



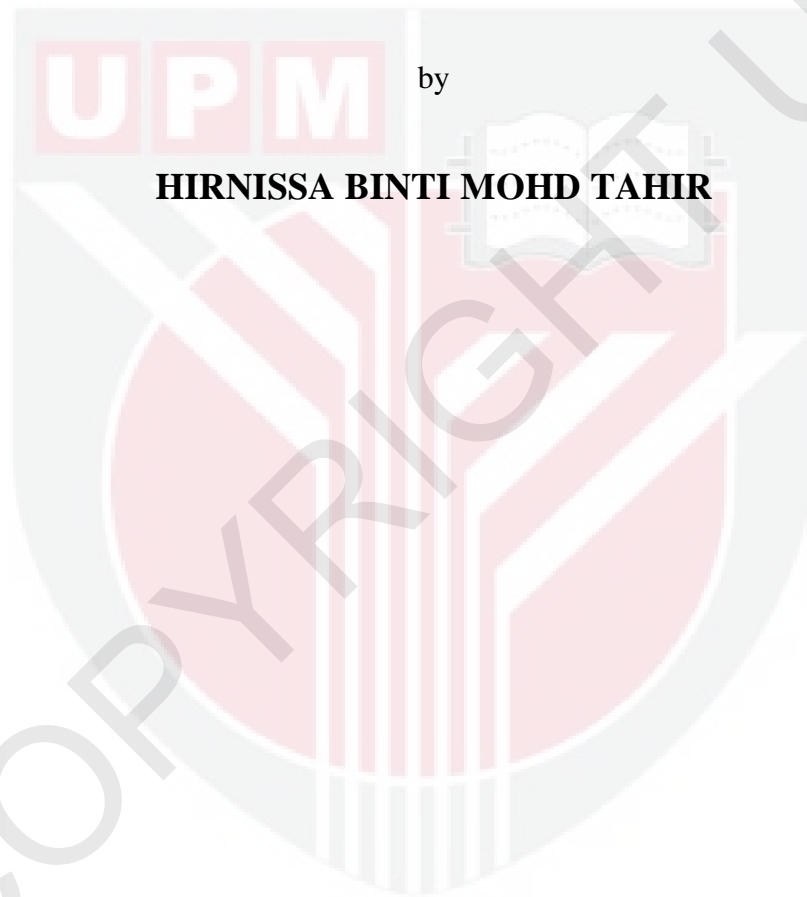
UNIVERSITI PUTRA MALAYSIA

***EFFECTS OF MILITARY EXPENDITURE ON ECONOMIC
GROWTH AND INVESTMENT IN SELECTED COUNTRIES***

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**EFFECTS OF MILITARY EXPENDITURE ON ECONOMIC
GROWTH AND INVESTMENT IN SELECTED COUNTRIES**



by

HIRNISSA BINTI MOHD TAHIR

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in
Fulfillment of the Requirement for the Degree of Doctor of Philosophy**

May 2012

DEDICATION

This work is dedicated,

To my beloved husband Rizman b. A. Lateff and my daughter Nur Aina Humaira, not forgetting my ever supporting parents Mohd Tahir b. Doon and Rosinah bt Saad.....

“It would not be possible...without your support....”.

Abstract of the thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of requirement for the degree of Doctor of Philosophy

EFFECTS OF MILITARY EXPENDITURE ON ECONOMIC GROWTH AND INVESTMENT IN SELECTED COUNTRIES

By

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May 2012

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The objective of this study is investigate the relationship between military expenditure, economic growth and investment in a global perspective covering 86 selected countries, which comprises OECD and developing countries for the period 1989 to 2006. The main objective in this study is to determine the impact of military expenditure on economic growth as well as the impact of economic growth on military expenditure, while the second objective is to determine the factors affecting the demand for military expenditure, and the third objective is to determine the impacts of military expenditure on investment.

To achieve these objectives, we employed the Generalized Method of Moment (GMM) estimator popularized by Arellano and Bond (1991), and Blundell and Bond (1998). For this purpose, we used macroeconomic and institutional variables such as population, openness, trade balance, government expenditure, gross domestic product per capita, foreign direct investment, lending rate, polity, international warfare and regional societal as explanatory variable. Our result suggests that military expenditure has negative impact on growth, while economic growth has positive impact on military expenditure. Our result also suggests that income level, openness, trade balance, polity and regional and civil disturbance are important determinants for military expenditure.

Finally our results further suggest that military expenditure, foreign direct investment, lending rate, openness and regional disturbance are important determinants for investment expenditure. As conclusions this study indicate that spending on military is unproductive venture because do not contribute to economic growth, while income does has an impact on the level of military expenditure. Lessons that could be learned by policy makers is that they could cautiously plan the national budget in order not to overspend on military expenditure and depriving other productive sectors such as education and health.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

KESAN PERBELANJAAN KETENTERAAN KEATAS PERTUMBUHAN EKONOMI DAN PELABURAN DI NEGARA – NEGARA YANG TERPILIH

Oleh

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Objektif kajian ini adalah untuk menyiasat hubungan antara perbelanjaan ketenteraan, pertumbuhan ekonomi dan pelaburan dalam perspektif global yang merangkumi 86 negara termasuk OECD dan negara-negara sedang membangun untuk tempoh 1989 hingga 2006. Objektif utama kajian ini ialah untuk menentukan kesan perbelanjaan ketenteraan terhadap pertumbuhan ekonomi serta kesan pertumbuhan ekonomi terhadap perbelanjaan ketenteraan, sementara objektif kedua kajian untuk menentukan faktor – faktor yang mempengaruhi permintaan untuk perbelanjaan ketenteraan, dan objektif ketiga ialah untuk menentukan impak perbelanjaan ketenteraan terhadap pelaburan.

Untuk mencapai ketiga-tiga objektif, penganggar “Generalized Method of Moment (GMM)” yang dipopularkan oleh Arellano dan Bond (1991), dan Blundell dan Bond (1998) telah digunakan dalam kajian ini. Menggunakan kaedah ini, pembolehubah makroekonomi dan institusional seperti jumlah penduduk, keterbukaan ekonomi, imbalan perdagangan, perbelanjaan kerajaan, keluaran dalam negara kasar per kapita, pelaburan langsung asing, kadar pinjaman, tatanegara, peperangan antarabangsa dan kedaerahan kemasyarakatan telah digunakan sebagai pembolehubah – pembolehubah bebas. Hasil kajian mencadangkan bahawa perbelanjaan ketenteraan mempunyai impak negatif terhadap pertumbuhan ekonomi dan sebaliknya, pertumbuhan ekonomi mempunyai kesan positif terhadap perbelanjaan ketenteraan. Hasil kajian juga mendapati bahawa tingkat pendapatan, keterbukaan ekonomi, imbalan perdagangan, tatanegara dan kedaerahan kemasyarakatan adalah penentu – penentu penting mempengaruhi perbelanjaan ketenteraan.

Akhir sekali, hasil kajian seterusnya mendapati bahawa perbelanjaan ketenteraan per kapita, pelaburan langsung asing, kadar pinjaman, keterbukaan ekonomi dan kedaerahan kemasyarakatan merupakan penentu - penentu yang penting mempengaruhi perbelanjaan pelaburan. Kesimpulan, kajian ini menunjukkan bahawa berbelanja untuk ketenteraan adalah usaha yang tidak produktif kerana ia tidak menyumbangkan kepada pertumbuhan ekonomi, manakala, tingkat pendapatan menyumbang terhadap tingkat perbelanjaan ketenteraan. Pengajaran yang dapat dipelajari oleh pembuat - pembuat dasar adalah mereka boleh berhati –hati dalam merancang perbelanjaan negara dengan lebih teratur

untuk tidak berbelanja berlebihan dalam perbelanjaan ketenteraan dan menghalang sektor produktif lain seperti pendidikan dan kesihatan.



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I certify that an Examination Committee has met on 10th of May 2012 to conduct the final Examination of Hirnissa Bt Mohd Tahir on his Doctor of Philosophy thesis entitled “International Evidence On The Effect Of Military Expenditure On Economic Growth And Investment” in accordance with Universities and College Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U. (A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, or is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institutions.



HIRNISSA BT MOHD TAHIR

Date : 10th May 2012

TABLE OF CONTENTS

	Page
DEDICATION	ii
ABSTRACT	iii
ABSTRAK	v
ACKNOWLEDGEMENTS	viii
APPROVAL	ix
DECLARATION	xi
LIST OF TABLES	xivi
LIST OF FIGURES	xvi
ABBREVIATION	xviii
CHAPTER	
1 INTRODUCTION	
1.1 Background	1
1.2 Some Stylist Facts on the Global Trend of Military Expenditure	3
1.3 Military Expenditure and Economic Growth	12
1.4 Military Expenditure and Income level	17
1.5 The Demand for Military Expenditure	21
1.6 Military Expenditure and Investment	22
1.6.1 The Trends of Military Expenditure and Investment in Regional Countries	23
1.7 Statement of the Problem	31
1.8 Objective of the Study	33
1.9 Significance of the Study	34
1.10 Organization of the Study	35
2 LITERATURE REVIEW	
2.1 Introduction	36
2.2 Military Expenditure - Growth Nexus	37
2.3 Demand for Military Expenditure	47
2.4 Military Expenditure, Growth and Investment	52
2.5 Others Study on Military Expenditure	56

3 **METHODOLOGY**

3.1	Introduction	59
3.2	Theoretical Framework	59
3.2.1	The Feder-Ram Model	59
3.2.2	The Augmented Solow Model	61
3.3	The Estimating Models	63
3.3.1	Military Expenditure and Economic Growth	63
3.3.2	Determinant of Military Expenditure	66
3.3.3	Investment and Military Expenditure	72
3.4	Method of Estimation	74
3.4.1	Dynamic Panel General Method of Moments (GMM)	75
3.5	Data and Sources	79

4 **RESULTS AND DISCUSSIONS**

4.1	Introduction	81
4.2	Estimation of Linkage between Military Expenditure and Economic Growth	82
4.2.1	Results of Granger Causality Test (All Country)	85
4.2.2	Results of Granger Causality Test (OECD Countries)	86
4.2.3	Results of Granger Causality Test (Developing Countries)	87
4.3	The Results of Factors Affecting Military Expenditure	88
4.3.1	Results of Factors Affecting Military Expenditure (All Country)	91
4.3.2	Results of Factors Affecting Military Expenditure for OECD Countries	92
4.3.3	Results of Factors Affecting Military Expenditure for Developing Countries	93
4.4	The Results of Factors Affecting Investment Expenditure	94
4.4.1	Results of Factors Affecting Investment Expenditure	96
4.4.2	Results of Factors Affecting Investment Expenditure for OECD Countries	97
4.4.3	Results of Factors Affecting Investment Expenditure for Developing Countries	98

5 **CONCLUSIONS**

5.1	Conclusion	99
5.2	Policy Implications	106
5.3	Limitation of the Study	107
5.4	Suggesting for Future Study	108

REFERENCES	109
APPENDICES	115
RESEARCH AND PUBLICATION ACTIVITIES	116
BIODATA OF STUDENT	118

