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DEFENCE BUDGET



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DEFENCE BUDGET AND GEOPOLITICAL ANALYSIS: A CLOSER LOOK AT INDIA'S ALLOCATION

ARPITA SHARMA

04

NAVIGATING PERSONNEL COSTS AND CAPITAL EXPENDITURE IN THE INDIAN DEFENCE BUDGET

RAKSHITH SHETTY

10

TRAVERSING THE QUESTION OF 'INDIGENISATION' CHALLENGES OF DRONE TECHNOLOGY IN DEFENCE AND SECURITY

BARSHAN KARMAKAR
SOMALI CHOWDHURI

16

INDIA'S STRATEGIC MARITIME EVOLUTION

MOST. MIFTAUL JANNAT JYOTI

24

IS PAKISTAN ITCHING FOR WAR WITH INDIA?

COL RAJINDER SINGH (VETERAN)

30

NATIONAL SECURITY AT STAKE: UNRAVELLING CONCERNS IN WEST BENGAL'S CURRENT SOCIO-POLITICAL LANDSCAPE

SREOSHI SINHA

34

REVOLUTIONIZING WARFARE: THE IMPACT OF BATTLE COMMAND SYSTEMS AND JADC2

SUMAN SHARMA

42

NAVIGATING PERSONNEL COSTS AND CAPITAL EXPENDITURE IN THE INDIAN DEFENCE BUDGET

A year ago, in an article for the DSA magazine, Rakshith Shetty conducted a thorough analysis of the defence pension systems in India and the United States. This inquiry led to the identification of four crucial insights extracted from the intricate framework of the U.S. defence pension system. In the present discussion, he pivots towards a deeper exploration, shedding light on the challenges hindering the modernisation efforts of the Indian Armed Forces.

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India faces challenges in modernising its armed forces and bolstering its domestic defence-industrial base due to the constraints imposed by personnel and pensions costs. Despite rising security challenges, investments and research funding are adversely affected. Nevertheless, ongoing efforts hold promise in alleviating the burden of pension and personnel



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costs. The significant context is India’s defence budget for 2023, amounting to INR 5.94 trillion (USD 73.8 billion), making it the world’s third-largest after the United States and China. However, a substantial 53% of this budget is allocated to personnel and pensions, limiting the resources available for defence procurement and

modernisation.

Adding to the complexity, India’s armed forces encounter additional difficulties in maintaining their Russian-origin defence equipment amid Russia’s involvement in the Ukraine war. Simultaneously, India grapples with the challenges posed by an assertive China and

ongoing tensions with Pakistan. Moreover, Delhi is actively pursuing a modernisation agenda, seeking to reduce dependence on Russia, diversify its international supplier network, and emphasise domestic arms production and research and development through the ‘Make in India’ initiative.

Prioritising Defence: A Focus on Public Expenditure

From 2013 onwards, India’s defence budget has witnessed a substantial increase, more than doubling in size (refer to the table). Yet, a closer analysis reveals internal strains on domestic defence spending. During this timeframe, a noticeable decrease is evident when considering the defence budget as a percentage of India’s GDP or as a proportion of the total central-government expenditure.

Relying solely on the proportion of GDP as a metric can be deceptive due to fluctuations in economic

Proposed budget allocation to Indian Ministry of Defence (MoD) as a % of GDP and total central government expenditure				
Year	Proposed Defence Budget (INR tr)	Total Central Government Expenditure (INR tr)	Proposed Defence Budget as % of GDP	Proposed Defence Budget as % of Total Central Government Expenditure
2023	5.94	45.0	1.93	13.2
2022	5.25	39.4	1.92	13.3
2021	4.78	34.8	2.02	13.7
2020	4.71	30.4	2.38	15.5
2019	4.31	27.9	2.15	15.5
2018	4.04	24.4	2.14	16.6
2017	3.60	21.5	2.11	16.8
2016	3.41	19.8	2.21	17.2
2015	3.10	17.8	2.25	17.4
2014	2.85	17.9	2.29	15.9
2013	2.53	16.7	2.26	15.2

Source: IISS Military Balance+ database; Government of India Union Budgets 2013-2023

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growth, particularly evident in the 6.6% contraction experienced in 2020 amid the COVID-19 pandemic. A more reliable measure, arguably, involves assessing the share of defence spending within the central-government expenditure, providing a more direct reflection of government priorities. Over the period from 2013 to 2023, central-government expenditure witnessed a substantial growth of 170%. However, since the inception of the Narendra Modi government's first full-year union budget in 2015, there has been a decline of 4.2 percentage points in the share allocated to defence spending, as outlined in the accompanying table.

Navigating the Tension Between Pensions Burden and Capital Spending

In 2023, military pension funding reached INR 1.4 trillion (USD 17.2

billion), comprising 23.3% of the total defence expenditure. This represents a substantial increase from 2008, when it constituted 12.6% of the overall budget, consistently surpassing the 20% mark since 2016. Additionally, India consistently allocates 30% of the defence budget to military pay and allowances. In 2023, this allocation totalled an estimated INR 1.8 trillion (USD 21.9 billion), constituting 29.6% and collectively surpassing half of the entire defence budget. The substantial rise in the overall defence budget obscures its actual implications for procurement and research and development (R&D) spending. As defence funding shows a relative decrease against GDP and central-government expenditure, coupled with the constraints imposed by personnel and pensions costs on investment within the defence budget, the

modernisation endeavours are further hampered. The added challenges of bureaucratic hurdles and sluggish procurement processes act as impediments, collectively acting as a brake on the pace of modernisation efforts.

Indian policymakers recognize the imperative to revitalise the nation's armed forces. Notably, capital expenditure constituted an average of 32.4% of the total defence budget in proposed budgets from 2008 to 2012. However, this allocation dwindled to an estimated average of 27.0% from 2013 to 2017 and further diminished to 23.4% between 2018 and 2022. Similarly, research and development (R&D) experienced a decline from an average of 5.1% to 4.5% to 4.3% across the same periods. In the 2023–24 budget, there is a noteworthy uptick, with capital and R&D expenditure





Agnipath scheme, Union Defence Minister Rajnath Singh announced that the government will reserve 10 per cent jobs in the Defence Ministry for Agniveers.

accounting for 29.1% of the total budget. Specifically, funding for new arms and equipment acquisition, aimed at modernisation and replacing obsolete weapons, stands at USD 16.2 billion, representing 21.9% of the budget.

A Strategic Approach to Personnel Reform

The substantial personnel costs persistently lead to the army dominating the budget allocation among the three services. Inclusive of pension expenses, the 2023 defence budget earmarked USD 42.2 billion or 57.1% of the overall budget for the army, with a mere USD 3.7 billion designated for modernisation efforts. In contrast, the navy received USD 11.4 billion or 15.5% of the budget, allocating USD 5.9 billion for modernisation,

Over the period from **2013 to 2023, central-government expenditure** witnessed a substantial **growth of 170%.**

while the air force was allocated USD 14.1 billion or 19.1% of the budget, with USD 6.6 billion earmarked for modernisation initiatives.

India is exploring innovative approaches to recruitment and retention, with a long-term aim of alleviating the pension burden. In June 2022, it introduced the Agnipath ('fire path') program, officially designed to lower the

average age of the army. This initiative holds significant budgetary implications, intending to enlist younger soldiers (ages 17.5 to 21) under a four-year contract. After this initial period, a quarter of recruits will have the opportunity to continue their service as a career in the armed forces. Agnipath replaces the previous requirement of a minimum 17-year tenure with four years as an 'Agniveer' and 15 years' service for those successfully

transitioning to regular soldiers. The remaining three-quarters of Agniveers, who do not pursue a career in the armed forces, will receive a tax-free severance package but will not be eligible for pensions or health benefits.

Agnipath, embedded within the broader personnel reform initiative, along with the envisioned establishment of a Defence Modernisation Fund (DMF) to complement annual budgetary allocations, represents crucial initial strides toward rebalancing defence spending in favor of modernisation objectives. However, achieving this shift necessitates increased investment in procurement and research and development (R&D), contingent upon the overall performance of the country's broader economy.

Weighing India Against China and Pakistan

The persistent military standoff in eastern Ladakh has rekindled apprehensions of a potential two-front war for India. While historical instances suggest China's non-direct intervention in Pakistan's conflicts with India, current geopolitical dynamics, marked by China's burgeoning economic, security, and strategic interests in Pakistan, raise the spectre of possible interference in any India-Pakistan conflict. Conversely, given Pakistan's ideological hostilities toward India, it is inclined

to exploit any conflict involving India and China. The pertinent question revolves around whether India's defence spending adequately accounts for such complex eventualities.

As of 2020, the collective military expenditure of Pakistan and China stands at USD 263 billion, a formidable 3.6 times greater than India's defence spending. Notably, China individually outpaces India by a significant margin of USD 180 billion (USD 252 billion versus USD 72 billion). Beyond the sheer financial metrics, the combat

Indian policymakers recognize the **imperative to revitalise** the nation's armed forces.



Indian soldiers stand on a snow-covered road near Zojila mountain pass that connects Srinagar to Ladakh, bordering China.

potential of China's military spending potentially surpasses the budgetary figures. Unlike India, which allocates approximately 60 per cent of its defence budget to personnel costs, China expands less than a third, enabling a substantial portion of its more extensive budget for strategic modernisation efforts.

The asymmetry in military spending between India and China is evident, and it is acknowledged that India may not match China's spending capacity in the foreseeable future. However, a strategic approach focused on technology-driven modernisation could serve as a deterrent against Chinese hegemony. To realise this vision, Indian defence planners must progressively shift away from the historically predominant trend of personnel-centric growth in defence allocations. By prioritising technological advancements, India can enhance its defence capabilities and address the evolving challenges posed by the intricate dynamics of the region.

In conclusion, the landscape of India's defence budget reflects a delicate equilibrium between personnel costs and capital expenditure, a balance crucial for the modernisation aspirations of the armed forces. As we traverse the intricacies of budget allocations, it becomes evident that the challenge lies not just in the absolute figures but in the strategic choices made to propel the nation's defence capabilities forward. The Agnipath program and the proposed Defence Modernisation Fund signify a proactive approach to address the persistent dominance of personnel costs, heralding a potential shift toward a more agile and modernised armed forces. However, these initiatives stand at the crossroads of implementation, contingent upon the broader economic performance and the efficiency of bureaucratic processes.



As **India charts** its course in the **realm of defence**, the imperative is clear — a **judicious recalibration of budgetary priorities** is essential to ensure a dynamic and **resilient armed force**.

As India charts its course in the realm of defence, the imperative is clear — a judicious recalibration of budgetary priorities is essential to ensure a dynamic and resilient armed force. The journey ahead involves not only strategic reforms but also a commitment to sustained

investment in research, development, and procurement. Through these concerted efforts, India can navigate the tension between pensions burden and capital spending, forging a path toward a modernised, self-reliant, and strategically agile defence apparatus. **DSA**