Issue Brief

November 2026
No: 563

Financing the Garrison: Pakistan Military Insulates its Budget from the State's Fiscal Collapse

Brig Dharmendra Yadav
SM

Financing the Garrison: **Pakistan Military Insulates its Budget from the State's Fiscal Collapse**

Abstract

Pakistan is continuing to expand its military expenditure despite chronic fiscal distress, with debt servicing absorbing 43% of the federal budget while defence rose 17.6% to a record PKR 3,010.9 billion in 2026-27. Drawing on primary budget documents of Pakistan, IMF reporting and SIPRI data, this Issue Brief identifies four financing streams that insulate the armed forces from the state's solvency viz. the declared budget; off-budget heads such as pensions; an undeclared corporate economy worth ten of billions of dollars; and external subsidy from China, the Gulf and Turkiye. It argues that this architecture secures institutional autonomy and cost-effective deterrence but cannot close a widening capability gap with India and that the autonomy shielding the military ultimately caps its modernisation.

Keywords: Pakistan's Military Economy, Pakistan's Defence Budget, Milbus, Civil-Military Relations, India-Pakistan Military Balance, China-Pakistan-Gulf Defence Bloc

Introduction: The Paradox of the Well Fed Garrison

On 12 June 2026, Pakistan's Finance Minister, Muhammad Aurangzeb, presented a federal budget that summed up the country's central economic problem in a single line. Total federal spending was set at PKR 18.77 trillion. Of that, about PKR 8.05 trillion, some 43% and the biggest single call on the treasury, would go on interest payments on a public debt that, with guarantees, stood near 76% of GDP (Finance Division, GoP {Table 1 and 10}, 2026) (IMF, 2026). This is the budget of a state just staying afloat. Its 24th programme with the International Monetary Fund (IMF) keeps default away, its reserves cover barely two and a half months of imports and its income per person is under US$ 1,700 (IMF, 2026). Yet in the middle of this austerity one line jumped— defence was given PKR 3,010.9 billion, a rise of 17.6% on the year before and the largest sum the country has ever set (Finance Division, GoP {Table 11}, 2026). While development spending was squeezed and the civilian government was told to save, the military's declared budget grew faster than almost any other item.

The obvious question— why a near bankrupt state still protects its army— is the wrong one, since every state guards its defence spending. The sharper question and the subject of this article, however is, as to how the Pakistani military has built a way of funding itself that partly cuts its fortunes loose from the health of the state that houses it. That system rests on four streams—the declared budget; off budget heads such as pensions carried in civilian accounts; an undeclared business economy worth

ten of billions of dollars; and outside support from China and the Gulf, now set in a three-way defence bloc. Together they let the institution stay well supplied while the state around it starves.

This article maps the above mentioned four streams, follows how the money is used across the force and then turns to the question that matters most for India, whether this model can match the level India's Military. The answer offered here is that, it cannot, and that the same independence which shields the garrison is also the limit on what it can do.

Section 1: Method and the Opacity Problem

A study of Pakistan's military finances hits a basic problem at once. The state does not publish enough detail for anyone to know the true figure. Three things stay hidden. First, the budget reports defence in a few broad lines, so spending cannot be traced to particular programmes. Second, military pensions sit in the civilian budget, a practice that dates to General Musharraf's years, so they fall outside the headline defence figure. Third, procurement funds, supplementary grants and the military's own business economy does not get reflected in any public account (Siddiqa, A. 2007).

One point needs to be clear throughout. The defence number is not a single fact uniformly quoted in documents. It changes with the parameter used to measure it. The budget shows Defence Services at PKR 3,000.0 billion and Defence Affairs and Services at PKR 3,010.9 billion. The IMF, on a general government basis, projects PKR 2,665 billion for the same year. SIPRI, which adds pensions and paramilitary costs, reports US $11.9 billion or 2.9% of national income (Finance Division, GoP, 2026) (IMF, 2026) (SIPRI, 2026). None of these is wrong and each answers a different question. This article uses the budget figure for the declared amount, adds pensions openly to reach the real amount and sources have been cited at every step. Every estimate is indicated clearly as an estimate.

Section 2: Understanding The Declared Budget

The declared defence budget for the year is PKR 3,010.9 billion— the sum documented under the Defence Affairs and Services (Finance Division, GoP {Table 11}, 2026). Defence Services, the operational core, take PKR 3,000.0 billion of that total. The rise over the previous year is 17.6% in rupee terms, though at the working rate of PKR 279.5 to the dollar it comes to about US$ 10.7 billion. Set against the wider budget the figure looks smaller than the headline suggests. It equals 2.09% of national income and about 16% of federal spending. This is the first evidence to the argument of this article. The declared budget is large in rupees yet small as a share of the economy.

It helps to see the number in its setting. The same budget gives 43% of all federal spending to interest payments (Finance Division, GoP {Table 1}, 2026). Defence and debt service are now the two largest claims on the treasury and defence has to hold its place in a shrinking room for choice. That the military still won a 17.6% rise in such a year is the first indicator of its standing.

The money divides into four heads. Employee costs take PKR 967.5 billion. Operating expenses take PKR 743.5 billion. Physical assets, the term the budget uses for equipment and purchases, take PKR 925.8 billion. Civil works take PKR 363.2 billion (Finance Division, GoP {Table 11}, 2026). Pay and running costs together are still the largest share at about 57% of Defence Services, which tells us this is a force that spends first on its personnel and their upkeep. Table 1 gives out the heads over three years and adds the pension line that the budget keeps separate.

Table 1: Functional Composition of Defence Services and the Pension (PKR Billion)

Head	BE 2025-26	RE 2025-26	BE 2026-27	Change BE	Share FY2027
Employees	846.00	851.10	967.50	+14.4%	32.3%
Operating	704.40	721.00	743.50	+5.5%	24.8%
Physical Assets	663.10	663.90	925.80	+39.6%	30.9%
Civil Works	336.50	347.90	363.20	+7.9%	12.1%
Defence Services Total	**2,550.00**	**2,584.00**	**3,000.00**	**+17.6%**	**100%**
Military Pension (civilian budget)	742.00	742.00	822.00	+10.8%	off budget
Defence Services plus Pension	**3,292.00**	**3,326.00**	**3,832.90**	**+16.4%**	**-**

Source: Government of Pakistan, Finance Division. 2026a. Federal Budget 2026-27: Budget in Brief, Tables 10 and 11

The big move this year is in procurement. The physical assets head rose by 39.6% in a single year— the sharpest rise of any line. This is the budget's mark of rearming after the May 2025 clash with India. It points to new orders for aircraft, missiles and air defence and to payments falling due on earlier Chinese contracts.

The split among the services shows where the priority lies but also reveals something the headline hides. The Army takes PKR 1,284.1 billion or 42.8% of Defence Services. The Air Force takes PKR 573.9 billion and the Navy PKR 293.1 billion (Finance Division, Demand 031, 2026). A group made up of Defence Production establishments, Inter Services Organisations and accounts takes PKR 848.9 billion or 28.3%, which is more than the Air Force and Navy together. This portion grew by 69.4% in a year and almost all of that came from its equipment head, which jumped by 346%. The modernisation money is grouped here rather than in the individual services. The Air Force is the one service that looks like a modern spending force, since equipment is its largest single head. The Army by contrast spends far more on pay than on equipment and its buying line even fell.

Table 2: Defence Services by Service and Object Head, FY 2027 (PKR Billion)

Service	Employees	Operating	Physical Assets	Civil Works	Total	Share
Army	664.00	225.60	196.40	198.00	1284.10	42.80%
Air Force	110.00	96.50	300.80	66.60	573.90	19.10%
Navy	93.50	46.10	104.60	48.90	293.10	9.80%
DP Establishments/ ISOs / accounts	100.00	375.20	324.00	49.70	848.90	28.30%
Defence Services total	**967.50**	**743.50**	**925.80**	**363.20**	**3000.00**	**100%**

Source: Detail of Demands for Grants 2026-27, Demand No. 031. Figures add exactly to PKR 3000 billion

Against the past decade, the budget tells a quieter story than the record rupee figure suggests. As a share of national income defence has fallen, not risen. It stood at 2.5% in 2017 and drifted down to 1.8% by 2024 before settling near 2.0% (Pakistan Economic Survey, GoP, 2026). The IMF expects it to stay flat at about 1.9% every year to 2031, even as the rupee amount climbs toward PKR 4.07 trillion (IMF, 2026). The pattern matters for the whole argument. The institution guards its rupee share while its claim on the economy quietly shrinks. Money that cannot grow on the books has to be found elsewhere, which is the subject of the sections that follow.

Table 3: Declared Defence as a share of GDP, FY2017 to FY2031.

Fiscal year	Defence as % of GDP
2017	2.5
2020	2.6
2022	2.1
2024	1.8
2026 (budget)	2.0
2027 (projection)	1.9
2031 (projection)	1.9

Source: Economic Survey 2025-26, Table 4.1 (history to 2026); IMF 2026, Tables 4a and 4b (projection to 2031)

One factor which is important to note is that, the money spent is usually more than the amount first voted. This year the revised estimate reached PKR 2,596 billion against an opening figure of PKR 2,558 billion. The declared number is therefore best read as a base, not a ceiling. Even before the off-budget heads, the undeclared economy and foreign support are counted, the true cost of the force is higher than the headline says. Those hidden streams are where the rest of this article now turns.

Section 3: Pakistan Among the Major Spenders?

Set beside the world's large militaries, Pakistan is a small spender. In 2025, the United States spent US$ 954 billion, China an estimated US$ 336 billion, Russia US$ 190 billion, Germany US$ 114 billion and India US$ 92.1 billion. Pakistan spent US$ 11.9 billion. It ranked thirty first in the world and made up four tenths of one percent of global military spending (SIPRI, 2026). India alone spent close to eight times as much. **Table 4** gives out the figures side by side.

Table 4: Military Spending, 2025

Country	Spending 2025 (US$ bn)	Change since 2016 (%)	Share of GDP (%)	Share of world (%)
United States	954	+11	3.1	33
China	336	+62	1.7	12
Russia	190	+96	7.5	6.6

Country	Spending 2025 (US$ bn)	Change since 2016 (%)	Share of GDP (%)	Share of world (%)
Germany	114	+118	2.3	3.9
India	92.1	+39	2.3	3.2
Pakistan	11.9	+19	2.9	0.4

Source: SIPRI 2026

Size is only part of the story. What a country buys matters as much as how much it spends. The large and rising powers are tilting their budgets toward equipment and research, whereas in Pakistan pay and running costs take about 57% of Defence Services and the Army spends far more on its people than on new equipment. Yet a large part of what supports the military stays hidden.

Section 4: The Hidden Heads

The declared budget is not the whole picture. The clearest gap is pensions. Retired soldiers are paid from the civilian side of the budget, not from defence—a trick that dates to General Musharraf's years. This year military pensions come to PKR 822.0 billion, a rise of 10.8% and none of it is mentioned inside the PKR 3,010.9 billion defence figure. Add pensions back and the declared cost of the force rises to PKR 3,832.9 billion— about 27% above the top figure. Table 5 shows the change over three years.

CENTRE FOR LAND WARFARE STUDIES CLAWS निश्लेषणं ज्ञानस्य मुख्यं

Table 5: Declared Defence and the Pension Adjustment (PKR billion)

Head	BE 2025-26	RE 2025-26	BE 2026-27
Defence Services	2,550.00	2,584.00	3,000.00
Military Pension (civilian budget)	742.00	742.00	822.00
Defence Affairs and Services plus Pension	3,292.00	3,326.00	3,832.9

Source: Budget in Brief 2026-27, Tables 10 and 11

This is not just one reading of the numbers. When SIPRI measures military spending, it counts the pensions and social costs of military staff as a matter of course, along with paramilitary forces trained for combat (SIPRI, 2026). On that fuller basis it puts Pakistan's 2025 spending at US$ 11.9 billion or 2.9% of national income, well above the budget line. The international standard treats the percentage figure as low.

Pensions are the biggest hidden head but not the only one. A separate development fund carries part of the military's equipment purchases outside the main defence vote. Extra grants are released during the year and are rarely shown in advance. State owned defence firms, among them the Karachi shipyard, the ordnance factories and the heavy industries complex at Taxila, get support that is hard to trace in the published accounts. Analysts who add these items estimate that, the real defence burden runs perhaps a quarter to a third above the stated one (Sareen, S. 2025).

There is a further layer of risk that never shows up as spending at all. The government stands behind loans and guarantees to state firms worth about US$ 15.3 billion, close to 4% of national income (IMF, 2026). Some of these sit with firms under the military's control. They are not defence costs in the usual sense, yet they are public money put behind bodies the army controls or influences. They can fall due if those bodies fail.

The lesson of this section is simple. The PKR 3.01 trillion headline is a base figure only. Once pensions, hidden funds and guarantees are counted, the state gives far more to its military than the budget admits. Even this fuller figure leaves out the biggest question of all— the money the army raises and spends on its own account. That undeclared economy is the subject of the next section.

CENTRE FOR LAND WARFARE STUDIES
CLAWS
अन्वेषणं ज्ञानस्य मुख्यम्।

Section 5: The Undeclared Economy

The Idea of 'Milbus' (Military Business)

The 'Pakistan military runs a large business economy of its own, one that earns, invests and employs outside the public accounts'. This economy is termed as "Milbus", meaning 'military money used for the private benefit of the officer class yet neither recorded in the defence budget nor open to public audit' (Siddiqa, A. 2007). It works on three levels. At the top sits 'large welfare foundations' that own and run companies. Below them are the 'businesses' these foundations controls and is spread across the civilian economy. At the base lie, are the 'personal rewards' of service, above all the city land given to officers on easy terms. The design is old wherein it began as a modest welfare for veterans

after the wars of the mid twentieth century and grew into one of the largest business forces in the country.

The Conglomerate Map

Four bodies anchor this economy, one for each service and one for the Pakistan Army's welfare arm. The largest is the 'Fauji Foundation', which controls more than fifty entities and reaches into fertiliser, energy, banking, cement, food and insurance. Its fertiliser business has long held a leading share of the national market and its energy arm supplies a large part of the country's gas (EPBD, 2025). The Army Welfare Trust runs the 'Askari group', whose name marks banks, insurance, cement and property. The Air Force keeps the 'Shaheen Foundation' and the Navy the 'Bahria Foundation'— each smaller but built on the same model. Alongside them stands the Defence Housing Authorities, which develops prime land in every major city. The Frontier Works Organization builds roads and dams. The National Logistics Cell is the largest freight carrier in the land. **Table 6** lists the main groups. Taken together they form a presence in the economy that no private house can match, since it joins business weight to the power of the state's strongest institution.

Table 6: The Main Military Business Groups

Group	Service or Arm	Main Sectors
Fauji Foundation	Army welfare	Fertiliser, energy, banking, cement, food and insurance
Army Welfare Trust (Askari)	Army	Banking, insurance, cement and real estate
Shaheen Foundation	Air Force	Aviation services, real estate and media
Bahria Foundation	Navy	Shipping, dredging, catering and security
Defence Housing Authorities	Tri service	Urban real estate development
Frontier Works Organization	Army engineers	Construction, roads and mining
National Logistics Cell	Army	Freight, logistics and storage

Sources: Siddiqa 2007; EPBD 2025; company reports. Sectors are indicative

How Big is It?

No one can state the size of this economy with confidence and that uncertainty is itself the point. Writing in 2007, Ayesha Siddiqa put the value of military business at around twenty billion

dollars (Siddiqa, A. 2007). Figures later put before parliament suggested a far higher number, of the order of forty billion dollars, once land and the full spread of subsidiaries were counted. A recent wealth survey ranked the Fauji Foundation at the head of the country's forty largest groups, with a net worth near six billion dollars and found ten military linked firms each worth more than a billion (EPBD, 2025). The Fauji Foundation alone has grown from tiny beginnings—a fund of a few hundred million rupees in 1970, into a group of that size today. The gap between 20 and 40 billion is wide, but the extent is the finding. A force whose business arm cannot be measured to the nearest tens of billions has put much of its wealth beyond the reach of public accounting. To put things into Indian perspective, the Fauji Foundation is about the size of a mid-level Indian listed company rather than the giants of the Indian market, yet it carries a political weight no Indian firm of its size could claim.

The New Frontiers

The economy is not a relic. It is spreading into new ground under the present army leadership. In 2023, the government set up the Special Investment Facilitation Council, a body that gives the Pakistan Army Chief a formal seat at the centre of economic decisions and offers foreign investors a single door into farming, mining, energy and technology (Dawn, 2023). The most striking new venture is in farming. Under a scheme called the Green Pakistan Initiative the military has taken control of large tracts of state land, said to run into the hundreds of thousands of acres, to run corporate farms through companies set up for the purpose (Transnational Institute, 2025). The reach now stretches even to digital finance, with a letter of intent signed in late 2025 between a military foundation and a global crypto exchange (Dawn, 2025). Foreign money is coming in directly too, with a Gulf state reported to have taken a stake worth about a billion dollars in the Fauji Foundation (Philip, S.A. 2025). Each of these moves does the same thing. It opens a fresh source of revenue that the Army controls and the budget does not show.

Why it Matters

The purpose of this economy, seen from the argument of this article, is clear. It pays for the welfare, the pensions and the comforts of the officer class without drawing on the treasury and so it loosens the tie between the army's fortunes and the health of the state. When the on-budget share is capped, as the last two sections showed, this is where the institution still grows. Hidden financing of this kind also feeds Indian worries about how money moves through bodies the Army controls (Shivane, A.B. 2025). The independence it buys is a source of strength today. It is also, as the closing sections will argue, the 'seed of a longer weakness'.

Section 6: The Borrowed Spine: China, the Gulf and a New Bloc

Pakistan cannot pay for a modern military from its own resources, so it borrows the means from friends. China is the chief provider. Most of the equipment that gives the Pakistani forces their edge is Chinese, bought on soft terms and long credit. The list includes the J-10CE fighter, the jointly built JF-17, modern frigates and a new class of submarines (Janes, 2025) (Quwa, n.d.). The same tie shows up in the national debt. The IMF records China as Pakistan's largest single foreign creditor, holding about US$ 23.5 billion in direct government loans and a further US$ 5.7 billion through its commercial banks, close to US$ 29 billion in all or about a tenth of the entire public debt. This brings out an interesting fact i.e. the state that arms Pakistan is also the state that lends to it. Table 7 sets out the main creditors.

Table 7: Pakistan's External Public Debt by Creditor, 2024-25

Creditor	Stock (US$ bn)	Share of public debt (%)
Multilateral (IMF, World Bank, ADB)	52.3	17.0
China, bilateral loans	23.5	7.6
Chinese commercial banks	5.7	1.8
Saudi Arabia, bilateral loans	5.5	1.8
Paris Club (Japan, France and others)	6.0	2.0
China, combined exposure	**29.2**	**9.5**
Public guarantees (memo)	15.3	5.0
External debt, total	107.0	34.8

Source: IMF 2026, Table 9

Dependence of this scale is a strength that can turn into a weakness. Through 2025 and 2026 there were reports of disputes over payment, of deliveries held back and of strain in the wider China-Pakistan Economic Corridor (AFI, 2026). Talk of buying a Chinese fifth generation fighter, the J-35, runs well ahead of any clear ability to pay for it. A force that leans this heavily on one supplier is at the mercy of that supplier's patience, its prices and its politics. Behind both patrons stands the IMF. Its programme does not fund the military, but by keeping the state solvent it frees room that defence and its backers can fill.

The Gulf provides the second pillar, in cash rather than kit. Saudi Arabia has propped up Pakistan's finances for years, with a package worth six billion dollars in 2018 and a habit of rolling over its deposits when they fall due. It too appears in the debt table, holding about US$ 5.5 billion in direct loans. The relationship is now taking a new form. Pakistan has agreed to supply Saudi Arabia with JF-17 aircraft in a deal said to be worth around four billion dollars, in effect turning a creditor into a customer and Pakistan into an arms seller (Shahid, 2026).

The clearest sign of the new pattern is a pair of defence pacts. In September 2025, Saudi Arabia and Pakistan signed a mutual defence agreement, under which an attack on one is to be treated as an attack on both, though Pakistani officials were careful to say it carried no open nuclear guarantee (Siddiqui, U. and Reuters, 2025). In August 2026, the two were joined by Turkiye in a wider agreement signed at Mecca (Atlantic Council, 2026). The three had already built a defence industrial forum from 2022, so the pact only sets down ties that were already well advanced. Table 8 sets the two agreements side by side. The arrangement rests on a division of labour that each party understands. Saudi Arabia brings money, Pakistan brings manpower and its nuclear standing and Turkiye brings a fast-growing arms industry whose drones were used against India in the fighting of May 2025. What began as charity is being rebuilt as a bloc.

Table 8: The Strategic Mutual Defence Agreement (SMDA) and Mecca Joint Defence Agreement (MJDA)

Feature	SMDA, September 2025	MJDA, August 2026
Parties	Saudi Arabia and Pakistan	Saudi Arabia, Pakistan and Turkiye
Signed	17 September 2025	7 August 2026
Type	Bilateral mutual defence	Trilateral joint defence
Core Pledge	Attack on one is attack on both	Collective deterrence among the three
Stated Caveat	No open nuclear guarantee	Untested, no automatic mechanism

Sources: Al Jazeera 2025; Atlantic Council 2026

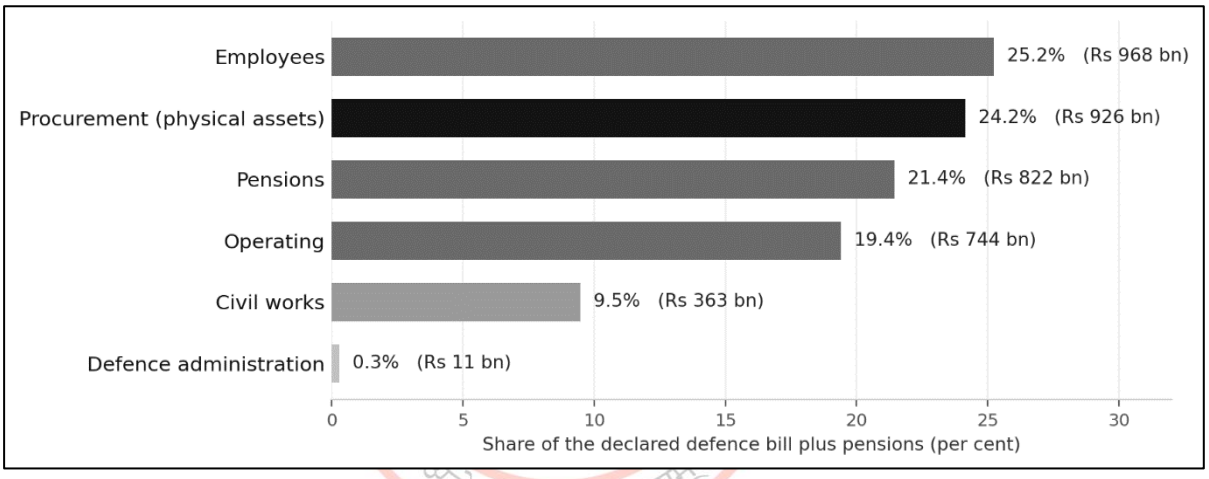
For India the meaning is direct. Pakistan is making up the money gap with India by pooling the resources of three outside powers. Yet a careful reading is in order. None of these pacts has produced the automatic response of a true alliance and no nuclear umbrella has been confirmed. The real

substance lies less in the treaty words than in the pipelines they protect, the Chinese aircraft, the Gulf money and the Turkish drones. Those are the channels India must watch and they are looked at again in Section 9.

Section 7: Where the Money Goes

When we pull the four streams together, a clear shape appears. The declared budget and the hidden pension bill are spent, above all, on people. Pay and pensions alone take close to half of the real declared cost of the force and once operating and building costs are added, more than three quarters of the money goes to running and keeping up the institution rather than to new weapons (Finance Division, GoP {Table 10 & 11}, 2026). Figure 1 shows the detailed split of Pakistan's budget.

Figure 1: Where the Declared Bill goes, FY2027



Source: Budget in Brief 2026-27, Tables 10 and 11. Shares of the declared bill plus military pensions (PKR 3,832.9 billion)

Procurement is the smaller share and much of it does not sit in the open budget at all. The sharp rise in equipment this year is concentrated in the inter-services channel described in Section 2 and the aircraft, missiles and ships that matter most are bought abroad on Chinese and Gulf credit rather than paid for from revenue. In plain terms, the state pays to keep the force fed and housed while its friends pay to keep it armed.

The undeclared economy fills the last gap. The foundations and their companies carry a large part of the welfare, the housing and the comforts of the officer class, spending that a normal army would have to meet from its budget. Seen as a whole, the pattern holds across every stream. Pakistan runs a force built to be kept going rather than modernised. Its own money goes to its serving personnel.

Its equipment is bought on credit from abroad and its welfare is met off the books. Whether it can keep pace with India is the question the next two sections take up.

Section 8: Can Pakistan Keep Pace with India

When we compare with India, the plain numbers are not close. In 2025, India spent US$ 92.1 billion on defence against Pakistan's US$ 11.9 billion—a gap of nearly eight to one. The two countries give a similar share of their economies to the military, close to 2%, but they do so on very different bases. India's economy is roughly eight times the size of Pakistan's, so the same effort buys a far larger mass of spending (SIPRI, 2026). Table 9 compares the two countries side by side to get a clear picture.

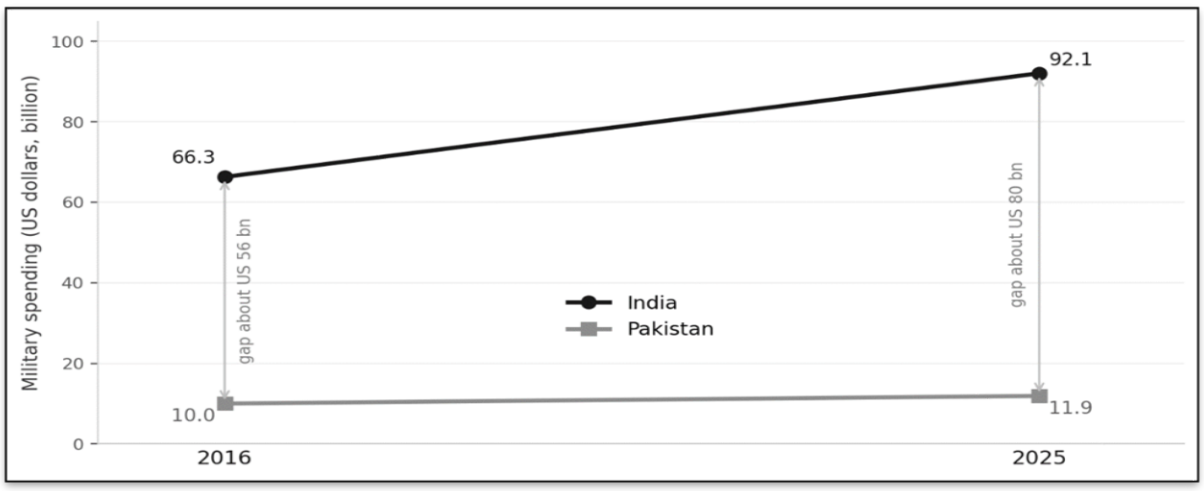
Table 9: India and Pakistan Comparison (2025)

Measure	India	Pakistan
Military spending, 2025	US$ 92.1 bn	US$ 11.9 bn
Share of GDP, 2025	2.3%	2.9%
Change since 2016	+39%	+19%
Share of world spending	3.2%	0.4%
Approximate size of economy	~US$ 4.0 trillion	~US$ 0.5 trillion

Sources: SIPRI 2026, Table 1; economy size from IMF and Economic Survey 2025-26, at market prices, approximate

The gap is not only wide, it is growing. Over the past decade, the Indian military spending rose by close to two- fifths in real terms while Pakistan's rose by less than a fifth (SIPRI, 2025). In absolute terms, the yearly gap has grown from about 55 billion dollars a decade ago to about 80 today. Figure 2 shows how much the two countries are moving apart. The IMF expects Pakistan's defence budget to stay flat at about 1.9% of national income every year to 2031, rising in rupees but not as a claim on the economy (IMF, 2026). India, spending from a base many times larger and growing faster, will pull further ahead each year. Nothing in the money outlook points to Pakistan closing the distance.

Figure 2: The Widening Gap, India and Pakistan Military Spending



Source: SIPRI 2026, Table 1. The two observation years are 2016 and 2025. Values for 2016 are indicative, derived from SIPRI decade change.

However, Pakistan is not out of the contest, for two reasons. The first is that money is not the same as capability. The difference in usable military power between the two is smaller than the difference in their budgets, which means India's spending lead has not yet been turned into a matching edge in the field (Sareen S. 2025). The second is that Pakistan buys deterrence cheaply. Nuclear weapons put a floor under its security that no amount of Indian spending can simply remove. Chinese equipment gives it capable aircraft and missiles at prices it could not otherwise meet. The long use of armed proxies lets it impose costs on India far below the price of a conventional match. A weaker budget can still deter when it rests on these foundations. This is not an accident of budgeting but a settled choice. Studies of the Pakistan Army's thinking describes a body that measures success less by matching India than by the power to resist and to deny, content to fight a long contest from a position of weakness (Fair, C.C. 2014). The financing model fits that outlook. It buys enough to deny without trying to buy enough to win.

But there is a ceiling on this model, and it is set by the very independence described in earlier sections. A military that runs farms, banks and housing estates is one whose attention is divided. People following the development have long argued that deep involvement in business blunts the professional edge of a force. Reliance on a single foreign supplier is a strength only while that supplier is willing. The payment disputes of the past two years show the limit. A budget capped as a share of a weak and slow growing economy cannot pay for the broad modernisation that a rising India can pursue. The rupee itself works against the plan, since a currency that loses value year after year quietly shrinks the foreign buying power of every defence rupee (Pakistan Economic Survey, GoP, 2026). And every

rupee locked into the military is a rupee not spent on the schools and industry that would widen the base on which any future military must stand.

The answer to the question of this section is therefore a qualified one. Pakistan can keep pace in denial. It can go on making an Indian victory costly and an Indian advantage incomplete. It cannot keep pace in dominance, because the model that funds it is built for survival, not for growth. That difference, between deterring India and matching India, is the heart of the matter and it shapes what the contest means for India, the subject of the final analytical section.

Section 9: What It Means for India

For India, the study of Pakistan's military finances is not an academic exercise. It shapes the threat that Indian planning must answer. The main finding of the earlier sections is that Pakistan's forces are held up less by Pakistan's own economy than by the money and equipment of outside powers. China supplies the aircraft, the missiles and much of the credit. The Gulf supplies cash and, more and more, a market. Turkiye supplies drones and industrial depth. India therefore does not face a poor country's army. It faces a poor country's army propped up by three richer friends and it must plan against the combined weight rather than the local one.

The defence pacts of 2025 and 2026 sharpen this picture but should not be pushed too far. No automatic duty to fight has been created and no nuclear guarantee has been confirmed. The real substance of these deals lies not in their words but in the pipelines they protect and deepen, the flow of Turkish drones, the Saudi money behind Pakistani platforms and the Chinese supply line that runs beneath everything. India should watch the pipelines, not the paper.

A wider budget does not solve India's oldest problem with Pakistan. The financing gap examined here changes little about the proxy campaign, since terror does not need a large budget and its funding can move through the same hidden channels that carry the military's business money. India can win the contest of budgets and still bleed from a contest of a different kind. Superiority in spending must be matched by patience and skill in the grey zone, where money counts for less.

The same dependence that keeps Pakistan going is also its weakness and here lies the opening for Indian strategy. Each sponsor is a lifeline that is also a pressure point. China's hold is deep but it has limits, as the payment disputes of the past two years show. The Gulf's support is generous but it is driven by interest rather than loyalty and can be courted. The military's business economy is large but

fragile, exposed to any serious reckoning with the country's finances. The IMF's own accounts show where the leverage sits, since they record China and Saudi Arabia as Pakistan's largest external creditors. Table 10 amplifies the point.

Table 10: Pakistan's Patrons as Lifelines and Pressure Points

Patron	What it Provides	Pressure Point for India
China	Aircraft, missiles, ships and the largest share of foreign credit	Relations deep but strained; payment disputes expose the limits
Saudi Arabia and the Gulf	Cash support, deposits and a market for Pakistani arms	Driven by interest rather than loyalty, open to courting
Turkiye	Drones and defence industrial depth	Newest link, industrial rather than operational
The Milbus economy	Off budget welfare and revenue for the officer class	Large but fragile if the finances are reckoned with

Sources: IMF 2026 (creditor data); Atlantic Council 2026; Siddiqa 2007

India's advantage is real but it does not act on its own. A larger budget becomes greater capability only when it is spent on equipment and turned into an industry at home. The direction of Indian policy, towards a rising share of capital spending and a growing home defence industry, is the right one. The gap with Pakistan will widen on its own. Whether it widens into a decisive lead depends on what India builds. Five practical lines to follow by Indian planners are enumerated as under: -

- **Widen the Capability Gap by Design.** Let the spending lead turn into a modernisation lead through capital investment rather than manpower, so that the gap in usable power grows as fast as the gap in budgets.
- **Track the Hidden Economy.** Build a standing assessment of Pakistan's off budget heads, its foundations and its foreign financing, so that Indian planning rests on the true cost of the force rather than the declared one.
- **Work on the Patrons.** Use diplomacy to raise the price of the Gulf's support and to show up the depth of Pakistan's reliance on China, turning lifelines into questions its friends must weigh.
- **Hold the Grey Zone.** Keep the tools and the patience to deter and answer attack below the conventional level, which no budget gap will remove.

- **Watch the Industrial Channels.** Track the Turkish and Gulf defence industry links as closely as the Chinese one, since these are the real routes of the new bloc.

Taken together these steps rest on a single insight. Pakistan has bought security by pawning its independence to others and by turning its army into a business. India's task is to widen its lead, to map its rival's dependence and to remember that the deepest weakness in the Pakistani model is the very thing that keeps it standing.

Conclusion: The Garrison and its Trap

This article began with a paradox – 'A state that can barely pay its debts still finds the money to expand its army'. The answer, traced through the sections above, is that the "Pakistani military has learned to fund itself from four sources at once—the declared budget, the hidden heads, its own business empire and the help of foreign friends". Together these have loosened the tie between the health of the state and the wealth of the force and that is the genius of the design.

It is also the trap. The declared budget cannot grow as a share of a shrinking economy, and the IMF expects it to stay pinned near 2% of national income for years to come. Real growth has therefore moved off the books and out of the country, into the foundations and the farms at home and into Chinese and Gulf credit abroad. Both of these have limits. A business empire deep in farming, banking and property blunts the fighting edge of the army that owns it. Reliance on foreign patrons is reliance still and the new bloc with the Gulf and Turkiye does not remove that fact but adds to the number of hands-on which Pakistan's security rests. The more the garrison protects itself against its own state, the more it hollows the economy on which any modern force must in the end stand.

For India the lesson is steadying. Its advantage over Pakistan is built in and growing. It will widen on its own. But it becomes decisive only when it is turned into capability and only when Indian planning is built on the true measure of the rival rather than the declared one. To see Pakistan's military clearly, one must look past the budget to the whole shape of its financing. That, in the end, is the task this article has tried to begin.

Note: Currency Conversion

All rupee figures are Pakistani Rupees (PKR) as published in Government of Pakistan budget documents. US dollar conversions in this article use a fixed rate of PKR 279.5 to US$ 1, an approximate mid-2026 bank rate, applied uniformly for consistency.

Works Cited

AFI (2026, June 1). China halts delivery of remaining J-10CE fighters to Pakistan over payment issues. *IDRW*. https://idrw.org/china-halts-delivery-of-16-j-10ce-fighter-jets-to-pakistan-over-payment-issues/.

Economic Policy and Business Development (EPBD) (2025). Pakistan Wealth Perception Index 2025. Islamabad: *EPBD*. Reported in Profit by Pakistan Today, 15 August 2025. https://profit.pakistantoday.com.pk/2025/08/15/fauji-foundation-tops-epbd-wealth-index-2025-with-5-9-billion-valuation/.

Fair, C. C. (2014). *Fighting to the End: The Pakistan Army's Way of War*. New York: Oxford University Press. https://global.oup.com/academic/product/fighting-to-the-end-9780199892709.

Fauji Foundation, Binance partner for crypto push (2025, December 16). *Dawn, Karachi*. https://www.dawn.com/news/1961373.

Government of Pakistan, Finance Division (2026a). Federal Budget 2026-27: Budget in Brief (Tables 1, 10 and 11). *Islamabad: Finance Division*. https://www.finance.gov.pk/budget/budget_2026_27/Budget_in_Brief.pdf.

Government of Pakistan, Finance Division (2026b). Detail of Demands for Grants and Appropriations 2026-27, Volume I (Demand No. 031). *Islamabad: Finance Division*. https://www.finance.gov.pk/budget/budget_2026_27/Detail_of_Demands_for_Grants_Vol-I.pdf.

Government of Pakistan, Finance Division (2026c). Pakistan Economic Survey 2025-26 (Table 4.1). *Islamabad: Finance Division*. https://www.finance.gov.pk/survey_2026.html.

Institutionalising army's role in business (2023, July 24). *Dawn, Karachi*. https://www.dawn.com/news/1768861/institutionalising-armys-role-in-business.

International Monetary Fund (2026, May 14). Pakistan: Third Review Under the Extended Arrangement Under the Extended Fund Facility and Second Review Under the Resilience and Sustainability Facility Arrangement. IMF Country Report No. 26/101 (Press Release PR 26/147). Washington, DC: IMF. https://www.imf.org/en/publications/cr/issues/2026/05/14/pakistan-third-review-under-the-extended-arrangement-under-the-extended-fund-facility-and-576098.

Philip, S. A. (2025, December 29). Stake in PIA to UAE deal, Fauji Foundation—the money machine that keeps Pakistan Army running. *The Print*. https://theprint.in/defence/stake-in-pia-to-uae-deal-fauji-foundation-the-money-machine-that-keeps-pakistan-army-running/2814219/.

Quwa (n.d.). Pakistan Navy Tughril-Class (Type 054A/P) Multi-Mission Frigate. *Quwa Defence News*. https://quwa.org/pakistan/pakistan-navy/ships/pakistan-navy-ships-type-054a-p-frigate/.

Quwa (n.d.). Hangor-Class (S26) Submarine Program. *Quwa Defence News*. https://quwa.org/pakistan/pakistan-navy/submarines/hangor-class-s26-submarine/.

Sareen, S. (2025, June 20). Pakistan's Defence Budget: Not Too Much of an Outlier. *Observer Research Foundation*. https://www.orfonline.org/expert-speak/pakistan-s-defence-budget-not-too-much-of-an-outlier.

Shahid, A. (2026, January 7). Pakistan, Saudi in talks on JF-17 jets-for-loans deal, sources say. *Reuters* (full text reproduced in Dawn). https://www.dawn.com/news/1965650.

Shivane, A. B. (2025, June 12). The Fauji Foundation Nexus: Drug Trade, Money Laundering, and Terror Financing in Pakistan. *CLAWS*. https://claws.co.in/the-fauji-foundation-nexus-drug-trade-money-laundering-and-terror-financing-in-pakistan/.

Siddiqa, A. (2007). *Military Inc.: Inside Pakistan's Military Economy*. London: Pluto Press. https://archive.org/details/militaryincinsid0000sidd.

Siddiqui, U. and Reuters (2025, September 17). Saudi Arabia signs mutual defence pact with nuclear-armed Pakistan. *Al Jazeera*. https://www.aljazeera.com/news/2025/9/17/saudi-arabia-signs-mutual-defence-pact-with-nuclear-armed-pakistan.

The Green Pakistan Initiative (2025). *Transnational Institute*. https://www.tni.org/en/article/the-green-pakistan-initiative.

The Mecca Joint Defense Agreement and the future of regional security (2026, August 17). *Atlantic Council*. https://www.atlanticcouncil.org/event/the-mecca-joint-defense-agreement-and-the-future-of-regional-security/.

Trends in World Military Expenditure, 2025 (2026, April). *SIPRI Fact Sheet*. https://www.sipri.org/sites/default/files/2026-04/2604_milex_2025.pdf.

CENTRE FOR LAND WARFARE STUDIES
CLAWS
अन्वेषणं ज्ञानस्य मुख्यम्।

About the Author

Brigadier Dharmendra Yadav, SM, is a serving Infantry officer with vast experience of operations along the Line of Control, Line of Actual Control as well as Counter Terrorism operations. An alumnus of the prestigious DSSC and CDM, the officer has also served in the UN mission in Lebanon and Training Team in Bhutan. The officer is currently commanding a formation in J&K.

All Rights Reserved 2026, Centre for Land Warfare Studies (CLAWS)

No part of this publication may be reproduced, copied, archived, retained or transmitted through print, speech or electronic media without prior written approval from CLAWS. The views expressed and suggestions made in the article are solely of the author in his personal capacity and do not have any official endorsement. Attributability of the contents lies purely with author.