

# DEFENSE SPENDING AND ECONOMIC GROWTH IN ASIAN ECONOMIES: A PANEL ERROR-CORRECTION APPROACH

by

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## ABSTRACT

Hoping to contribute to the existing pool of literature, this paper examines the relationship between military expenditure and economic growth in selected Asian countries for the period 1989 to 2004. Our panel unit root test suggests that real GDP per capita and military expenditures are  $I(1)$  processes, while the Larsson et al. (2001) panel cointegration test indicates that economic growth and military expenditures are cointegrated. Finally, applying the panel error-correction technique proposed by Pesaran et al. (1999), our empirical results show that defense spending and economic growth in the Asian countries under the period of study are not related.

Keywords: Military expenditure; Economic growth; Panel unit root; Panel cointegration; Panel error-correction; Asian economies

JEL Classification Code: H56; O10; O40

## INTRODUCTION

Is defense spending related to economic growth? This question has important implication for policy makers and researchers. For the policy makers, the impact of military expenditure on economic growth which can be positive or negative can have different ramification with respect to what strategy to take to foster growth. A positive relationship

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