



SURVEY OF MILITARY EXPENDITURE IN SOUTH AMERICA – BACKGROUND PAPER FOR THE SIPRI YEARBOOK 2003

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The availability and transparency of military expenditure data for South America has improved in recent years, with more governments making information available both in print and on the internet. As a result, SIPRI is able to present a rather more complete set of data for military expenditure for recent years, than was previously the case; at least for the larger countries in the region. SIPRI military expenditure data for the region is shown in tables 1-3 below, in current local currency prices, constant US dollars, and as a share of GDP. Figures 1 and 2 below plots military expenditure in constant 2000 US dollars and as a share of GDP for the larger countries in the region.

The year 2002 was one of economic and political turmoil for much of South America, and these developments are likely to have significant consequences for the level of military expenditure. In particular, the economic crisis affecting the two biggest economies, Brazil and Argentina, is likely to lead to falls in military expenditure, or at least cancel out planned rises in both countries. In Colombia, on the other hand, budgeted military expenditure cuts have been largely reversed by the renewal of the civil war there. Venezuela has seen an attempted military coup and a general strike, with a consequent slump in economic output, all of whose consequences for military spending have yet to become clear.

This turbulent state of affairs makes it impossible to give a precise overall picture for military spending in the region in 2002 at this stage. The rapid deterioration in the economic picture for many countries has meant that they may not have been able to fulfill initial budget plans. Rapid inflation in some cases may mean that nominal budget figures may be underestimates; at the same time, unexpected inflation may erode the real value of items such as military salaries, unless this is compensated for. With these qualifications, it is likely that 2002 will show a downturn in regional military expenditure, largely as a result of the economic problems experienced in Argentina, Brazil and Venezuela. However across the region there are diverse patterns of economic, political and security issues driving the level of military expenditure in different countries, which we now examine.

It may be reasonably stated as a general rule that, in a continent with virtually no recent record of wars between nations, it is predominantly economic and political factors – such as the debt crisis and the political position of the military within the state - that determine military expenditure,

rather than actual or potential conflict.¹ An exception is *Colombia*, which in 2002 saw a severe escalation in the war between the government, left-wing rebels from the Fuerzas Armadas Revolucionarias de Colombia (FARC) and Ejército de Liberación Nacional (ELN), and right-wing paramilitaries such as the Autodefensas Unidas de Colombia (AUC). This follows the breaking down of peace talks between the government of President Pastrana and the FARC in February, the government's sending forces into the FARC's former 'safe haven' in the south of the country, and the election in June of hard-liner Alvaro Uribe as President, on a platform of acting forcefully against the guerrillas.² One of his first actions in power was to declare a new 'war tax' of 1.2 per cent on assets worth at least \$60,000, adding in particular 579 billion pesos (roughly \$230 million) to the military budget, increasing its defence burden, which at 3.8 per cent of GDP in 2001 already was the highest in the region. However, spending in wartime is highly fluid, and the actual appropriation for 2002 exceeded the budget by 20 per cent.³ The budget for 2003 raises the defence budget by 12 per cent in real terms, according to media sources, while other departments have reduced or frozen budgets, as the government tries to reduce the budget deficit.⁴

President Uribe's approach of seeking a military solution to the conflict in Colombia accords well with the United States' current 'war on terrorism', and comes in the context of an increased flow of military aid from the US under Plan Colombia, a \$1.3 billion aid package passed into law in 2000, 75 per cent of which is for military and police counter-narcotics activities.⁵ Critics of the package have argued that much of this aid is in practice used to fight the civil war.⁶ However, in March 2002, the US administration decided to end the distinction in any case, asking Congress to authorize the use of military aid for Colombia for counter-insurgency as well as counter-narcotic operations, and legislation permitting this was passed in August.⁷ According to the Center for International Policy, total US military and police aid to Colombia was \$375 million in 2002, set to rise to \$499 million in 2003.⁸

¹ For a discussion of this, see Perlo-Freeman, S., 'Arms races, military expenditure and democratic transition in South America', *Paper presented at the 6 Middlesex Conference on Economics and Security*, Middlesex University, June 2002, available from the author at SIPRI.

² See Wiharta, S., 'Major Armed Conflicts', in *SIPRI Yearbook 2003: Armaments, disarmament and international security* (Oxford University Press: Oxford, June 2002).

³ While the defence budget for 2002 amounted to 6996 billion pesos (see appendix 10A, table 10A.2), the actual appropriation was 8429 billion pesos (data provided after the deadline for the SIPRI data tables). Response to SIPRI data request, National Planning Department of Colombia, 11 Feb. 2003.

⁴ No title, *Latin American Weekly Reports*, 22 Oct. 2002, p. 500.

⁵ 'U.S. Support for Plan Colombia', *U.S. Department of State Website*, URL: <<http://usinfo.state.gov/regional/ar/colombia/wwwhpcus.htm>>

⁶ e.g. Susskind, Y., 'Colombia conflict: the basics', *MADRE: An International Women's Human Rights Organisation*, URL: <http://www.madre.org/country_col_basics.html>

⁷ 'Bush tests military aid mood shift' *Latin American Weekly Reports*, 26 Mar. 2002, p. 152; and 'Troublesome transfers in the works', *Federation of American Scientists website*, URL: http://www.fas.org/asmp/resources/govern/107_hr4775pl.htm.

⁸ 'U.S. aid to Colombia since 1997: summary tables', *The Center for International Policy website*, URL: <http://www.ciponline.org/colombia/aidtble.htm>.

Brazil, though spending a fairly small share of GDP on the military (at most 1.5 per cent over the past ten years), is the region's biggest spender by far, accounting for around a third of Latin American military expenditure on its own. The budget for 2002 had envisaged a real-terms increase of over 10 per cent, continuing a general rising trend over the past decade that bears little relation to actual security threats, and represents much more a *quid pro quo* for military acceptance of increasing subordination to the civilian government. The process of dismantling military power within the state took a major step forward in 1998 with the replacement of three military ministers with a civilian minister of defence, and in 2000 with the publication of Brazil's first ever Defence White Paper, designed by the civilian government.⁹ In return, the military have received generous budget settlements and the prospect of new modern equipment. Modernization plans in 2002 included \$670 million for the army,¹⁰ and \$3 billion over the next several years for the air force, including \$700 million on advanced fighter aircraft.¹¹

However, these plans have been hit by the negative consequences for the Brazilian economy of the Argentine crisis. Although GDP has grown, albeit sluggishly, through 2002, Brazil has run into severe problems as a result of its \$260 billion public debt, exacerbated by market fears surrounding the election of left-wing President Luiz Inacio 'Lula' da Silva.¹² These fears led to the country's debt rating being downgraded in July by Standard & Poor's.¹³ A \$30 billion IMF loan in September came with a requirement that the government maintain a budget surplus of 3.75 per cent of GDP.¹⁴ All this has led to budget cuts: the army's modernization was cancelled in August.¹⁵ and the fighter purchase postponed, with the air force leasing upgraded Israeli Kfirs instead.¹⁶ On July 31, 44,000 of the army's 57,000 conscripts were released, the biggest dismissal in the army's history, as part of cuts amounting to around \$1 billion.¹⁷

⁹ Fitch, J.S., *The Armed Forces and Democracy in Latin America*, Baltimore, MD: John Hopkins University Press, October 2000, Hunter, W., 'State and Soldier in Latin America', *Peaceworks* No. 10 (Washington, D.C.: United States Institute of Peace), October 1996., 'Country briefing Brazil', *Janes Defence Weekly*, 21 June 2000, p. 20-26.

¹⁰ Rezende, P. P., 'Brazilian Army funding package is approved', *Janes Defence Weekly*, 15 May 2002, p. 11.

¹¹ E.g. Canahuate, T., 'Despite financial crisis, Chile, Brazil press ahead with air force upgrades', *Defense News*, 18-24 Mar. 2002, p. 26,28.

¹² E.g. Gibb, T., 'Financial woes hit pre-election Brazil', *BBC News Online*, 28 Sep. 2002, URL: <http://news.bbc.co.uk/2/hi/business/2285990.stm>, Madslie, J., 'Brazil's looming economic crisis', *BBC News Online*, 5 Aug. 2002, URL: <http://news.bbc.co.uk/2/hi/business/2173296.stm>; and 'Market upheaval in Brazil fuels fears of "contagion" from Argentina', *Latin American Weekly Reports*, 18 June 2002, p. 1.

¹³ 'Brazil's debt under pressure', *BBC News Online*, 3 July 2002, URL: <http://news.bbc.co.uk/2/hi/business/2087409.stm>.

¹⁴ 'Brazil gets \$30 billion IMF loan', *BBC News Online*, 6 Sep. 2002, URL: <http://news.bbc.co.uk/2/hi/business/2242278.stm>.

¹⁵ Rezende, P.P., 'Brazil's budget cuts hit projects', *Janes Defence Weekly*, 14 Aug. 2002, p. 7.

¹⁶ Aloni, S., 'Brazil's F-X programme stalls', *Air Forces Monthly*, October 2002, p. 16.

¹⁷ Rezende, P.P., as note 15.

One military project that did come into operation in July 2002, despite the economic difficulties, was the Sistema de Vigilancia da Amazonia (SIVAM), a \$1.4 billion monitoring and surveillance programme for Brazil's vast Amazon region that has been developed over the past 10 years.¹⁸ The system is designed to counter threats such as drug smuggling, spillovers from the Colombian conflict and illegal gold-diggers, but also seeks to prove that Brazil can take care of the region itself, in the face of fears of interference by foreign powers on environmental grounds.¹⁹

Looking at the overall picture, Brazil's economic difficulties are likely to mean that the planned increase will be reduced if not altogether reversed, though final military expenditure figures for 2002 are not presently available. Looking ahead, as new President 'Lula' da Silva has made an anti-hunger campaign his top priority, while maintaining budgetary restraints, increases in military spending are not to be expected. The new government has already further postponed the \$700 million purchase of jet fighters for another year.²⁰

Argentina's military spending has been fairly flat over the past few years, and was due to remain so in 2002, but this year's acute financial crisis is likely to significantly alter these plans. The budget law gave a nominal increase of just under 1 per cent, but the final picture on expenditure may not be apparent for some time. The Argentine economy contracted by 10.9% in 2002,²¹ while the country has defaulted on major international loans, including an \$800 million payment to the World Bank in December 2002.²² This will certainly make it very difficult if not impossible for Argentina to obtain new credit for items such as major weapons purchases. The IMF has provided some assistance, but so far only in the form of rescheduling debt repayments.²³ This has required deficit-cutting measures in return, though these have mostly related to tax rises and cuts in provincial budgets.²⁴

Nonetheless, the military sector has certainly felt the effects of the economic crisis, with a number of air force modernization projects shelved, although a planned purchase of new locally-manufactured Pampa trainers was reported to be going ahead.²⁵ It is also important to note that the abolition of

¹⁸ 'Brazil spies on Amazon loggers', *BBC News Online*, 25 July 2002, URL: <<http://news.bbc.co.uk/2/hi/americas/2151222.stm>>.

¹⁹ E.g. Da Costa, T.G., 'Brazil's SIVAM: As it monitors the Amazon, will it fulfill its human security promise?', *Environmental Change & Security Project Report*, No.7, p. 51-58.

²⁰ 'Brazil opts for butter before guns', *BBC News Online*, 4 Jan. 2003, URL: <<http://news.bbc.co.uk/2/hi/americas/2626683.stm>>.

²¹ No title, *Latin American Weekly Report*, 25 Mar. 2003, p. 136.

²² 'Argentina in \$1 billion loan default', *BBC News Online*, 13th Dec. 2002, URL: <<http://news.bbc.co.uk/2/hi/business/2573183.stm>>, 'Non-payment leads to World Bank cut-off', *Latin American Weekly Report*, 17 Dec. 2002, p. 594.

²³ 'Argentina wins breathing space', *BBC News Online*, 17 January 2003, URL: <<http://news.bbc.co.uk/1/hi/business/2666793.stm>>.

²⁴ E.g. 'Farm exports taxed to balance books', *Latin American Weekly Report*, 9 April 2002, p. 158, 'IMF praises Argentina's reforms', *BBC News Online*, URL: <<http://news.bbc.co.uk/2/hi/business/2030070.stm>>.

²⁵ Chuter, A., 'Despite fiscal woes, Argentina committed to Pampa jet', *Defense News*, 8-14 April 2002, p. 18.

the dollar peg for the Argentine Peso at the end of last year has turned falling prices experienced since 1999 into inflation of around 40 per cent over 2002,²⁶ which will impact the real value of items such as military salaries and pensions. The Argentine economy is expected to recover slightly in 2003, but with reports in December, previously unthinkable in food-rich Argentina, of children dying from undernourishment in the poorer northern province of Tucumán,²⁷ the armed forces is hardly likely to be a priority.

Chile's economy has not felt the effects of 'contagion' from her Argentine neighbor to any great extent, but aside from the state of the economy, Chilean military spending is largely shielded from economic pressures facing other spending areas by the constitution, a legacy of the former Pinochet dictatorship. The official defence budget cannot legally fall below the 1989 level in real terms, and in addition, 10 per cent of the revenues of the state copper company Coldeco go direct to the armed forces to be spent on arms procurement, split evenly between the army, navy and air force.²⁸ Falls in the price of copper in 2002 may however affect Chilean military spending in a way that the general economic climate cannot.²⁹ President Ricardo Lagos has actually addressed the issue of the military's copper levy in 2002, instructing Minister of Defence Michelle Bachelet to review it. However, abolition of the law, which would require a change in the constitution, has been ruled out for now, with discussion centering on allowing flexibility from the automatic three-way split.³⁰ The official defense budget this year shows a roughly 4 per cent real terms increase on 2001, though these figures exclude military pensions and arms procurement.

Venezuela budgeted for a fall in nominal military expenditure in 2002, representing a substantial real fall given inflation for 2002 of 31 per cent.³¹ This comes after three years of rising expenditures. As with Brazil and Argentina, however, initial budget figures should be treated with caution; inflation has accelerated this year, and the political turmoil surrounding attempts by the Opposition to force President Hugo Chávez from power, including a brief military coup and a general strike, has led to a sharp contraction in the economy.³² Specialist magazine *VenEconomy* weekly reported in September that 'Venezuela's public finances have probably never

²⁶ 'Inflation in the region', *Latin American Weekly Report*, 17rg Dec. 2002, p. 598 reports a 40.6% rise in prices over the previous 12 months.

²⁷ 'Argentina: the true dimension of its slide into hunger and infant deaths', *Latin American Weekly Report*, 3 Dec. 2002, p. 565.

²⁸ E.g., *Latin American Newsletters Special Report*, December 1998.

²⁹ No title, *Latin American Regional Report – Southern Cone*, 8 Oct. 2002, p. 3.

³⁰ 'Interview – Michelle Bachelet, Defence Minister of Chile', *Janes Defence Weekly*, 27 Mar. 2002, p. 48.

³¹ From Central Bank of Venezuela, reported in No title, *Latin American Weekly Report*, 7 Jan. 2003, p. 3.

³² The economy contracted by 5.5% in the third quarter, according to the Finance Minister, before the impact of the strike. (No title, *Latin American Weekly Report*, 7 Jan. 2003, p. 3). An overall contraction of 4% was forecast by Business Monitoring International ('Regional indicators', *Latin American Monitor – Andean*, Vol. 19 No. 11, Nov. 2002, p. 1).

been in a worse shape'.³³ Since then, the strike by oil industry managers that began in December has cut oil production – a key source of government revenue – from 3.1 billion barrels a day before the strike to 800,000 barrels per day at the beginning of 2003.³⁴ All this is likely to lead to lower military expenditure – though the most serious cuts may not take effect till 2003.

One branch of the armed forces that a more favorable budget settlement, however, was the *Guardia Nacional* (GN), which saw its budget rise from 201 billion bolivars in 2001 to 229 billion in 2002.³⁵ This is in line with reports in 2000 that suggested the GN was being given a more important role within the Venezuelan Armed Forces.³⁶ This more generous treatment may reflect a view that the GN is more loyal to the President than other sections of the armed forces, such as those involved in the attempted coup that briefly removed President Chávez from power in April 2002. The GN are described as 'pro-Chávez' by Latin American Newsletters,³⁷ and have been deployed to deal with a number of difficult situations over the past year.³⁸ If this analysis is correct, the GN may suffer less than other sections of the military from likely cuts in 2003, as President Chávez will want to ensure their continuing loyalty.

Peru has begun to publish military expenditure data on the internet, after years of secrecy under former-President Alberto Fujimori's autocratic rule, which ended in November 2000. Peru budgeted a drop in nominal military expenditure of around 17 per cent which, as inflation in Peru is likely to be close to zero in 2002, the fall in real terms will not be very different. This is the second fall in a row after roughly flat budgets between 1997 and 2000, and is in line with calls by President Alejandro Toledo, who took office in July 2001, for regional cuts in military expenditure to release funds for social expenditure.³⁹ Since the definitive settlement to Peru's border dispute with Ecuador in 1998, and with the Sendero Luminoso rebellion all but extinguished, Peru faces few security threats. Peru has also been working with traditional rivals Chile on producing a common methodology for measuring military expenditure,⁴⁰ paralleling a recent ECLAC (Economic Commission for Latin America and the Caribbean) initiative for Argentina and Chile that was completed in 2001.⁴¹ Peru is, however, receiving increased military aid from the US for coca eradication programmes; the US administration

³³ Reported by (no title), *Latin American Newsletters*, 17 Sep. 2002, p. 441.

³⁴ 'Hint of breakthrough at OAS "dialogue"', *Latin American Weekly Reports*, 7 Jan. 2003, p. 3.

³⁵ Venezuelan Budget laws, Ministry of Finance.

³⁶ Poljak, E.V., 'National Guard emerges as new power', *Caracas El Universal* (Internet version – *WWW*), 5 Dec. 200, in 2000, FBIS-LAT-2000-1205, 5 Dec. 2000.

³⁷ 'Venezuela: strike turns nasty', *Latin American Newsletters*, *Latin American Crisis Tracking Service*, 4 Dec. 2002.

³⁸ For example the establishment of eight 'security zones' in the capital Caracas in September: 'Chávez moves to forestall new putsch', *Latin American Weekly Report*, 24 Sep. 2002, p. 453.

³⁹ 'Peru, Chile to cooperate on defence spending', *Military Affairs*, 27 June 2002, p. 4.

⁴⁰ *Military Affairs*, as note 39.

⁴¹ Economic Commission for Latin America and the Caribbean, *A common standardized methodology for the measurement of defense spending* (Santiago, Chile: November 2001).

announced a trebling of funding from \$50 million per year to \$150 million in February 2002, including \$30 million to reinforce Peru's fleet of helicopters for anti-drug missions.⁴²

In other countries, *Uruguay* has suffered most from Argentina's economic crisis, with a 10.8% contraction in GDP.⁴³ The military appears to be amongst the sectors hit by resulting austerity measures.⁴⁴ In *Bolivia*, continuing tensions and occasional violence surrounding the government's coca eradication programme⁴⁵ may be behind a significant increase in planned military spending in 2002.

⁴² 'US raises the stakes in anti-drug war', *Latin American Newsletters- Andean Group Report*, 26 Feb. 2002, p. 6.

⁴³ No title, *Latin American Weekly Reports*, 25 Mar. 2003, p. 138.

⁴⁴ 'Further cuts for Uruguayan defense budget?', *Forecast International/DMS – Market Alert News Center*, 20 June 2002, (abstract of article from *El Observador*, 3 June 2002), URL <<http://64.69.109.103/mic/eabstract.cfm?recno=87876>>.

⁴⁵ 'Coca-growers accept compromise – MIR seeks to exploit discord', *Latin American Newsletters – Andean Group Report*, 26 Feb. 2002, p. 7.