UNIVERSITI PUTRA MALAYSIA

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

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FEP 2012 2
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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

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Chairman: Professor Muzafar Shah Habibullah, PhD

Faculty: Economics and Management

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.

Akhir sekali, hasil kajian seterusnya mendapati bahawa perbelanjaan ketenteraan per kapita, pelaburan langsung asing, kadar pinjaman, keterbukaan ekonomi dan kedaerahan kemasrakatan 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.
ACKNOWLEDGEMENTS

First and foremost, I would like to take this opportunity to thank God Almighty for making all these possible. I would like to convey my highest appreciation to my supervisor Prof. Dr. Muzafar Shah Habibullah. He had been the pillar of my strength; it just wouldn’t be possible without him. He devoted his time, patiently guiding through, never short of valuable suggestions. Sometimes he even goes beyond that with his brotherly gestures. In short, he had given tremendous support throughout the period of the study, not forgetting his consistent guidance and advice. My sincere gratitude also goes to my supervisory committee members, Dr. Zaleha Mohd Noor and Dr. Lee Chin, many thanks to their suggestions, views and comments at various stages of the study, not forgetting their patience.

Special thanks also go to all my mentors and friends especially, Associate Prof. Dr. Alias Radam, (UPM), Jaharudin Padli (UPM student), Baharom Abdul Hamid (Taylors University) and many more, who had always encouraged me to endure this difficult task, given me their warmest helps along my path to graduation, and accompanying me during my most difficult time and happiest hours in the campus.

Last but not least, my ever supporting parents, Mohd Tahir Doon and Rosinah Saad, my beloved husband, Rizman A. Lateff, who endured and sacrificed a lot to make this dream possible, my beautiful daughter, Nur Aina Humaira Rizman.
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.

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HIRNISSA BT MOHD TAHIR

Date : 10th May 2012
TABLE OF CONTENTS

DEDICATION  ii
ABSTRACT   iii
ABSTRAK    v
ACKNOWLEDGEMENTS vi
APPROVAL   viii
DECLARATION xi
LIST OF TABLES xiv
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
# 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

# RESULTS AND DISCUSSIONS

4.1 Introduction ...................................... 81
4.2 Estimation of Linkage between Military Expenditure and Economic Growth
   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

# CONCLUSIONS

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

xiii