CURRENT TRENDS
IN WORLD DEFENCE EXPENDITURE

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ABSTRACT

Defense expenditure are financial means allocated for defense which is one of the areas of state activity associated with the prevention of all kinds of threats and aimed at ensuring its security. They can be spent on defense preparations in time of peace, warding off threats and waging war. Frequently, they are treated as the total amount of the expenditure of the Ministry of Defense of a given country.

Insufficient defense spending in relation to the potential risks may lead to the weakening of security, including military security of the state. It may lead either to the loss of the deterrent effect or to having too insignificant potential which can counterattack constantly emerging threats. In contrast, overspending in defense may lead to the militarization of public life, affecting the economic foundations of national security, which in turn is likely to lead to the weakening of the military. It is also a warning against a possible threat caused by the preparations of a particular country for aggression.

KEYWORDS: military finances, defense economics, security economics, defense spending, military spending

1. Introduction

Nowadays, the size of defense expenditure of individual regions or countries of the world are a universal carrier of information and, in practice, are used to assess the policy stance of the state which may be focused on safety or reinforcement. In addition, defense expenditure provides information that can be used to assess the economic effort of the country concerning the maintenance of the armed forces; assessment of the governments’ priorities, e.g. by comparing military expenditure to expenditure on other sectors (e.g. health and education). The sharp increase in military spending over a short period of time can be a warning sign of possible internal and external conflicts.

Defense spending may illustrate the overall operational capabilities of the armed forces of particular countries. Information about the level of defense spending may be also useful to conduct surveys concerning military expenditure in particular countries in relation to other economic categories (e.g. economic growth, debt, GDP, etc.), such as politics (as a compromise between defense spending and other public expenditure) and security situation (impact of military expenditure, along with other variables on the risk of an armed conflict).

The purpose of this paper is to present the current trends in defense expenditure in the individual countries of the world.
The structure of the paper is determined by the geographical division of the World. Due to the correlation of these expenses with the current political situation in the world, these analyses refer mainly to the amount of expenses for 2013. The content may be a source of knowledge for those seeking information on defense economics, especially military finances, and can be used by a wide range of people, including persons representing governments (ministries), non-governmental organizations, diplomats, researchers and students – mostly from military academies, international organizations – in particular dealing with security and peace, journalists and others interested in the issues of defense expenditure.

2. Overall Global Defense Spending

Based on data published by the Stockholm International Peace Research Institute – SIPRI (according to the data of 14 April 2014), World military expenditure in 2013 totaled 1.750 billion dollars (about 1.230 billion euro). This is a decline of 1.9 percent in real terms compared to 2012. This is the second year of decline in the volume of spending in the world.

Reduction of spending in the US and Western European countries largely contributed to the decline in overall global military expenditure in 2013. At the same time, there has been an increase in spending by 1.8 percent in the rest of the world. Virtually all of the increases in global defense expenditure in 2011-2013 occurred in regions other than North America and Europe.

The decrease in spending in the US in 2013, by 7.8 percent, that is to $ 640 billion dollars, is due to the completion of the war in Iraq, the reduction of involvement in Afghanistan and is also the result of automatic budget cuts enacted by the US Congress in 2011.

The largest increases in defense spending were recorded in Russia, Asia and Africa, including mainly Russia and China. The other countries with a significant increase in defense spending come from Africa and the Middle East, where the profits from oil and gas contribute to military budgets.

In 2013, the biggest spenders were the USA – 600.4 billion USD, China – 112.2 billion USD, Russia – 68.2 billion USD, and Saudi Arabia – 59.6 billion USD. Analyzing the countries with the largest defense budgets, it is worth noting that outside of the US, another three countries namely China, Russia and Saudi Arabia significantly increased their defense spending. A list of 15 countries with the highest defense spending, together with the size of their expenditure expressed in billion USD, is graphically presented in Table no. 1 Top 15 Defense Budgets in 2013, US $bn.

<table>
<thead>
<tr>
<th>Country</th>
<th>Spending</th>
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</thead>
<tbody>
<tr>
<td>1. United States</td>
<td>600,4</td>
<td>6. France</td>
<td>52,4</td>
<td>11. South Korea</td>
<td>31,8</td>
</tr>
<tr>
<td>2. China</td>
<td>112,2</td>
<td>7. Japan</td>
<td>51,0</td>
<td>12. Australia</td>
<td>26,0</td>
</tr>
<tr>
<td>3. Russia</td>
<td>68,2</td>
<td>8. Germany</td>
<td>44,2</td>
<td>13. Italy</td>
<td>25,2</td>
</tr>
<tr>
<td>5. United Kingdom</td>
<td>57,0</td>
<td>10. Brazil</td>
<td>34,7</td>
<td>15. Iran</td>
<td>17,7</td>
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It is worth emphasizing that China, Russia and Saudi Arabia are currently one of the 23 countries around the world, which more than doubled their military spending since 2004.
According to the SIPRI ranking referring to the countries with the largest defense expenditure, Russia takes third position. Noteworthy is the fact that for the first time in 10 years, Russia’s military expenditure measured as a share of GDP is higher than in the United States. Russia allocated 4.1 percent of its GDP on its armed forces, while the USA – 3.8 percent. In 2003, it was 3.9 percent and 3.7 percent respectively. In later years, the rising costs of the wars in Iraq and Afghanistan drove up the US spending on the military – at the peak it reached 4.8 percent of GDP (2009 and 2010).

A list of countries with the greatest defense spending – calculated by the percentage share of defense spending in GDP of these countries appears to be quite different. Table no. 2 2013 Top 15 Defense and Security Budgets as a% of GDP presents in a graphical manner the percentage share of defense spending (defined by Military Balance).

### Table no. 2

<table>
<thead>
<tr>
<th>Country</th>
<th>% GDP</th>
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</tr>
</thead>
<tbody>
<tr>
<td>2. Oman</td>
<td>11.7</td>
<td>7. Bahrain</td>
<td>5.0</td>
<td>12. Jordan</td>
<td>4.4</td>
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<tr>
<td>5. Israel</td>
<td>7.2</td>
<td>10. Algeria</td>
<td>4.7</td>
<td>15. Iran</td>
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Characterizing contemporary trends in defense spending in different regions of the World, it should be noted that in 2013 Asian countries spent on defense 11.6 percent more than in 2010. The fastest rate of growth in defense expenditure was recorded in East Asia: in China, Japan and South Korea. Although the data on China’s defense expenditure are not entirely clear, its increase is estimated to amount to 7.4 percent in 2013. Currently, China spends on defense three times more than India, and more than Japan, South Korea, Taiwan, and Vietnam together. The increase in spending in China concerned the improvement of staff’s housing conditions, but it also largely concerned the spending on equipment and trainings.

### 3. Current Defense Expenditure in Europe

In Europe, the largest decreases in the level of defense spending since the end of the Cold War have been recorded. According to NATO, real defense expenditure per capita in the NATO European countries have fallen by more than half compared to the spending levels observed in 1990, and by more than one-fifth in relation to 2000. Reductions in spending were largely caused by the financial crisis of 2008, when the governments of Western Europe were cutting defense expenditure in favor of the fiscal consolidation, treated as a priority at that time. Declines in military spending by more than 10 percent in real terms since 2008 were recorded in Austria, Belgium, Greece, Ireland, Italy, Netherlands, Spain and the UK, as well as in all the countries of Central Europe, except for Poland. In contrast, German military expenditure was 2 percent higher. France, despite continued weak economic growth, largely maintained military spending during the global economic crisis, and spending in 2013 was only 4 percent lower than in 2008.

The data contained in The Military Balance 2014 [1] indicate that in Europe (including non-NATO countries), currently, only about 1.4% of GDP is spent on defense. It is one of the lowest levels of defense spending as a share of GDP in the
world, and only in the countries of Latin America the level is lower.

Within NATO, only four of the 28 member states currently meet the target of 2 % of expenditure, namely: USA, United Kingdom, Greece and Estonia. Even Germany – Europe’s economic power – allocates only 1.3 % of GDP on defense. The number is lower than the NATO’s European average amounting to 1.6 % of GDP. That is a significant drop, taking into account the fact that the average budget allocation in European NATO countries in the early 1990s reached levels of around 2.5 % of GDP. However, despite the reduction in defense spending, NATO is still the world’s largest buyer of weapons, and NATO participation in the world’s military expenditure still amounts to two thirds of all spending.

In many European countries, within the budget limitations, cuts in defense spending were caused by a shift of priorities to social and healthcare expenditure. Additionally, orders regarding reduction of the budget deficit mean it is unlikely that in the near future, two largest European countries – Great Britain and France – are going to increase their defense spending. Reductions in spending may be even more real in southern Europe where fiscal austerity can determine decreases in defense budgets; for example, the level of spending in Spain and Italy, in real terms, is already about 20 % lower than it was before the crisis, and the Italian parliament further considers substantial reductions in defense spending (e.g. by cutting purchases of multi-purpose F – 35 Joint Strike Fighters).

The exception to this general European trend of reducing defense spending are the countries of Northern and Eastern Europe. In recent years, in many of these countries, the level of defense spending was essentially maintained, and in some cases even increased (e.g. Poland and Norway). In the light of current reduction in the level of security in Europe, it is possible that these countries will be considering the possibility of mobilizing additional budgetary resources or more innovative ways of implementing the defense budget in order to improve their operational capabilities. Poland proposes to accelerate army modernization programs, while the Czech Republic, Latvia, Lithuania, Sweden and Estonia are in the course of conducting defense reviews with regard to the level of defense spending.

A signal for the downward trend in defense spending was the speech of US President Barack Obama who at the EU-US summit in Brussels in March 2014, speaking about the role of NATO, expressed his concern about declining defense spending in some member states: “The situation in Ukraine reminds us that our freedom isn’t free, and we’ve got to be willing to pay for the assets, the personnel, the training that’s required”. He emphasized that the Alliance must be sure that contingency plans for all the members, including the countries of Central and Eastern Europe, are still valid.

It is worth noting that despite the decline in defense spending, Europe still spends on defense about 3-4 times more than Russia. On the other hand, it should be stressed that the Russian military expenditure in 2013 was more than 30% higher in real terms than it had been in 2008, and current Russian plans predict a further real increase in defense expenditure by at least another 30% by 2016 – when the Russian defense spending is predicted to reach a level close to 4% of GDP.

In total, European NATO members still have a defense budget several times larger than the Russians. This advantage may be apparent though, because firstly – the sum of the individual budgets is less effective than an integral whole, and secondly, it is only a mathematical sum which may not necessarily be reflected in specific practical activities.
4. Current Military Expenditure of Asia, the Middle East, Africa and Latin America

According to The Military Balance 2013 [2], for the first time in modern history, in 2012, Asian military spending exceeded the spending of European NATO countries. The statement of defense expenditure of the Asian and European NATO countries for the years 2005-2013, in billion USD, is illustrated in Figure no. 1 Asia-NATO defense spending convergence Europe 2005-13.

In the Middle East, 2013 was another year of steady growth in defense expenditure. Not only is this trend due to tense political situation, but also as a result of high revenues from the sale of crude oil. Hence, in the ranking published by SIPRI, while having expenditure of 67 billion USD, in 2014, Saudi Arabia has already overtaken Great Britain, France and Japan, moving up from seventh to fourth place as far as the highest defense spending is concerned (see Table no. 1).

A comprehensive assessment of the defense spending in the Middle East for 2013 is hampered by the lack of complete data concerning Iran, Qatar, Syria, Yemen and the United Arab Emirates.

In Africa, there has been recorded the largest relative increase in military spending in 2013. Expenditure in the region increased by 8.3 percent, reaching 44.9 billion USD.

In sub-Saharan Africa, Angola has overtaken South Africa in terms of military spending. In North Africa, Algeria is still allocating some of its income from crude oil and natural gas to military spending. In 2013, it amounted to more than 10 billion USD and is the largest in many years sum of military expenditure among African countries.

In Latin America as a whole, military spending increased only slightly. It increased the most in Honduras (22 percent), Nicaragua (18 percent) and Guatemala (11 percent), largely due to the ongoing war against drug syndicates. In real terms, military spending in this part of the world grew by 2.2 percent in 2013 and by 61 percent between 2004 and 2013. In contrast to previous years, military spending growth rate in South America has slowed down mainly due to reduction of spending by Brazil – the country with the largest defense budget in the region. Brazil cut spending by 3.9 percent in 2013. Despite weak economic growth, spending increased in Mexico (by 5.1 percent).

5. Conclusions

Among the countries with the largest military spending, in 2013, the first places were occupied by the USA, China, Russia,
and Saudi Arabia. In Europe, the largest falls in the level of defense spending since the end of the Cold War have been reported. This happens as a result of cuts in defense spending caused by a shift of priorities to social and healthcare expenditure and the need to reduce budget deficits. The exception to this general European trend of reducing defense spending are the countries of Northern and Eastern Europe, including Poland, which as few countries in Europe, recently increased its defense expenditure.

Certain regularities in the overall trend in today’s increases in defense spending can be observed indeed. They refer to one of the three characteristics, namely very strong economic growth, high income from crude oil or natural gas, or significant armed conflicts or other threats.

REFERENCES


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