Arab military spending: behind the figures

by Florence Gaub

Military expenditure in Europe is mainly a budgetary affair these days. But in the Arab world it is an important factor in assessing whether and where wars may occur. Military spending data can indicate the likelihood of a conflict breaking out or recurring, as well as the state of economic development in a given country: where military spending is high, there is not only a stronger probability that war will occur, it is also more likely to return. Most importantly, where defence expenditure is high and keeps rising and economic development suffers as a result, the threat of war becomes even more acute.

High spending = high conflict probability

Conventional wisdom has it that military spending is determined first and foremost by the size of a country's national economy, and perhaps also by the influence of its defence industry. But a 2009 Stanford University study entitled *The Effects of the International Security Environment on National Military Expenditures* shows that military spending is for the most part determined by the security environment – in other words, military expenditure can provide intelligence on how threatened the political leadership of a given country feels and, ultimately, how likely it is that a conflict may erupt.

In the study, a 1% rise in threat perception led to a 3% GDP increase in military spending. This does not imply that high military spending *causes* war, but it does offer insight into a state's threat perception, as well as how challenged a state is by an ongoing conflict.

Although it has largely gone unnoticed, almost all Middle Eastern and North African states are evolving in the opposite direction of Europe, having doubled – or even tripled – their defence spending in recent years. Six of the world's top ten military spenders are now located in the Middle East and North Africa: all of the Gulf states, for instance, have tripled their spending since 2003, and Algeria's military budget has grown by 174% in the same time frame, making it Africa's biggest spender. Although considerably lower today than during the Cold War (when on average 10% of GDP was spent), Arab military expenditure stands at 4.15% of GDP, three times the EU average.

In part, this reflects the fact that autocracies generally spend 140% more on their armed forces than democracies (where the military runs a country, military expenditure normally rises by 2% of GDP), but it also reflects that the Arab world continues to be an area prone to conflict – both intra- and interstate.

Military expenditure is therefore always linked to the regional context: an increase in a potential antagonist's defence spending will increase, in the long term, a given state's military budget by up to 30%. Perhaps counterintuitively, the resulting balance of capabilities statistically increases the likelihood of conflict.

Guns, butter and bribes

High military spending does not only serve as an indicator for potential future conflicts. It is also a factor in the recurrence of *civil wars*. During a civil war, states spend 5.2% of their GDP on defence, whereas states at peace spend 3.3%. States undergoing civil wars generally see, first, a spike in military spending: expenditure increases by 1.8% (which would put Syria's at around 5.9% today, based on 2010 figures). However, as civil wars last 10 years on average, maintaining such a high figure is simply unsustainable. In the years following a civil war, defence spending only gradually decreases and hovers at around 4.7%. Often, continued investment in the military is perceived to act as deterrent against rebel groups, as seen in the cases of Algeria and Lebanon. Statistically, however, this increases the likelihood of conflict relapse: high spending (5.2%) increases the risk of conflict from 44% to 47%, whereas lower spending (3.3%) decreases it to 38%.

Military expenditure % GDP	2012	2011	2010	2009	2008
Algeria	4.5	4.4	3.5	3.8	3.0
Bahrain	3.5	3.3	3.5	3.9	3.0
Egypt	1.7	1.9	2	2.1	2.3
Iraq	2.7	3	2.5	2.5	2.2
Jordan	4.6	4.6	4.9	6.8	6.1
Kuwait	3.3	3.2	3.5	4.0	3.0
Lebanon	4.1	4.1	4.2*	4.1	3.9
Libya	3.2	..	..	..	1.2
Mauritania	..	..	..	3.8	3.4
Morocco	3.5	3.4	3.5	3.4	3.3
Oman	8.4	5.9	8.3	9.3	7.6
Palestinian Authority	..	..	..	..	..
Qatar	..	..	1.5	2.0	2.0
Saudi Arabia	8.9	8.4	10.0	11.0	8.0
Syria	..	..	4.1	4.0	3.6
Tunisia	1.6*	1.4*	1.3	1.3	1.3
United Arab Emirates	..	5.4*	5.9*	5.1*	3.7*
Yemen	4.0	3.5	..	..	4.4

Source: SIPRI (*estimate)

Of critical importance is the security-development nexus, in which military expenditure stands at the very centre. Conflict comes at a high economic cost (war reduces investment by 10%, for instance), while growth reduces the risk of conflict by raising income levels.

Although Europe has internalised the 1990's slogan of the *peace dividend* (essentially, the idea that spending less on defence will lead to economic growth), the Arab world has moved in the opposite direction. Military spending has to be financed by tax revenues or by borrowing, which leads to inflation, which in turn lowers after-tax returns. It also reduces savings required to start new business ventures or maintain current endeavours. In the Arab world, states are forced to choose between defence expenditure and economic development – especially if they lack functioning defence industries. Accordingly, military burdens (more guns) have long been major causes of slow growth (less butter).

When North African states lowered their defence spending by 3.5% following the end of the Cold War, they experienced an increase in investment of nearly 0.7% of GDP. In the Middle East, defence cuts averaging 1.3% led only to a 0.25% increase. Had the Arab states adjusted their military budgets to European levels in 1990 – and maintained them – their economies would have grown by between 2-3% a year, and generated output levels over 50% higher than at present. Although military spending in the region today is much lower than it was three decades ago, it is still above the peacetime average and, with the exception of the Gulf states, takes place in economically challenged societies.

Interestingly, high military spending often goes hand in hand with *corruption*, which itself has a detrimental effect on economic efficiency and growth. Some estimate the share of bribes to account for up to 15% of total spending during the process of weapons acquisition. In part, this is because defence projects are capital-intensive, clouded in secrecy, and unregulated by market processes.

The case of Egypt also shows that official data often tells only half of the story: while its defence budget is rather low (at 1.7% of GDP), this figure excludes both the separate economic activities of the armed forces (30 companies which are estimated to generate 5-15% of Egyptian GDP) or the yearly $1.3 billion in American military aid, which covers 80% of Egyptian military procurement.

In other words, cutting military expenditure promotes economic growth and reduces the likelihood of conflict at both domestic and international levels. Once a threat perception is in place, however, decision-makers prefer guns over butter.

Florence Gaub is a Senior Analyst at the EUISS.