy; and President, Parliament, UPSC and Vice-President's Secretariat			

Defence Expenditure is budgeted at Rs 5,93,537.64 crores. ($72.2 billion). Defence spending covers four broad areas – establishment and other costs, revenue, capital and pensions. Revenue expenditure of the three Armed Forces and the Coast Guard is budgeted at Rs 273,781.61 crores (46.1% of the Defence budget). Their capital spending is projected to be Rs 166,136 crores (28%). Pensions account for Rs 138,205 crores (23.3%). DRDO gets Rs 12850 crores (2.2%). The balance Rs 2565.03 crores goes towards establishment and other costs.

Figure: The Defence Pie, Budget 2023-24.

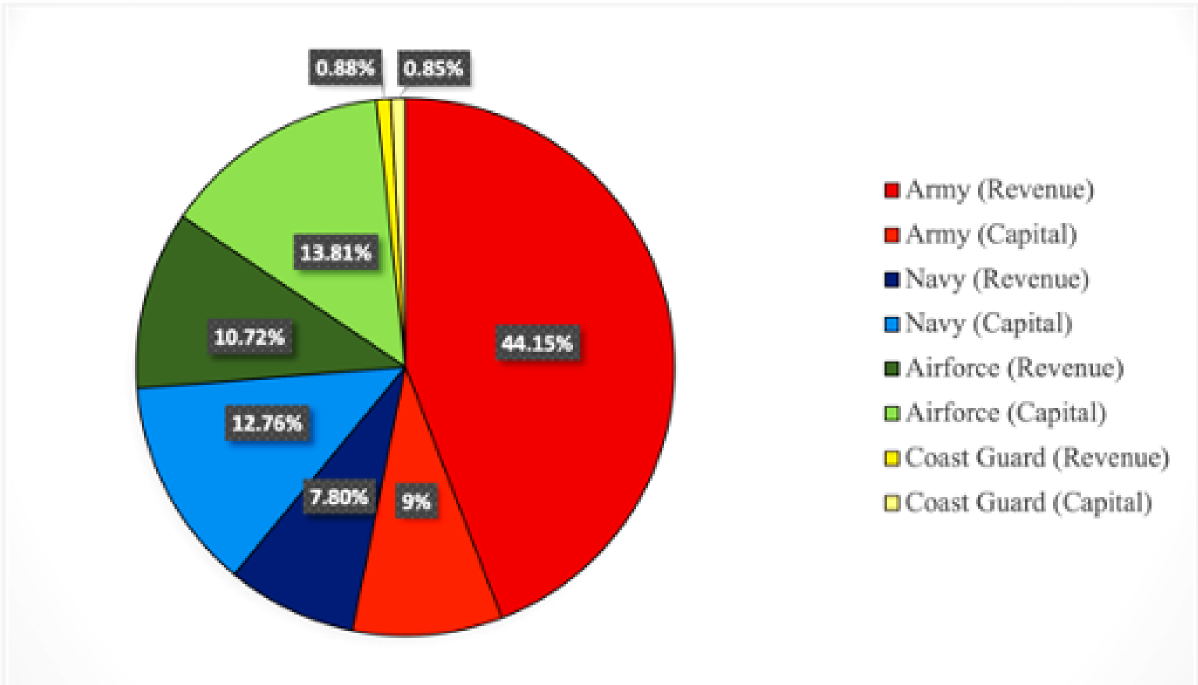


Source and Graphic: DPG Research.

The total allocation for the three Armed Forces and the Indian Coast Guard is Rs 4,13,660.6 crores (69.7% of the Defence Budget). The Indian Army receives Rs 2,19,891.15 crores, 53.1% of the allocation for the uniformed services and 37% of the defence pie, as compared to the allocation of Rs

196,913.03 crores in BE 2022-23 (37.5% of the defence pie). The Indian Navy has been provided Rs 85,088.95 crores (20.6% of the allocation for the uniformed services, 15.2% of the defence budget), as compared to Rs 47,590.99 crores (13.9% of the defence pie) in BE 2022-23. The Indian Air Force gets Rs 1,01,482.67 crores (24.5% of the allotment to the uniformed services, 17.1% of the defence budget), as compared to Rs 88,460.11 crores (16.8% of the defence budget) for BE 2022-23. The Indian Coast Guard receives Rs 7,197.47 crores (1.7% of the allocation for uniformed services, 1.2% of the defence pie), as compared to Rs 7,310.29 crores (1.4% of the defence pie) for BE 2022-23.

Figure: Budget Share of Uniformed Services



Source and Graphic: DPG Research

83% of the Army's expenditure goes into the revenue head, leaving only 17% for the capital account. The corresponding figures for the Navy are 35.8% revenue, 64.2% capital. The Air Force budget provides 43.7% for revenue expenditure and 56.3% for capital. The Coast Guard is allotted 50.9% towards revenue expenditure, 49.1% for capital.

Pay and allowances for the Army add up to Rs 118889.05 crores, or 65.1% of the Army's revenue budget. For the Navy, the corresponding figure is Rs 12,774.66 crores, 39.6% of the Navy's revenue budget. The Air Force will spend Rs 22,795.18 crores on pay and allowances, about 51.4% of its revenue budget.

Much has been made of the increase in defence allocations as compared to last year[6], including the increase in capital allocations[7]. These are certainly welcome. However, the reality is that revenue allocations for the Armed Forces taken together are only 4.1% above the Revised Estimates for FY 2022-23. Capital allocations are somewhat better, 8.4% above the Revised Estimates for FY 2022-23. Given the combined effect of rupee depreciation and inflation, whether there is an increase in real terms is questionable.

Budget 2023-24 provides Rs 18,050 crores (about $ 2.2 billion, 0.4% of government spending) to the Ministry of External Affairs. Of this, Rs 16,529.79 crores is on the revenue account and Rs 1,520.51 crores for capital expenditure. The figure is Rs 800 crores (4.6%) above Rs 17,250 crores budgeted the previous year. It constitutes 0.4% of Government spending and 0.06% of GDP. Within this, Rs 5,408.37 crores ($ 657.9 million, or about 30% of the MEA budget) is earmarked for aid to other countries. The major chunk goes to Bhutan (Rs 2,400.58 crores) and Nepal (Rs 550 crores). Rs 460.79 crores are earmarked for Mauritius, Rs 400 crores each for the Maldives and Myanmar, Rs 200 crores each for Afghanistan and Bangladesh, and Rs 150 crores for Sri Lanka. The allocation of Rs 100 crores for the Chabahar port in Iran is noteworthy. The necessity of increasing India's aid to regional countries, including neighbours, is self-evident.

The allocation for the Home Ministry, charged with domestic security, is Rs 1,96,034.94 crores ($ 23.85 billion, 4.3% of government spending), including Rs 1,78,016.78 crores on the revenue account. Of this, Rs 1,27,756.74 crores (2.8% of Government expenditure) is earmarked for the Police. The balance is for transfer to Union Territories.

India has thus budgeted spending a total of Rs 807622.44 crores (17.9% of Government spending, 2.7% of GDP) on the ministries responsible for national security (Defence, Home Affairs and External Affairs). This may appear meagre, especially considering India's difficult security environment.

[6] Defence gets Rs 5.94 lakh crore in Budget 2023-24, a jump of 13% over previous year, https://pib.gov.in/PressReleasePage.aspx?PRID=1895472
[7] Ibid.

However, as a perusal of Table 1 indicates, allocations for just the Finance and Defence ministries consume more than half of government spending. A large part of the spending of the Finance Ministry is on account of interest costs and transfers to states. Room for meaningful reductions in the budgets of other ministries would appear to be limited.

What can India's security managers do to optimise 'bang for the buck', given the multiplicity of challenges and the fact that additional financial resources are unlikely to be forthcoming? First is the need to bring about an equitable balance between manpower, operating expenses and capability building. The Indian Navy will spend 15.01% of its total allocation on manpower, 62.06% for capability enhancement and the balance 22.93% on operating expenses, including revenue and capital expenses for the Joint Staff. The Indian Air Force will spend 22.46% of its allocation on manpower, 56.3% for capability enhancement and the balance 21.24% for operational expenses. The Army, however, will spend 54.07% of its total allocation on manpower, 17% for capability enhancement and the balance 28.93% for operating expenses. This disconnect in the spending pattern is to a large extent because unlike the Army which is manpower intensive, the Navy and Air Force are both platform-based services and thus technology intensive. However, taken as a whole, the Indian Armed Forces will spend Rs 292613.89 crores, 49.3% of the overall defence budget on manpower costs, including pensions.

This disproportionate expenditure on manpower is not sustainable in the modern environment. Solutions must be found to right-size the Services and divert expenditure from manpower to capability enhancement. One possible solution, the Agniveer concept, has been adopted despite attracting public opposition. Ways will have to be found to make it work and to adopt other solutions, particularly for the Indian Army.

The second action will have to be to ramp up India's indigenous capability. The Navy's capital budget of Rs 37241.54 crores (about $ 4.53 billion) would not have sufficed to buy even one French Charles de Gaulle class aircraft carrier of comparable size (the reported cost at 2001 prices was **€** 3 billion), that too without its complement of aircraft, if it had remained dependent on foreign shipyards. Alternately, it would buy 0.9 British Vanguard class

SSBNs, or three Daring class destroyers. The foresight of past generations of the Indian Navy's leadership has enabled India to design and build almost all its ships (and submarines) in domestic shipyards at affordable costs. The Navy has also made considerable progress in indigenisation of its weapons and equipment, enabling the maintenance of a far larger (and more capable) fleet than would have been possible if it had to buy its platforms from foreign vendors.

The Army and Air Force must follow suit. The current thrust for an 'Aatmanirbhar Bharat' is thus the right direction. It will, however, have to be followed through rigorously to ensure it is not derailed by vested interests or poor delivery of results.

The need for the timely delivery of results by both the DRDO and the Defence Industry, especially in light of the increasing resort to coercive strategies in Asia, cannot be overemphasised. India's Army Chief has acknowledged that as of now, 45% of the Army's current equipment is vintage, 41% of current technology and only 12-15% state-of-the-art. His objective is that by 2030, 45% of the equipment should be state-of-the-art and 35% current technology, reducing stock of vintage equipment to 20% or below[8]. Whether this objective is achievable or not will depend to a large extent on how resolutely the Army supports indigenisation, defence industry delivers on targets set for it and the Ministry of Finance ensures predictable availability of funds.

The predictability of finances remains a grey area and is a matter of concern. The Parliamentary Standing Committee on Defence had in 2017 recommended the creation of a non-lapsable capital fund account (for the Armed Forces)[9]. Four years later, the Fifteenth Finance Commission recommended setting up a non-lapsable Modernisation Fund for Defence and Internal Security[10]. The Finance Minister was reported as having agreed

[8] Stiff target for weapons upgrade, https://www.tribuneindia.com/news/features/stiff-target-for-weapons-upgrade-476830

[9] Standing Committee Report Summary, Creation of a Non-lapsable Capital Fund Account, https://prsindia.org/files/policy/policy_committee_reports/Report%20Summary%20-%20Creation%20of%20Non-lapsable%20Capital%20Fund%20Account.pdf

[10] The Report of the Fifteenth Finance Commission, https://pib.gov.in/PressReleseDetail.aspx?PRID=1693868#:~:text=The%20Union%20Government%20may%20constitute,2%2C38%2C354%20crore.

to it in principle[11]. That the fund is not yet in existence speaks of "business as usual" interests finding a way to put this commitment on the back burner[12].

The reality is that for effective defence capability, the whole team, comprising the Armed Forces, the DRDO, defence industry and the civil administration must pull together. The task of optimising defence spending cannot be left to the Armed Forces alone. Managing the inevitable differences of opinion and marginalising vested interests so as to maximise India's deterrent capability is a task that ultimately rests with the Defence Minister. How effectively he can deliver on this will, to a large extent, determine how well equipped the Indian Armed Forces are likely to be to meet their current and future challenges.

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[11] Agreed to 15th Finance Commission's suggestion on non-lapsable Defence Fund: Finance Minister, https://www.moneycontrol.com/news/business/budget/government-okays-15th-finance-commissions-proposal-for-non-lapsable-defence-fund-6505991.html

[12] Finance Ministry eyes new ways to boost non-lapsable defence fund, https://www.business-standard.com/article/economy-policy/finance-ministry-eyes-new-ways-to-boost-non-lapsable-defence-fund-122020700004_1.html

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