

## ARMS RACE AND ECONOMIC GROWTH: CASE OF INDIA AND PAKISTAN

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### **Abstract:**

India and Pakistan maintained a hostile relationship since their creation in 1947, mainly due to religious differences. This ongoing hostility is believed to led an arms race between the two countries even though the government officials deny that on both sides. Although India and Pakistan have witnessed economic growth, it is agreed that they failed to generate a dynamism found in other parts of the developing world. Arms race between the two countries has long been seen as the major cause for their retarded economic growth. This paper investigates this twin problem of arms race and economic growth employing Toda-Yamamoto's approach to Granger non-causality, for the time period 1949-2000. After establishing the nature of the arms race between the two countries, the causality from military expenditure to economic growth is investigated for both countries. The empirical results suggest that there is a mutual causal relationship between the military expenditures of India and Pakistan. Moreover, even though military expenditure does not Granger cause economic growth in Pakistan, there is a one-way causality from military expenditure to economic growth in India. Additionally, the growth effects of military expenditure for India has been modelled in a vector autoregression (VAR) framework.

Keywords: Military Expenditure, Arms Race, Growth, India and Pakistan