

# Global military expense rise may hit trade

The geopolitical tensions are forcing many governments to shift the priorities in allocation of resources towards better military preparedness. This can lead to lower allocations for other purposes bringing down the consumption and investment levels globally, impacting the production and global trade in non-military goods in the short and medium term.

Since Russia invaded Ukraine six months back, many European countries have felt the need to not rely solely on the security cover that the United States offers through the North Atlantic Treaty Organisation (NATO). Germany, in particular, and many other countries in Europe have decided to spend more on their own defense and also contribute more to financing NATO. They are also burdened with the task of helping Ukraine in its war efforts and cope with the economic devastation the war has caused

at home and in Ukraine. In addition, they have to help the refugees from Ukraine. In Asia, the belligerence of China towards Taiwan and other neighbours has forced Japan, South Korea,



## EXIM MATTERS

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India, Australia and even some other smaller countries to strengthen their military alliances and spend more on their defense preparedness. Last week Taiwan increased its defense budget by 14% and Russia decided to increase the

strength of its military personnel by 137,000.

Even before Russia attacked Ukraine in February this year, the major powers had started increasing their mil-

itary spending. The Stockholm International Peace Research Institute (SIPRI) said in April this year that world military spending continued to grow in 2021, reaching an all-time high of US\$ 2.1 trillion. This was the seventh consecutive year that such spending had increased. The five largest spenders in 2021 were the United States, China, India, the United Kingdom and Russia, together accounting for 62 per cent of the expenditure. India's military spending of US\$ 76.6 billion ranked third highest in the world. This was up by 0.9 per cent from 2020 and by 33 per cent from 2012. It is reasonable to expect that the global military expenditure would go up in 2022 and even the next few years because the end of the war between Russia and Ukraine is not in sight.

Also, China is also not likely to give up its claims on Taiwan or its ambitions in the Indian Ocean in the near future. The worldwide rise in defense expenditure comes at a time when the Central Banks are trying to withdraw the stimu-

lus provided to revive the economies during the pandemic and bring down high inflation. In the process, the global economy is heading towards a slowdown. In theory, increased allocation for military purposes means higher taxes to finance the expenditure or lower allocations for other purposes.

Whichever course the governments take, the production and consumption levels in non-military goods are bound to fall. That means lower demand and consequent deceleration in global trade. It is a typical Guns Vs. Butter trade-off that textbooks in economics deal with. In practical terms, the demand from external sources is likely to be rather tepid for our exporters this year. The pickup in domestic demand has to offset the fall in exports. But, that does not seem to be happening due to unequal distribution of income and wealth in the economy. So policy makers have to focus on how to address the issue of inequality.

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