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Further information:
Stephanie Blenckner
Communications Officer
Phone: +46 8 655 97 47
E-mail: blenckner@sipri.org

Background comment

Financial Crisis impact on military expenditure, arms production and arms trade

Military expenditure, arms production and arms transfers have continued their upward trend, driven primarily by the USA's spending on the wars in Iraq and Afghanistan but also by a combination of regional and global power aspirations, and—until recently—strong economic growth in many parts of the world. Only Western Europe has remained largely an exception to the trend of growing militarization.

The global financial crisis is now causing sharp falls in output in OECD economies, and sharply reduced growth elsewhere. Government budgets are coming under heavy pressure, compounded by the economic stimulus packages enacted to tackle the crisis. Will this staunch the seemingly inexorable rise of military spending and trade in arms? At present the signs are mixed. While some countries have announced military budget cuts, others have continued the increases of previous years. In the USA, there are signs of spending levelling off, but this is more due to the policies of the Barack Obama administration than to the crisis.

The factors motivating countries to spend on arms are diverse. They may include a combination of armed conflict, tensions with rivals or other security concerns; ambitions for global or regional status; and internal political factors. Economic factors act as a constraint, but do not necessarily override these other factors—so, while the crisis may put downward pressure on military and other budgets, the effect is unlikely to be either universal or unambiguous.

So far the global arms industry, booming from the wars in Iraq and Afghanistan and from spending increases by many developing countries, has shown few signs of suffering from the crisis. Military spending has continued to rise, while the long lead times associated with major weapons projects are likely to shield arms companies for some time to come. One exception is Russia, where some arms companies have faced a severe cash crisis. The Russian Government has promised significant bailout funds and increased domestic arms spending, but it remains to be seen if it will be able to make good on these promises now in the face of the new economic realities.

Among the biggest arms importers, there are few signs that the global financial crisis is significantly affecting decision making. Domestic and regional security concerns, as well as acquisitions of foreign technologies for their own domestic arms industries, appear to be outweighing any potential shrinking of procurement budgets. Among the smaller importers, the picture is more mixed. There are signs that, for example, Malaysia, Morocco, Thailand and Venezuela may cancel or delay purchases of big-ticket items, as happened during the 1997 Asian financial crisis. On the other hand, concerns that the financial crisis will increase global instability may serve as a justification for boosting acquisitions, as occurred during the Great Depression of the 1930s.

The overall impact of the current economic crisis has yet to reveal itself in the international arms trade. Despite the need for cooperative solutions to global problems, this thriving market points to states' continued willingness to squander resources that the international community can ill afford to lose.