

10. Military expenditure

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I. Introduction

World military spending in 2003 increased by about 11 per cent in real terms. This is a remarkable rate of increase, and it is even more remarkable considering that it was preceded by an increase of 6.5 per cent in 2002. Thus, over these two years world military spending increased by 18 per cent in real terms, to reach \$956 billion (in current dollars) in 2003.

High-income countries account for about 75 per cent of world military spending but only 16 per cent of world population. The combined military spending of these countries, which are also the major donors of development aid, was slightly higher than the aggregate foreign debt of all low-income countries and 10 times higher than their combined official development assistance in 2001 (see section II). While lack of data makes it impossible to make the same comparison for 2003, it is clear that these gaps have widened owing to the stark rise in world military expenditure since 2001. Thus, there is a large gap between what countries are prepared to allocate, on the one hand, for military means of providing security and maintaining their global and regional power status and, on the other hand, for alleviating poverty and promoting economic development.

The main reason for the increase in world military spending is the massive increase in the United States which, as the only remaining superpower, accounts for almost half of the world total. After a decade of reductions in military expenditure in the period 1987–98 and moderate increases in 1998–2001, the changes in US military doctrine and strategy after the terrorist attacks of 11 September 2001 have unleashed huge increases in US military spending in 2002 and 2003. Much of the rise is accounted for by the large supplementary appropriations to cover the costs of the military operations in Afghanistan and Iraq and of anti-terrorist activities more generally (section III).

What is the response of other major powers in terms of military spending? Are they also increasing their military budgets and, if so, for what reasons? While all countries accept that no nation is currently able to match the USA in military power, there are other types of response that could have an impact on their military spending (section IV).

The SIPRI statistics on military expenditure are presented in section II. Section III analyses military spending trends in the USA, while section IV provides an account of military expenditure trends in seven other major spenders:

Table 10.1. World and regional military expenditure estimates, 1994–2003

Figures are in US \$b., at constant (2000) prices and exchange rates. Figures in italics are percentages. Figures do not always add up to totals because of the conventions of rounding.

Region ^a	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	% change 94–03
Africa^b	(9.2)	(8.7)	(8.4)	8.6	9.2	9.9	10.3	10.5	11.3	11.4	(+24)
North ^b	(4.1)	(3.9)	(4.0)	4.2	4.4	4.3	4.7	4.8	5.4	5.5	(+35)
Sub-Saharan	5.1	4.8	4.4	4.4	4.8	5.6	5.7	(5.8)	5.9	(5.9)	(+15)
Americas	365	347	328	329	321	323	334	339	376	451	+24
North	344	324	306	304	298	299	310	313	350	426	+24
Central	3.5	3.1	3.2	3.3	3.2	3.4	3.5	3.6	3.4	3.3	-5
South	17.6	20.2	18.4	21.2	20.2	20.1	20.7	22.6	22.9	21.8	+24
Asia & Oceania	120	123	127	127	126	128	133	140	146	151	+25
Central	0.4	0.4	0.4	0.5	(0.4)	0.5	..	(0.5)	..	..	..
East	101	103	107	107	105	105	110	115	121	125	+24
South	12.0	12.6	12.8	13.4	13.5	14.6	15.2	15.8	15.9	16.9	+41
Oceania	7.3	7.0	7.0	7.1	7.4	7.7	7.7	8.0	8.3	8.5	+17
Europe	200	187	186	186	184	188	191	191	194	195	-2
Central & Eastern	26.4	20.6	19.3	20.1	17.5	18.3	20.0	21.5	22.2	24.5	-8
Western	174	166	166	166	167	170	171	170	172	171	-2
Middle East	47.1	43.8	43.8	48.1	51.9	50.3	58.0	63.1	63.8	70.0	+48
World	742	709	693	699	693	699	727	743	792	879	+18
<i>Change (%)</i>		<i>-4.4</i>	<i>-2.2</i>	<i>0.9</i>	<i>-0.8</i>	<i>0.8</i>	<i>4.0</i>	<i>2.3</i>	<i>6.5</i>	<i>11.0</i>	

^a For the country coverage of the regions, see appendix 10A, table 10A.1. Some countries are excluded because of lack of consistent time series data. Africa excludes Angola, Benin, Congo (Republic of), Congo (Democratic Republic of), Liberia and Somalia; Asia excludes Afghanistan; and the Middle East excludes Iraq. World totals exclude all these countries.

^b The series for North Africa and Africa have an increased coverage compared to that in *SIPRI Yearbook 2003*, because figures for Libya are available for the first time. However, these cover only the period 1997–2003, so the regional totals for 1994–96 are rough estimates.

Source: Appendix 10A, tables 10A.1 and 10A.3.

Japan, the United Kingdom, France, China, Russia, India and Brazil, in rank order. These all belong to the group of the 15 major spenders and are also major powers in their respective regions or sub-regions. The trends in three other countries that fit these criteria—Iran, Israel and Saudi Arabia—are presented in appendix 10E. Section V provides the conclusions of the chapter.

Appendix 10A presents SIPRI data on military expenditure for 158 countries for the 10-year period 1994–2003. World and regional totals at constant (2000) prices and US dollar exchange rates are provided in table 10A.1. Country data are provided in three formats: in their original form, in local currency and current prices (table 10A.2); in constant (2000) US dollars (table 10A.3); and as a share of gross domestic product (GDP) (table 10A.4). Appendix 10B presents data on the expenditure on military personnel and equipment of the member states of the North Atlantic Treaty Organization

(NATO). Appendix 10C presents the sources and methods for SIPRI's military expenditure data. Appendix 10D shows the response rates to requests by the United Nations (UN) and SIPRI to governments for data on military expenditure. Appendix 10E analyses military expenditure trends in the Middle East.

II. World and regional military expenditure

World military expenditure in 2003 amounted to \$879 billion at constant (2000) prices and exchange rates and approximately \$956 billion in current dollars.¹ This represents an increase of 11 per cent in real terms over the previous year and 18 per cent over a 10-year period.

The increase in 2003 is strongly influenced by the trend in US military expenditure, in particular by the supplementary appropriations for US military operations abroad for the 'war on terrorism'. These amounted to \$62.6 billion for fiscal year (FY) 2003 (see section III). Excluding the effect of these appropriations, world military spending in 2003 amounted to \$820 billion in constant (2000) dollars (and \$893 billion in current dollars) and represented a real increase of 3.5 per cent over 2002.

The largest relative increases in military expenditure in 2003 took place in North America (22 per cent in real terms), the Middle East (10 per cent), Central and Eastern Europe (10 per cent) and East Asia (3 per cent). In absolute terms, the regions that accounted for the largest increases in 2003 were North America (\$76 billion), the Middle East (\$6 billion) and East Asia (\$4 billion), while three regions experienced reductions: Central America, South America and Western Europe (table 10.1).

For the 10-year period 1994–2003, the regions with the largest increases, in real terms, in military expenditure were Africa, North and South America, East and South Asia, and the Middle East. The regions with roughly the same, or a lower, level of military expenditure in 2003 compared to 1994 are Central America, Central and Eastern Europe, and Western Europe (table 10.1).

Global resource comparisons

World military expenditure in 2003 corresponds to an average of 2.7 per cent of world GDP² and \$152 per capita.³ The GDP share increased by 0.2 percent-

¹ The world total in current dollars is calculated as the sum of all country data at current prices and exchange rates. The difference of 8.8% between the figure in constant 2000 dollars and in current dollars reflects a rise of 6.9% in US inflation for the US 47% share of the world total and an increase of 10.4% as the combined effect of inflation and currency changes in military expenditure in the rest of the world (53% share).

² This share is based on a projected figure of world GDP for 2003 of \$35 599 billion at market exchange rates, as provided in International Monetary Fund (IMF), *World Economic Outlook*, Sep. 2003, statistical appendix, table 1: 'Summary of world output', p. 173, URL <<http://www.imf.org/external/pubs/ft/weo/2003/02/pdf/appendix.pdf>>.

³ The estimate of world military expenditure per capita is based on a projected figure for world population of 6.3 billion in mid-2003, as provided in United Nations, *World Population 2002* (UN, Department of Economic and Social Affairs, Population Division: New York, 2002), available at URL <<http://www.un.org/esa/population/publications/wpp2002/wpp2002wc.htm>>.

Table 10.2. Military expenditure, official development assistance and foreign debt, by income group, 2001

Figures are in US \$b.^a Figures do not always add up to totals due to the convention of rounding.

Income group ^b	GNI/capita 2000 \$	Number of countries	Population 2001 m.	Military expenditure		Official development assistance given 2001 \$b.	Foreign debt 2001 \$b.
				2001 \$b.	2003 \$b.		
Low	≤ 755	58	2 505	(33)	(36)	0.0	533
Lower middle	756–2 995	41	2 164	76	91	0.0	918
Upper middle	2 996–9 265	27	504	80	80	0.6	882
High	≥ 9 266	32	957	555	672	52.9	.. ^c
Total		158	6 130	743	879	53.5	.. ^c

^a Figures for GNI/capita, development assistance and foreign debt are in current dollars, while figures for military expenditure are at constant (2000) prices and exchange rates.

^b The countries included in each income group are listed in the notes to table 10A.1, appendix 10A, in this volume. GNI = gross national income.

^c Comparable data for foreign debt are not available for the high-income countries.

Sources: **Population:** World Bank, *World Development Indicators 2003* (World Bank: Washington, DC, 2003), table 2.1: 'Population dynamics', p. 40; **official development assistance:** table 6.9: 'Aid flows from Development Assistance Committee members', p. 336; and table 6.9a: 'Official development assistance from selected non-DAC donors, 1997–2001', p. 337; **foreign debt:** table 4.16: 'External debt', p. 248; and **military expenditure:** appendix 10A, table 10A.1, in this volume.

age points over 2002—when world military spending accounted for 2.5 per cent of world GDP.⁴

These figures are averages for the world. However, military expenditure is unevenly distributed around the globe. The 32 richest countries (those classified as high-income countries by the World Bank⁵) account for about 75 per cent of world military expenditure although they have only 16 per cent of world population. The 58 poorest (low-income) countries, where 41 per cent of the world population lives, account for 4 per cent of global military spending (table 10.2).

To set the statistics on military spending in perspective, table 10.2 provides a comparison with development aid. These data show that the 32 high-income countries, which are also the major aid donors, allocated 10 times more public economic resources to the military sector (\$555 billion) than to official development assistance (\$52.9 billion) in 2001. Table 10.2 also provides a comparison with foreign debt, which shows that the combined military spending of the 32 high-income countries was roughly equal to the aggregate debt of all low-

⁴ World GDP in 2002 was \$32 177 billion at market exchange rates. International Monetary Fund (note 2).

⁵ World Bank, *World Development Indicators 2002* (World Bank: Washington DC, Apr. 2002).

income countries and that US military expenditure alone corresponded to around 60 per cent of their total debt in 2001. Thus, the high-income countries could pay the entire debt of the low-income countries with less than one year of their military spending.⁶ These data provide a rough illustration of the relative magnitudes of the global allocation of resources. While it is true that national public expenditure is not readily transferred to meet the social and economic needs of the poor countries, it is also true that, with increasing global interdependence, there is a stronger interlinkage between human security issues in the developing countries and risks, threats and insecurity in the richer countries.⁷ There is therefore a need for a global perspective and mechanism for resource reallocation. The Global Public Goods initiative of the UN Development Programme is one effort to steer developments in this direction.⁸

Military burden and public spending priorities

The countries with the highest and lowest known military burden, as measured by the share of military expenditure in GDP, are listed in table 10.3. This table also provides a comparison between military expenditure and government expenditure on health and education for these countries. The countries are listed separately by income groups: first, the 10 countries with the highest military burden among the 32 high-income countries (in the upper left-hand quarter of table 10.3); and then the 10 countries with the highest military burden among the 126 countries in the low and middle income groups (upper right-hand quarter). In the lower part of the table the same listing is made for the countries with the lowest military burden in each of these income groups.

The table shows that the majority of countries with the highest known military burden are countries that have been or are involved in armed conflict or are located in regions with major security problems.⁹ The main exceptions are France and Singapore, both in the high-income group. On average, the military burden is higher in the low- and middle-income countries—ranging from 4.9 to 23.5 per cent—than in the high-income countries—ranging from 2.3 to 10.4 per cent. In reality the difference is even greater because the level of military spending is severely under-reported in some of the low- and middle-income countries with a high military burden.¹⁰

⁶ See Roodman, D. M., *Still Waiting for the Jubilee: Pragmatic Solutions for the Third World Debt Crisis*, Worldwatch Paper no. 155 (World Watch Institute: Washington, DC, Apr. 2001), available at URL <<http://www.worldwatch.org/pubs/paper/155excerpt.html>>.

⁷ See, e.g., Hagelin, B. and Sköns, E., 'The military sector in a changing context', *SIPRI Yearbook 2003: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2003), pp. 291–93.

⁸ United Nations Development Programme, Office of Development Studies, *Providing Global Public Goods: Managing Globalization* (Oxford University Press: Oxford and New York, 2003).

⁹ Some countries with a high military burden as a result of armed conflict are not included in this table because of the lack of data, e.g. the Democratic Republic of Congo.

¹⁰ This is the case for several countries in Africa. See Omitoogun, W., *Military Expenditure Data in Africa: A Survey of Cameroon, Ethiopia, Ghana, Kenya, Nigeria and Uganda*, SIPRI Research Report no. 17 (Oxford University Press: Oxford, 2003). The coverage and reliability of military expenditure in a number of African countries are further investigated in the SIPRI study Omitoogun, W., SIPRI,

Table 10.3. Countries with the highest and lowest military burden in 2002:^a social and military expenditure as a share of gross domestic product, 2000–2002

Figures are percentages.

High-income countries ^b				Low- and middle-income countries ^b			
Country ^c	Education ^d	Health ^e	Military ^f	Country ^c	Education ^d	Health ^e	Military ^f
<i>Countries with the highest military burden in 2002</i>							
Kuwait	..	2.6	10.4	Eritrea	4.8 ^d	2.8	23.5
Israel	7.3	8.3	9.2	Oman	3.9 ^d	2.3	[12.3]
Brunei	4.8	2.5	7.0	Saudi Arabia	9.5 ^d	4.2	9.8
Singapore	3.7 ^d	1.2	5.2	Jordan	5.0	4.2	8.4
Greece	3.8	4.6	4.3	Burundi	3.4	1.6	7.6
UAE	1.9 ^d	2.5	3.7	Liberia	..	..	(7.5)
USA	4.8	5.8	3.4	Yemen	10.0	..	7.1
France	5.8	7.2	2.5	Syria	4.1	1.6	[6.1]
UK	4.5 ^d	5.9	2.4	Ethiopia	4.8	1.8	5.2
Taiwan	..	..	2.3	Turkey	3.5	3.6	4.9
Average^g	4.6	4.8	4.7		4.9	2.8	9.7
<i>Countries with the lowest military burden in 2002</i>							
Iceland	5.9	7.5	0.0	Costa Rica	4.4	4.4	0.0
Ireland	4.4	5.1	0.7	Mauritius	3.7	1.9	0.2
Austria	5.8	5.6	0.8	Moldova	4.0 ^d	2.9	0.4
Luxembourg	3.7 ^d	5.3	0.9	Mexico	4.4 ^d	2.5	0.5
Japan	3.5	6.0	1.0	Ghana	4.1 ^d	2.2	0.6
New Zealand	6.1	6.2	1.1	Guatemala	1.7	2.3	0.6
Switzerland	5.5 ^d	5.9	1.1	Cape Verde	4.4 ^d	1.8	0.7
Finland	6.1 ^d	5.0	1.2	Honduras	4.0 ^d	4.3	0.8
Spain	4.5 ^d	5.4	1.2	El Salvador	2.3 ^d	3.8	0.8
Slovenia	..	6.8	1.5	Georgia	..	0.7	0.9
Average^g	5.1	5.8	0.9		3.7	2.9	0.5

[] = SIPRI estimates.

^a Top/bottom 10 countries with a known military expenditure share of GDP in 2002.^b For the definition and coverage of the respective income groups, see appendix 10A.^c Countries are ranked by their share of military expenditure in GDP in 2002.^d The figures for public expenditure on education as a share of GDP are for 2000/2001, except figures marked with footnote *d*, which are for 1998–2000.^e The figures for public expenditure on health as a share of GDP are for 2000.^f The figures for military expenditure as a share of GDP are for 2002.^g The figures for average share include only the countries for which data are available for all 3 variables (education, health and military) so as to achieve comparability between the shares.

Sources: **Education expenditure as a share of GDP for 2000/2001:** UN Educational, Scientific and Cultural Organization (UNESCO), Institute for Statistics Database Access Statistics, table on 'Public expenditure on education as percentage of GDP', URL <<http://stats.uis.unesco.org/eng/TableViewer/wdsview/dispviewp.asp>>; **education shares for 1998–2000 and health shares:** UN Development Programme (UNDP), *Human Development Report 2003* (Oxford University Press: New York, 2003), annex table 17, 'Priorities in public spending'; and **military expenditure shares:** appendix 10A, table 10A.4.

Budgeting for the Military Sector in African Countries: The Process and Mechanisms of Control (Oxford University Press: Oxford, forthcoming).

Most of the countries with the lowest military burden are small countries in a generally more peaceful environment. Among the high-income countries, there are several non-aligned countries in this group—perhaps surprisingly, since cost-sharing is commonly seen as a major benefit of alliance membership. The only major power in this group is Japan, which has a policy of not letting its military burden exceed 1 per cent of GDP. Among the 10 low- and middle-income countries with a low military burden, five countries are located in Central America, a region that has experienced a long period of relative economic and political stability subsequent to successful conflict resolution in the 1980s. Hence, this is an example of the possibility to prioritize social spending in a more benign security environment.

The comparison between military expenditure and social expenditure—health and education—provides an indication of government priorities. In some countries there is significant additional expenditure on health and education provided by the private sector. This comparison shows that in countries with a high military burden the military share of GDP is on the same level or higher than the shares devoted to education and health. In countries with a low military burden, on the other hand, government spending on education and health accounts for a much higher share of GDP than military expenditure.¹¹

There are also differences within the group of countries with a high military burden. The group of high-income countries exhibits roughly even priorities between education, health and military expenditure, while the poorer countries allocate a much higher share to military expenditure than to both education and health. A more precise interpretation of the priorities is complicated by the fact that in many of these countries there is also a significant amount of non-government expenditure for social purposes.¹²

Among countries with the lowest military burden, the high-income countries have a greater gap between social and military expenditure than the poorer countries. This probably reflects the fact that high-income countries can afford a higher share, while poorer countries are forced to devote a large part of their government expenditure to debt repayments, infrastructure and economic development.

The major spenders in 2003

The 15 countries with the highest military expenditure in 2003 are listed in rank order in table 10.4: first, when the comparison is made at market exchange rates (the left-hand columns); and second, compared at purchasing power parity (PPP) rates (the right-hand columns). The table shows that the major spenders accounted for 82 per cent of world total military expenditure in

¹¹ See Gupta, S. *et al.*, 'The elusive peace dividend', *Finance and Development*, vol. 39, no. 4 (Dec. 2002), p. 2, available at URL <<http://www.imf.org/external/pubs/ft/fandd/2002/12/gupta.htm>>.

¹² Another difficulty is the lack of standardized data on budgetary categories, and therefore problems of cross-country comparability. For an overview of the issues involved in the interpretation of statistics on the military sector see Dunne, P., 'The statistics on militarism', eds D. Dorling and L. Simpson, *Statistics in Society* (Arnold: London, 1999), pp. 376–83.

Table 10.4. The 15 major spender countries in 2003

Figures are in US \$b., at constant (2000) prices and exchange rates. Figures in italics are percentages.

Military expenditure: in MER dollar terms					in PPP dollar terms ^a		
Rank	Country	Level (\$b.)	Per capita (\$)	World share (%)	Rank ^b	Country	Level (\$b.)
1	USA	417.4	1 419	47	1	USA	417.4
2	Japan	46.9	367	5	2	China	[151.0]
3	UK	37.1	627	4	3	India	64.0
4	France	35.0	583	4	4	Russia	[63.2]
5	China	[32.8]	25	4	5	France	38.4
Sub-total top 5		569.1		64	Sub-total top 5		734.0
6	Germany	27.2	329	3	6	UK	35.0
7	Italy	20.8	362	2	7	Japan	32.8
8	Iran ^c	[19.2]	279	[2]	8	Germany	30.4
9	S. Arabia	19.1	789	[2]	9	Italy	26.4
10	South Korea	13.9	292	2	10	Saudi Arabia ^c	25.6
Sub-total top 10		669.3		76	Sub-total top 10		884.2
11	Russia	[13.0]	91	1	11	South Korea	25.0
12	India	12.4	12	1	12	Iran ^c	[23.7]
13	Israel	10.0	1 551	1	13	Turkey	22.5
14	Turkey	9.9	139	1	14	Brazil	[21.0]
15	Brazil	9.2	51	1	15	Pakistan	15.0
Sub-total top 15		723.8		82	Sub-total top 15		991.4
World		879		100	World		..

[] = SIPRI estimates.

MER = market exchange rate; PPP = purchasing power parity.

^a The figures in PPP dollar terms are converted at PPP rates (for 2000), calculated by the World Bank, based on comparisons of gross national product (GNP).

^b The top 15 list in PPP terms would probably include Myanmar, if data were available.

^c Data for Iran includes expenditure for public order and safety and is a slight overestimate.

Sources: **Military expenditure:** appendix 10A; **PPP rates:** World Bank, *World Development Indicators 2002* (World Bank: Washington, DC, 2002), table 5.6, Relative prices and exchange rates.

2003, when calculated at market exchange rates (for the base year 2000). The USA alone accounted for 47 per cent, taking into consideration the supplementary budget allocated for the war on terrorism, which by itself is over 25 per cent higher than the total military expenditures of each of the next four in order: Japan, the UK, France and China. These four each account for a 4–5 per cent share of the world total.

Military expenditure per capita varies widely between the major spenders. While Israel and the United States spend roughly \$1500 per citizen and year, some of the poorer major spenders—Brazil, China and India—spend less than \$100 per capita.

The alternative series based on PPP rates is provided because of an acknowledged problem in international comparisons of economic data: market

exchange rates tend to understate the purchasing power of expenditures in developing countries and countries in transition, thus distorting international comparisons.¹³ As shown in table 10.4, the use of PPP rates for conversion has a significant impact on the figures for China, India and Russia. These figures better reflect how much the military budget could buy in terms of a standardized basket of national output. On the other hand, they overstate the purchasing power on the international arms market and do not reflect appropriately the technological level of the military equipment.

III. The United States

The level of US military expenditure has increased dramatically during the 2000s, after the US Government initiated the war on terrorism in 2001 and launched the wars in Afghanistan in 2002 and in Iraq in 2003. Not only has the level of regular military expenditure been raised to a significantly higher level, but two large supplemental appropriations have been made to the budgets for FYs 2003 and 2004 to cover the costs of military operations abroad. The wars on terrorism, abroad and at home, have also incurred additional costs for non-military purposes: for reconstruction in Afghanistan and Iraq; and for homeland security. This higher level of spending involves a substantial economic burden in terms of a growing budget deficit and a growing federal debt. Even so, the armed services regard current allocations as insufficient for their procurement needs and are seeking new methods of financing arms procurement. A major example of this is the proposed financial arrangement for the lease of airborne refuelling aircraft (tanker aircraft) for the US Air Force (USAF). This section analyses the trend in US military spending, the supplemental allocations for the wars in Afghanistan and Iraq, the financing techniques and the economic impact of current levels of military spending.

The trend in US military expenditure

The trend in US military expenditure has been upward since its low point in FY 1998, when US reductions in military spending and in military personnel after the end of the cold war were completed. During FYs 2002–2004, there were massive increases in US military spending. Table 10.5 shows the official US statistics for actual, requested and projected military expenditure for the period FY 1999–2008. The figures for National Defense cover Department of Defense (DOD) items plus military-related items in other departments, primarily nuclear-weapon related activities under the Department of Energy (DOE). The table provides figures for both budget authority and outlays (explained in the notes to the table). The figures reported in the press and debated in Congress are normally for budget authority to spend, while actual expenditure is reflected in the figures for outlays.

¹³ For more information on the relative merits of using market exchange rates and PPP rates see Sköns, E. *et al.*, 'Military expenditure', *SIPRI Yearbook 2003* (note 7), pp. 304–306.

Table 10.5. US military expenditure, FY 1999–2008

Figures are in US \$b., at current prices and at constant (FY 2004) prices. Figures in italics are percentages.

	Actual				Enacted 2003 ^a	Requested 2004 ^b	Projected			
	1999	2000	2001	2002			2005	2006	2007	2008
<i>Department of Defense</i>										
Budget authority, current dollars	278.6	290.5	319.5	345.0	374.0	379.6	399.6	419.6	440.3	461.6
Budget authority, constant dollars	315.5	320.8	343.0	360.6	382.7	379.6	390.5	400.5	410.4	420.1
Annual change, in real terms (%)	..	1.7	6.9	5.1	6.1	-0.8	2.9	2.6	2.5	2.4
Outlays, current dollars	261.4	281.2	291.0	332.0	358.2	370.7	389.6	402.7	416.3	441.1
Outlays, constant dollars	296.9	310.7	311.9	346.1	366.5	370.7	380.8	375.5	379.0	392.1
Annual change, in real terms (%)	..	4.7	0.4	11.0	5.9	1.1	2.7	-1.4	0.9	3.5
<i>National Defense</i>										
Budget authority, current dollars	292.3	304.1	335.5	362.1	392.7	399.7	420.0	440.0	460.3	480.7
Budget authority, constant dollars	331.1	335.8	360.1	378.5	401.8	399.7	410.4	420.0	429.0	437.5
Annual change, in real terms (%)	..	1.4	7.2	5.1	6.2	-0.5	2.7	2.3	2.1	2.0
Outlays, current dollars	274.9	294.5	305.5	348.6	376.3 (438.9)	390.4 (456.0)	410.1	423.2	436.4	460.5
Outlays, constant dollars	312.2	325.3	327.4	363.4	385.1 (448.9)	390.4 (456.0)	400.9	394.6	397.3	409.3
Annual change, in real terms (%)	..	4.2	0.6	11.0	6.0 (23.5)	1.4 (1.6)	2.7	-1.6	0.7	3.0
Outlays as a share of GDP (%)	3.0	3.0	3.0	3.4	3.5	3.5	3.5	3.4	3.3	3.3

^a The figures for FY 2003 do not include the DOD part (\$62.6 billion) of the emergency supplemental appropriations approved by Congress in Apr. 2003 for the war in Iraq and other military operations. If this is included, outlays for national defence in FY 2003 is \$438.9 billion (shown in brackets).

^b The figures for FY 2004 do not include the DOD part (\$65.6 billion) of the supplemental appropriations requested by the administration in Sep. 2003. If this is included, the outlay for national defence in FY 2004 is \$456.0 billion (shown in brackets).

Budget authority is the authority to incur legally binding obligations of the government, which will result in immediate or future outlays. Most authority is provided by Congress in the form of enacted appropriations. *National Defense* allocations include the allocations for the Department of Defence and allocations for military purposes funded by non-DOD departments.

Source: Belasco, A. and Daggett, S., 'Authorization and appropriations for FY2004: Defense', CRS Report for Congress, Congressional Research Service, Library of Congress, Washington, DC, updated 26 Sep. 2003, table 3, p. 18. Outlays as a share of GDP: *Historical Tables, Budget of the United States Government, Fiscal Year 2004* (US Government Printing Office: Washington, DC, 2003), table 6.1: 'Composition of outlays: 1940–2008', p. 115, URL <<http://www.whitehouse.gov/omb/budget>>.

Table 10.5 shows that regular budget authority for National Defense, as enacted for FY 2003, was \$392.7 billion, and the request for FY 2004, as presented by the George W. Bush Administration on 3 February 2003, amounted to \$399.7 billion.¹⁴ Actual outlays were projected to increase by 6 per cent in real terms in FY 2003 and by 1.4 per cent in FY 2004. When the supplemental appropriations for military operations in FY 2003 and FY 2004—of \$62.6 billion and \$65.6 billion, respectively—are added, the FY 2003 outlays are much higher. They represent an increase in real terms of 23 per cent over FY 2002 and a full 38 per cent over FY 2000. For the next four-year period, FY 2005–2008, the administration is projecting continued high levels of budget authority and outlays, and even increases—of about \$20 billion annually, or slightly more than 2.3 per cent in real terms.

There was broad partisan support in Congress during 2003 for the high level of spending requested by the Bush Administration. The defence budget for FY 2004 was passed by a vote of 407 to 15 in the House of Representatives and unanimously in the Senate in September 2003.¹⁵ The FY 2004 Defense Appropriations Bill, passed by Congress in September, amounted to a total of \$397.3 billion for National Defense: \$368.2 billion for the DOD, \$17.3 billion for nuclear weapon activities by the DOE, \$9 billion for military construction, and \$2.8 billion for other military-related activities. By and large, Congress approved the entire administration request for budget authority in FY 2004, as reflected in the FY 2004 National Defense Authorization Act of 24 November 2003, providing \$401.3 billion in DOD budget authority.¹⁶

In terms of the level and distribution of allocations, there were no major differences between Congress and the administration. Where Congress differed was primarily in rejecting administration requests for DOD authority for increased self-management.¹⁷ In terms of allocations, Congress approved all major requests by the administration. In fact, the most significant difference was that Congress raised the sum for military research and development (R&D)—while the administration had requested \$61.8 billion, the congressional Defense Appropriations Bill included \$65.2 billion. Congress also gave higher priority to procurement (\$74.7 billion against requested \$72.7 billion) and less to personnel and to operations and maintenance than requested by the administration.¹⁸ By early 2004, however, the Democrat opposition had begun to seriously challenge the military spending and fiscal policy of the Bush Administration.

¹⁴ US Department of Defense, 'Fiscal 2004 Department of Defense budget release', News release no. 044-03, 3 Feb. 2003, URL <http://www.defenselink.mil/news/Feb2003/b02032003_bt044-03.html>. These original figures differ slightly from the revised figures of Sep. 2003 in table 10.5.

¹⁵ 'Pentagon given \$368.7 billion, other agencies get stopgap bill', *Wall Street Journal*, 26 Sep. 2003, in *Early Bird Brief*, 26 Sep. 2003.

¹⁶ 'Pentagon wins much, not all, in appropriations', *Defense News*, 13 Oct. 2003, p. 18.

¹⁷ 'Pentagon wins much, not all, in appropriations' (note 16), p. 17.

¹⁸ '2004 Defense Appropriations Bill', *Defense News*, 13 Oct. 2003, p. 20.

Table 10.6. The FY 2004 supplemental appropriation for the war on terrorism
Figures are in US \$m., at current prices.

Category	Requested sum
<i>Department of Defense and classified operations</i>	
Operation Iraqi Freedom	51 000
Operation Enduring Freedom, in Afghanistan	11 000
Coalition partners and mobilization support	3 600
Total military	65 600
<i>Coalition Provision Authority (CPA) and Department of State for reconstruction</i>	
The Iraq Relief and Reconstruction Fund (for use by the CPA):	20 300
To enhance security (army, police and border enforcement)	5 100
To provide basic electricity services	5 700
To provide basic water and sewer services	3 700
To rehabilitate the oil infrastructure	2 100
Other	3 700
Security and reconstruction in Afghanistan (incl. funds for building the Afghan National Army)	800
State Department operations (to provide secure State Department facilities in Iraq and to pay rewards in the war on terrorism)	140
Other	160
Total reconstruction	21 400
Total supplemental appropriation	87 000

Sources: Office of Management of Budget (OMB), Executive Office of the President, 'President submits request for funding war on terrorism—provides resources for the war on terror, including military and intelligence operations in Iraq and Afghanistan and the relief and reconstruction of those countries', Press release, Washington, DC, 17 Sep. 2003. For details, see 'Transmittal Letter from the Director of OMB to the President', 17 Sep. 2003, URL <http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf>.

Appropriations for the wars

During 2003 the Bush Administration requested two supplemental appropriations related to the wars in Afghanistan and Iraq, amounting to a total sum of \$161.7 billion for military operations and for military and non-military reconstruction. In April 2003 Congress passed an emergency supplemental appropriation for FY 2003 amounting to \$74.7 billion, of which \$62.6 billion for the DOD 'to support military operations in Iraq and throughout the global war on terror' and \$12.1 billion for non-DOD activities.¹⁹ In September 2003 the administration requested a supplemental appropriation for FY 2004, amounting to a total of \$87 billion, of which \$65.6 billion for DOD military operations and classified (i.e., secret) operations.

¹⁹ 'FY2003 emergency supplemental appropriations', Testimony by Secretary of Defense Donald H. Rumsfeld to US Senate Appropriations Committee and House Appropriations Committee, 27 Mar. 2003, URL <<http://www.defenselink.mil/speeches/2003/sp20030327-secdef0102.html>>.

The DOD part of the FY 2004 supplemental included \$51 billion for military operations in Iraq; and \$14.6 billion for military operations in Afghanistan, the Horn of Africa and other Operation Enduring Freedom missions (table 10.6). The remaining \$21.4 billion was for post-war reconstruction, most of which for Iraq and some for Afghanistan. Out of the total request of \$20.3 billion for Iraq, to be distributed by the Coalition Provisional Authority, \$15.2 billion was requested for reconstruction of Iraq's infrastructure and \$5.1 billion for the security system in Iraq. The latter included about \$2 billion for public safety, some of which for training of an additional 40 000 police troops, \$2 billion for training of a new Iraqi army and an Iraqi civil defence corps, and \$1 billion for the justice system.²⁰ According to US Secretary of Defense Donald Rumsfeld, other countries will also contribute to the rebuilding effort in Iraq, but most of the funds will come from Iraq itself. According to the Coalition Provisional Authority in September 2003, Iraqi oil revenues should generate \$2.5 billion in 2003 and, with improvements to the oil infrastructure, these revenues could increase to \$20 billion by 2005.²¹ This led some members of Congress to try to turn part of the allocations for reconstruction into loans to Iraq, arguing that 'Iraq, which owns the world's largest oil reserves, will one day be able to repay the loans, and that the deficit-plagued US government has to borrow the money it is making available to Iraq'.²² The US Administration warned against such efforts because they would lend credence to suspicions that one of the rationales behind the war was to provide business for US firms.

New financing techniques

In spite of the massive increases in US military spending, current allocations are insufficient for funding of US procurement plans. There is therefore a search for new financing techniques. One technique which generated debate in 2003 was the planned lease of 100 modified Boeing-767 aircraft for use as tanker aircraft. Under the financing arrangement proposed by Boeing and the USAF and endorsed by the DOD in May 2003, the lease would be financed by a new 'special-purpose entity' in the form of a non-profit trust, set up by a Wall Street firm, that would buy the aircraft and lease them to the USAF. The trust would issue bonds to raise \$16 billion to lease 100 aircraft to the USAF for six years.²³ At the end of the lease, the USAF would have an option of buying the aircraft at a pre-negotiated price, pending congressional approval. This financing approach was seen by critics as having an 'Enron-style twist', since it was designed to keep the deal off the accounting records of both the USAF and Boeing.²⁴

²⁰ Garamone, J., 'Rumsfeld, Myers urge House to support \$87B supplemental bill', American Forces Press Service, Washington, DC, 30 Sep. 2003, URL <http://www.defenselink.mil/news/Oct2003/n10012003_200310011.html>.

²¹ Garamone (note 20).

²² '\$87B request for Iraq goes to Congress', *Defense News*, 13 Oct. 2003, p. 26.

²³ 'U.S. tanker trust opens new door for acquisition', *Defense News*, 2 June 2003, p. 8.

²⁴ 'Creative deal or highflying pork?', *New York Times*, 10 Apr. 2003, pp. 1 and 12.

For Boeing, the proposal was of vital economic importance. One indication of this is that the company at one point in 2002 reportedly had 92 lobbyists working on the promotion of this deal, almost one per US senator, and spent millions of dollars on lobbying during the first half of 2003.²⁵ In October 2001 Boeing lost the competition for the Joint Strike Fighter (JSF) programme for the US armed forces, worth an estimated \$200 billion over the entire life of the programme.²⁶ The tanker proposal would have kept alive the production line for the Boeing-767, which could face close-down without a new order. For the USAF, the main rationale of this approach was that it would let them have the tankers immediately, although they were too expensive to pay for at the time,²⁷ and shift the costs into the future.

The financial terms of the proposal were subject to severe criticism in 2003. Studies by the Office of Management and Budget (OMB)²⁸ of the Office of the President, and two congressional bodies—the General Accounting Office (GAO)²⁹ and the Congressional Budget Office (CBO)³⁰—concluded that the lease financing scheme would be more expensive than direct purchase of the aircraft.³¹ Senator John McCain (R-Arizona) denounced the plan as ‘a taxpayer rip-off’.³² Second, it was shown that the proposed financing approach did not comply with the conditions for an operating lease according to DOD procurement rules.³³ Third, the CBO argued that there was no reason to believe that the USAF would be in a better financial position to pay for the aircraft in 2012, when it would be paying leasing bills of \$2.9 billion, while at the same time beginning to pay about \$3 billion a year to buy the tankers—because the leases would begin to expire—and about \$7 billion a year on the JSF programme. These two programmes would then consume about 70 per cent of total procurement funds for aircraft, according to CBO estimates.³⁴

The terms were changed in November, when the administration reached a compromise with Congress to lease only 20 aircraft and purchase the other 80, with Boeing paying for the development costs and assuming the risks.³⁵ However, a week later Boeing announced its dismissal of two top employees

²⁵ ‘Lawmakers debated lease as Boeing lined pockets’, *Defense News*, 15 Sep. 2003, p. 18.

²⁶ Congressional Budget Office (CBO) Testimony on ‘Modernizing Tactical Aircraft’ before the Subcommittee on Airland Committee on Armed Services, US Senate, 10 Mar. 1999, URL <<http://www.cbo.gov/showdoc.cfm?index=1127&sequence=0>>.

²⁷ According to Air Force Secretary James Roche, cited in ‘Final battle looms for US Air Force tanker lease’, *Defense News*, 1 Sep. 2003, p. 18.

²⁸ Office of Management and Budget, Quarterly Reports on Iraq, Part IV, URL <http://www.whitehouse.gov/omb/legislative/20040105-sec2207_main_report.pdf>.

²⁹ General Accounting Office (GAO), ‘Aviation Assistance Programs’, GAO-03-1156R, 17 Sep. 2003, URL <<http://www.gao.gov>>.

³⁰ Congressional Budget Office (CBO), ‘Assessment of the Air Force’s plan to acquire 100 Boeing tanker aircraft’, 4 Sep. 2003, URL <<http://www.cbo.gov/showdoc.cfm?index=4519&sequence=0>>.

³¹ ‘Creative deal or highflying pork?’ (note 24); and ‘Two lawmakers seek new tanker hearings’, *Defense News*, 13 Oct. 2003, p. 20.

³² US Senate, US Senator John McCain, Arizona, News Center, ‘CBO analysis: Boeing leasing deal totals \$37 billion; “significantly more expensive” than tanker purchase’, 8 May 2002, URL <http://mccain.senate.gov/index.cfm?fuseaction=Newscenter.ViewPressRelease&Content_id=1000>.

³³ Congressional Budget Office (note 30); see also ‘Final battle looms for US Air Force tanker lease’, (note 27).

³⁴ Congressional Budget Office (note 30).

³⁵ ‘Keep tanker deal; guard other USAF programs’, *Defense News*, 17 Nov. 2003, p. 29.

because they had violated company ethics rules while negotiating the deal,³⁶ which in December led the DOD to postpone the deal until the completion of a review of its financial terms by the DOD Inspector General.³⁷

The economic impact and sustainability of current spending levels

The high level of spending in the regular US defence budget and for the war on terrorism contributes significantly to the US federal deficit and debt, which is already burdened by the two tax packages implemented by the Bush Administration.³⁸ An August 2003 CBO report estimated that the budget deficit would reach a record \$480 billion in FY 2004, resulting in a gross federal debt exceeding \$7.5 trillion in FY 2004—almost two-thirds the size of the US GDP—and an aggregate deficit of almost \$1.4 trillion in the 10-year period FY 2004–13.³⁹ This was a minimum estimate, based on the assumption that the 2001 tax-cut programme would remain temporary and would expire by the end of 2010. If it was made permanent, as the president had vowed it would, the deficit was estimated to reach almost \$3 trillion.

The CBO's projection in August 2003 was that current defence plans would require annual funding at higher levels in real terms over the long term (from 2010 onwards) than at peak US spending during the 1980s. Even so, the future levels of military spending would account for a lower share of GDP than during the 1980s: compared with an annual average of 6 per cent in the 1980s, they would drop to 3.3 per cent of GDP by 2009. However, these projections do not take into account the potential for cost over-runs for weapon programmes, which occur regularly. They also exclude costs for continuing operations in Afghanistan and Iraq and for other activities conducted as part of the global war on terrorism, not because the DOD does not expect that such contingencies will be required in the future, but because it plans to fund them using annual emergency supplemental appropriations, as needed.⁴⁰

Democrat opponents and government watchdog organizations were critical of the extraordinarily high level of military spending in 2003.⁴¹ They

³⁶ 'Boeing dismisses 2 in hiring of official who left Pentagon', *New York Times*, 25 Nov. 2003, p. 1.

³⁷ 'Pentagon delays Boeing tanker deal', *Defense News*, 2 Dec. 2003.

³⁸ The first tax reduction package was enacted in 2001 and involved a cost, in terms of loss of revenues, of \$1.4 trillion in the federal budget over a period of 10 years. The second tax package was enacted in May 2003 at a cost of \$350 billion. Both were limited to a duration of 10 years.

³⁹ Congressional Budget Office (CBO), 'The budget and economic outlook: an update', Aug. 2003, tables 1-1 and 1-5, URL <<http://www.cbo.gov/showdoc.cfm?index=4493&sequence=2>>, reported on in 'Iraq war adds to US budget trouble', BBC News Online, 26 Aug. 2003, URL <<http://news.bbc.co.uk/1/hi/business/3182339.stm>>.

⁴⁰ Congressional Budget Office (CBO), 'The long-term implications of current defense plans: summary update for fiscal year 2004', July 2003, URL <<http://www.cbo.gov/showdoc.cfm?index=4449&sequence=0>>.

⁴¹ Others were impressed. Defence analyst Loren Thompson, of the Lexington Institute (Arlington, Virginia), argued that with the nation at war and the federal budget deficit beleaguered by deficits it is a remarkable achievement of the Bush Administration to receive 'absolutely massive supplemental appropriations' to pay for the war and avoid draining money from new weapons and R&D for military transformation. Ordinarily under such circumstances, procurement almost certainly would be cut to fund operations and restrain deficit spending. 'Pentagon wins much, not all, in appropriations' (note 16), p. 17.

expressed concern about the economic implications, in particular about reductions in federal programmes for social and economic welfare.⁴² The administration has dismissed worries about the economic implications of the deficit, since according to its predictions the tax cuts will lead to an economic recovery, which in turn will improve the fiscal position of the government.⁴³ However, by early 2004 the Bush Administration planned to reduce the deficit by controlling spending on other programmes than those related to military or homeland security,⁴⁴ which is likely to reinforce the concerns of the critics. Thus, while current levels of military spending may be economically sustainable, they may not be politically sustainable.

IV. Major spenders in the shadow of the Titan

The unprecedented military dominance by a single power, and its massive military expenditure increases, raises the question of what impact this will have on other major powers, whether potential rivals, allies or 'neither an ally nor an enemy' of the USA.⁴⁵ Many major powers are concerned about the diminution of their global influence if the growing spending gap means increasing US unilateralism. For countries which fear that they may one day come into conflict with the USA, the options include narrowing the gap in capabilities, developing alternative military capabilities and/or developing non-military security strategies. The US allies are concerned about being able to maintain interoperability with US forces to enable continued participation in military operations such as those in Iraq. In Europe, arguments in favour of increased spending are often framed in terms of responsibilities for global peace and security and of having an influence alongside the USA in a changing international order.⁴⁶ Another perspective is to view the transatlantic relationship as one of historic interdependence, in which Europe depends on the USA for military strength while the USA needs Europe for broader economic and political reasons.⁴⁷

This section reviews trends in military expenditure in seven major regional and sub-regional powers in the group of 15 major spenders: Japan, the UK, France, China, Russia, India and Brazil. The first four were the next highest military spenders after the USA in 2003, while Russia completes the tally of

⁴² See, e.g., 'The war on the budget: undermining the common good', Friends Committee on National Legislation (FCNL), *Washington Newsletter*, no. 678, June 2003, p. 1; and Madrick, J., 'Economic scene: America is paying a significant price for favoring unilateralism over international co-operation. Is the price too high?', *New York Times*, 25 Dec. 2003.

⁴³ 'Experts ponder direction of Pentagon's priorities', *Defense News*, 13 Oct. 2003, p. 22.

⁴⁴ Congressional Budget Office (CBO), 'The budget and economic outlook: fiscal years 2005 to 2014', 27 Jan. 2004, URL <<http://www.cbo.gov/showdoc.cfm?index=4987&sequence=0>>.

⁴⁵ This expression was used by the Russian Defence Minister in Oct. 2003. 'U.S., neither enemy nor ally of Russia, Defense Minister says', Agence France-Presse (Moscow), 28 Oct. 2003.

⁴⁶ See, e.g., the argument of a senior adviser to the EU High Representative for Common Foreign and Security Policy, Javier Solana, that Europe needs to begin raising its military capability because it is the only power that can bring responsibility. Cooper, R., 'How shall we answer Robert Kagan?', *Transatlantic Internationale Politik*, no. 2 (2003), pp. 19–25; and Kagan, R., 'Power and weakness', *Policy Review*, no. 113 (June/July 2002), URL <http://www.policyreview.org/JUN02/kagan_print.html>.

⁴⁷ E.g., Rosecrance, R., 'Croesus and Caesar', *National Interest*, no. 72 (summer 2003), pp. 31–34.

permanent members of the UN Security Council. India and Brazil are among the top 15 spenders with significant regional ambitions. All these countries show generally rising trends in military spending during most of the five-year period 1999–2003 (table 10.7). Brazil is the only country that cut spending in 2003. China, India, Japan and Russia continued their rising trends in 2003, and France and the UK commenced several-year programmes of increases. These trends cannot be considered primarily as a function of US spending and behaviour. Economic conditions, regional conflict, the war on terrorism and long-standing military modernization plans are all significant factors. This section analyses the trends on the basis of these factors, as well as in the context of each country's relationship with the global superpower.⁴⁸

Japan

Japanese military expenditure has been increasing gradually in recent years, in spite of relatively strained economic conditions. A steeper rise was requested for FY 2004 but was cut for economic reasons. Even so, the composition of the budget reflects Japan's concerns regarding North Korea's nuclear weapon programme, and also its more assertive military posture associated with the gradual rolling back of the post-war 'pacifist' constitution.

The defence budget for FY 2003 showed a marginal increase of 0.3 per cent in real terms.⁴⁹ For FY 2004 the Japan Defense Agency requested a stronger increase, of 1.5 per cent in real terms to Y 4.960 trillion (c. \$43 billion), including expenses for the relocation and reduction of the US Okinawa base (US–Japanese Special Action Committee on Okinawa, SACO).⁵⁰ This was cut by the Ministry of Finance to Y 4.903 trillion, corresponding to a decrease in real terms of 0.4 per cent.⁵¹ This budget represents around 1 per cent of GDP—previously a formal constitutional ceiling, but still observed as a matter of policy. However, it excludes military pensions, the budget of the Japan Coast Guard, and \$578 million under the Cabinet Office budget to operate Japan's military surveillance system in 2004.⁵² When such off-budget military expenditure is added to the official defence budget, this shows a breach of the informal 1 per cent of GDP ceiling.

Since 2001 Japan has gradually moved away from its policy of self-defence, as specified in Article 9 of the Constitution. The Japanese Maritime Self-Defense Force (MSDF) has sent vessels to the Indian Ocean to refuel US and British warships in support of the war on terrorism since late 2001, and in

⁴⁸ This section is based on more comprehensive background papers for each country, which are available on the Internet site of the SIPRI military expenditure project, URL <http://projects.sipri.se/milex/mex_bg_papers.html>.

⁴⁹ The 2003 budget is available at URL <<http://www.mof.go.jp/english/budget/budget.htm>> and the defence section at URL <<http://www.mof.go.jp/english/budget/brief/2003/2003-12.htm>>.

⁵⁰ 'Japanese budget to boost ballistic missile defence', *Jane's Defence Weekly*, 10 Sep. 2003, p. 25. The defence budget request for 2004 was submitted on 28 Aug. 2003.

⁵¹ Ministry of Finance, Japan, 'Highlights of the budget for FY2004', Dec. 2003, URL <<http://www.mof.go.jp/english/budget/e20031224a.pdf>>.

⁵² Sekigawa, E., 'Strategy confirmed', *Aviation Week & Space Technology*, 29 Sep. 2003, p. 60.

Table 10.7. Seven of the 15 major spenders, military expenditure, 1999–2003

Figures are in US \$b., at constant (2000) prices and market exchange rates. Figures in italics are percentages.

Rank 2003			Military expenditure					Share of GDP
Country	MER	PPP	1999	2000	2001	2002	2003	2002 (%)
Japan	2	7	45.5	45.8	46.3	46.8	46.9	<i>1.0</i>
UK	3	6	35.2	35.7	36.4	36.7	37.1	<i>2.4</i>
France	4	5	34.2	33.8	33.7	34.4	35.0	<i>2.5</i>
China	5	2	[20.0]	[22.0]	[25.9]	[30.3]	[32.8]	[<i>2.5</i>]
Russia	11	4	[8.3]	[9.7]	[11.2]	[11.4]	[13.0]	[<i>4.0</i>]
India	12	3	10.5	10.9	11.4	11.4	12.4	<i>2.3</i>
Brazil	14	13	7.2	7.6	8.9	9.9	[9.2]	<i>1.6</i>
<i>For comparison:</i>								
USA	1	1	290.5	301.7	304.1	341.5	417.4	<i>3.4</i>

[] = SIPRI estimates.

MER = market exchange rate; PPP = purchasing power parity; GDP = gross domestic product.

Source: Appendix 10A, table 10A.3 and table 10A.4. See also table 10.4.

December 2002 sent a destroyer to the region.⁵³ In December 2001 the Japan Coast Guard sank an alleged North Korean spy ship in Japanese waters.⁵⁴ In relation to the North Korean nuclear crisis, the Japanese Defence Minister suggested that Japan could launch a pre-emptive attack against North Korea if it was threatened with nuclear weapons, but this was subsequently refuted by the Japanese Parliament, which concluded that it would contravene the Constitution.⁵⁵ In March 2003 Japan also launched its first two military surveillance satellites to observe North Korea, having previously relied on US intelligence. Japan strongly supported the US-led invasion of Iraq and agreed in July 2003 to send troops to the country in a support capacity, although this was subsequently postponed. In May 2003 the Japanese Parliament approved new laws removing restrictions on the Self-Defense Force (SDF) in the event of an attack on Japan. Furthermore, the Japanese Cabinet Secretary said in August 2003 that the ruling Liberal Democratic Party was considering revising Article 9 of the Constitution, which forbids recourse to war.⁵⁶ In the White Paper *Defense of Japan 2003*, the emphasis of Japanese defence policy was

⁵³ 'Japan', ed. C. Morrison, *Asia Pacific Security Outlook 2003* (Japan Center for International Exchange: New York, 2003), pp. 78–86.

⁵⁴ Brooke, M., 'Japan's role in regional security', *Asian Defence Journal*, Apr. 2003, pp. 4–8.

⁵⁵ E.g., 'Japan threatens force against North Korea', BBC News Online, 14 Feb. 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/2757923.stm>>; and 'Pre-emptive strike on DPRK won't be illegal', *Asia Defence Journal*, May 2003, p. 43.

⁵⁶ E.g., Scanlon, C., 'Japan's landmark military move', BBC News Online, 16 May 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/3034685.stm>>; 'Japan party reviews pacifist constitution', BBC News Online, 26 Aug. 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/3181083.stm>>; 'Japan to send troops to Iraq', BBC News Online, 26 July 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/3097947.stm>>; and 'Japan may delay Iraq force', BBC News Online, 21 Aug. 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/3169401.stm>>.

for the first time moved away from defending against a major invasion, admitted to be unlikely, towards responding to threats from terrorism and weapons of mass destruction, and a commensurate shift in procurement was suggested from major territorial defence items towards ballistic missile defence (BMD).⁵⁷ The Japanese Government presents these changes as a natural response to new threats, while some of Japan's neighbours—China and North and South Korea in particular—suspect that these threats are being used as an excuse to re-establish Japan as a military power and for a more aggressive assertion of their regional interests. Either way, the changes augur a more active military role by Japan, more commensurate with its economic power, something long encouraged by the USA.⁵⁸

Arms procurement accounts for a relatively low share of Japan's military expenditure. Out of the Y 25 trillion (\$217 billion) expenditure ceiling for the FY 2001–2005 Second Mid-Term Defence Programme (MDTP), only Y 4 trillion (\$35 billion) is earmarked for 'front-line equipment', a figure comparable to those for the UK and France, whose overall spending is considerably lower than Japan's. The procurement budget for FY 2003 does not particularly reflect the shifting military priorities, apart from the launch of the two surveillance satellites, the first of possibly eight by 2009,⁵⁹ in an overall programme costing Y 250 billion.⁶⁰

Procurement plans for FY 2004, however, mark a significant shift, with a plan to spend Y 142 billion (c. \$1.2 billion) on BMD systems,⁶¹ the first instalment of a Y 500 billion (c. \$4.4 billion) programme by 2007.⁶² This includes \$661 million in FY 2004 for Patriot PAC-3 and \$476 million for SM-3 surface-to-air missiles for Japan's Aegis guided missile destroyers.⁶³ Other significant allocations include an extra Y 10 billion (\$87 million) for the Japan Coast Guard to find and capture North Korean spy boats⁶⁴ and Y 116.4 billion (\$100 million) for the development of a new helicopter carrier, which could be seen as a step towards developing force projection capabilities.⁶⁵ Japan stated in 1988 that it would never again possess aircraft carriers and has officially designated the planned vessel as a 'helicopter-equipped destroyer'.⁶⁶

⁵⁷ Japan Defense Agency, *Defense of Japan 2003* (Intergroup: Tokyo, 2003), URL <<http://www.intergroup.co.jp>>; see also 'Defense White Paper calls for "country capable of meeting threats"', Foreign Press Center, Japan, 14 Aug. 2003, URL <<http://www.fpcj.jp/e/shiryu/jb/0341.html>>. See also appendix 15B in this volume.

⁵⁸ Brooke (note 54).

⁵⁹ 'Japan launches spy satellites', *Asian Defence Journal*, May 2003, p. 42.

⁶⁰ 'N Korea angry at Japan launch', BBC News Online, 28 Mar. 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/2893869.stm>>.

⁶¹ 'Japan Defense Agency asks for budget for ballistic missile defense', Agence France-Presse (Tokyo), 29 Aug. 2003, URL <<http://www.spacewar.com/2003/030829100718.14282yx9.html>>.

⁶² Sekigawa (note 52).

⁶³ Brooke (note 54); and 'Japan aims to make missile shield', *The Guardian*, 24 Nov. 2003, URL <<http://www.guardian.co.uk/world/latest/story/0,1280,-3426101,00.html>>.

⁶⁴ 'Japan Defense Agency asks for budget for ballistic missile defense' (note 61).

⁶⁵ Brooke (note 54).

⁶⁶ Thompson, P., 'Japan reveals more details of new carrier', *Jane's Defence Weekly*, 17 Sep. 2003, p. 13.

Japan continues to regard its alliance with the USA and the US security guarantee as crucial, in particular with regard to North Korea. However, it seems doubtful whether the large increase in US military spending is placing much pressure on the Japanese defence budget. While the question of interoperability with US armed forces is noted in defence policy circles,⁶⁷ Japan is not likely to participate in offensive military operations soon, given the public opinion and constitutional constraints.⁶⁸ Rather, the main new focus seems to be missile defence, with only gradual moves towards developing a more externally focused military capability.

Hence, given the stagnant state of the Japanese economy, it is unlikely that Japan will see significant increases in military expenditure in the near future, with the new developments likely to be paid for through reductions in equipment to repel all-out invasion, as envisaged in the 2003 White Paper.

The United Kingdom

The war on terrorism and the UK's desire to participate in joint military operations with the USA, such as in Afghanistan and Iraq, have led to increased British military expenditure, reversing the post-cold war downward trend. This policy is spurring rapid developments in military thinking that are likely to be reflected in the way scarce resources are focused.

Military expenditure, according to the NATO definition,⁶⁹ has increased at an average annual rate of 1.3 per cent in real terms over the period 2000–2003. Government expenditure plans, released in May 2003, set 'total public spending' on defence at £33.8 billion (*c.* \$55 billion) in FY 2003/2004 and at £34.3 billion in FY 2004/2005, representing increases in real terms of 3.3 and 0.3 per cent, respectively.⁷⁰ These figures exclude the costs of the war in Iraq, financed through special contingency funds, totalling £3 billion (\$4.9 billion) in the FY 2003/2004 budget.⁷¹ Spending plans are now made in three-year, rather than annual, cycles, so major changes in the overall level are unlikely up to FY 2005/2006, apart from contingency provisions for specific operations.

However, the way this money is spent may change owing to the UK's relationship with the USA and to the type of conflicts which the UK expects to face in the future. Statements by Prime Minister Tony Blair and others reflect

⁶⁷ E.g., Karniol, R., 'Japan's joint approach', *Jane's Defence Weekly*, 14 May 2003, p. 23.

⁶⁸ Lague, D. and Moffet, S., 'A new menace makes Japan rethink', *Far Eastern Economic Review*, 27 Feb. 2003, pp. 13–14; and Scanlon, C., 'Japan's binding ties to the US', BBC News Online, 19 Mar. 2003, URL <<http://news.bbc.co.uk/1/hi/world/asia-pacific/2864769.stm>>.

⁶⁹ For definitions see appendix 10C.

⁷⁰ British Ministry of Defence, *The Government's Expenditure Plans, 2003/2004 to 2005/2006*, Cm 5912 (Stationery Office Ltd: London, May 2003), p. 21, URL <<http://www.mod.uk/publications/expenditure2003/index.htm>>. The British public expenditure figures from FY 2003/2004 onwards are not comparable with those for previous years because they are calculated under the new Resource Accounting Budgeting (RAB) system of accounting.

⁷¹ Adams, C. and Odell, M., 'UK pours extra £1.25bn into defence budget', *Financial Times*, 28 Mar. 2003, p. 7; Davis, E., 'Brown's budget and the war', BBC News Online, 3 Apr. 2003, URL <<http://news.bbc.co.uk/2/hi/business/2914899.stm>>; and 'Hoon: "No squeeze on Iraq budget"', BBC News Online, 5 Nov. 2003, URL <http://news.bbc.co.uk/2/hi/uk_news/politics/3242721.stm>.

the view that the aim is to influence US policy towards British interests, but that such influence requires a 'blood price' to be paid through participation in US-led campaigns.⁷² Defence Minister Geoff Hoon stated in July 2003 that the UK is unlikely to participate in major combat operations without the USA.⁷³ For the UK, therefore, the need to maintain interoperability with the USA is especially pressing. Second, Hoon stated that, in future, the UK is likely to be more frequently involved in small and medium-sized operations around the globe to counter a variety of threats, placing a premium on flexibility and deployability of forces.⁷⁴ The Iraq war, which put into practice the emerging notion of 'network-centric warfare' (NCW)⁷⁵ has enhanced these tendencies. Information networks linking surveillance sensors, command and control systems and precision-guided weapons allowed an unprecedented degree of real-time battlefield information, control and rapid, precisely targeted responses.⁷⁶

Hence, reports both before and after the Iraq war suggest that the priority given to NCW technologies—C⁴ISTAR (computers, command, control, communications, intelligence, surveillance, target acquisition and reconnaissance) and precision weapons—is likely to continue to increase, possibly at the expense of major weapon platforms.⁷⁷ Armed Forces Chief of Staff Sir Michael Boyce wrote in February 2003 that: 'We will have to prioritise in favour of critical capabilities . . . We thus may have to have a smaller number of some platforms and greater investment in enablers and precision weapons'.⁷⁸ Increased cost estimates mean that both the size and the carrying capacity of two planned new aircraft carriers are likely to be cut. Reports in October 2003 suggest cuts in numbers of new Eurofighter combat aircraft from 232 to 130 and of Type 45 destroyers from 12 to 8, and the decommissioning of 120 out of 386 Challenger-2 tanks delivered during the period 1998–2002. Total cuts in planned procurement are expected to amount to £1 billion over the next decade.⁷⁹ The need for cuts comes from funding gaps, possibly owing to miscalculations resulting from the introduction of the new Resource Accounting Budgeting (RAB) system of accounting. In the longer

⁷² Danchev, A., 'Greeks and Romans: Anglo-American relations after 9/11', *RUSI Journal*, Apr. 2003, pp. 16–19; and Codner, M. and Thomas, E., 'Missile defence and the United Kingdom—option for government and opportunity for industry?', *RUSI Journal*, Apr. 2003, pp. 50–54.

⁷³ Hoon, G., 'Defence Secretary's speech to the Royal United Services Institute', Ministry of Defence, 26 June 2003, URL <http://news.mod.uk/news/press/news_press_notice.asp?newsItem_id=2493>.

⁷⁴ Hoon (note 73).

⁷⁵ Network-enabled capability (NEC) in British parlance. For more on NCW warfare in the Iraq war, see chapter 12 in this volume.

⁷⁶ McNicoll, I. (Air Vice-Marshal), 'Effects based air operations: air command and control and the nature of the emerging battlespace', *RUSI Journal*, June 2003, pp. 39–45.

⁷⁷ Mulholland, D., 'Who will gain most from war in Iraq?', *Jane's Defence Weekly*, 23 Apr. 2003, p. 20; and Barrie, D., 'Cuts loom in British procurement reshuffle', *Aviation Week & Space Technology*, 20 Jan. 2003, pp. 34–35.

⁷⁸ Boyce, M. (Admiral Sir), 'Achieving effect: Annual Chief of Defence Staff Lecture', *RUSI Journal*, Feb. 2003, pp. 30–37.

⁷⁹ Beaumont, P., Burke, J. and Islam, F., 'Defence chiefs angry over huge cuts', *The Observer* (Internet edn), 19 Oct. 2003, URL <http://observer.guardian.co.uk/uk_news/story/0,6903,1066438,00.html>; Scott, R., 'Cost concerns force UK to consider smaller carrier', *Jane's Defence Weekly*, 23 July 2003, p. 2; and Mulholland, D., 'UK minister hints at defence cuts', *Jane's Defence Weekly*, 29 Oct. 2003, p. 21.

term, there seems to be a mismatch between procurement aspirations and available funding over the next decade.⁸⁰ A National Audit Office (NAO) report in January 2004 that revealed cost overruns on weapon systems totalling £3 billion (\$4.9 billion) in 2003 highlights the funding difficulties of the Ministry of Defence (MOD).⁸¹ In his 'pre-budget speech' in December 2003, Finance Minister Gordon Brown reported that spending on the war on terrorism had increased to £6.3 billion (\$10.3 billion), including £5.5 billion (\$8.9 billion) for the wars in Iraq and Afghanistan, and the forecast budget deficit for FY 2003/2004 had been raised by £10 billion since April, to £37 billion (\$61 billion).⁸²

The UK moved closer to EU defence cooperation in 2003, creating a further potential claim on military resources, although the UK maintains a restrictive view of the goals of the European Security and Defence Policy (ESDP), insisting that NATO remain the core of European defence. The Defence White Paper released on 11 December 2003 reflects these competing demands, stating that '[w]hile a major focus will be on furthering interoperability with US forces, we will need to continue to improve our capacity to operate with our European and other allies'.⁸³ Aside from a decision to cut the number of armoured brigades from three to two and reductions in the number of older warships, the Defence White Paper did not provide any details on equipment plans. However, it seems clear that the reorientation towards force projection and multiple concurrent small- to medium-scale operations⁸⁴ implies cuts in the procurement of some major weapon systems.

British military expenditure is increasing, but the multiple operational and institutional roles assigned to the armed forces require 'tough choices' as to where the money is spent. The UK's current high budget deficits, and the government's social spending priorities, mean that higher levels of funding for the military are unlikely in the medium term. In these circumstances, priority is likely to be given to technologies ensuring interoperability with US forces and those promoting flexibility and rapid deployability.

France

France has commenced a six-year defence plan, as set out in the *Loi de Programmation Militaire 2003–2008* (LPM, or Military Programme Law), passed in January 2003, which involves a significantly higher level of military expen-

⁸⁰ Barrie (note 76); and Norton-Taylor, R., 'UK armed forces in cash crisis', *The Guardian*, 28 Oct. 2003, available at URL <<http://www.guardian.co.uk/guardianpolitics/story/0,3605,1072303,00.html>>.

⁸¹ British National Audit Office (NAO), *Ministry of Defence: Major Projects Report 2003* (NAO: London, Jan. 2004), p. 5, available at URL <http://www.nao.org.uk/publications/nao_reports/#2003-2004>; see also 'Warning over MoD kit overspend', BBC News Online, 23 Jan. 2004, URL <http://news.bbc.co.uk/2/hi/uk_news/politics/3421309.stm>.

⁸² 'Brown bullish despite £37bn deficit', BBC News Online, 10 Dec. 2003, URL <http://news.bbc.co.uk/2/hi/uk_news/politics/3304339.stm>; and 'First 11 days of war cost UK £90m', BBC News Online, 8 Dec. 2003, URL <http://news.bbc.co.uk/2/hi/uk_news/politics/3302217.stm>.

⁸³ British Ministry of Defence, *Delivering Security in a Changing World: Defence White Paper 2003*, Cm 6040, Dec. 2003, chapter 6, URL <<http://www.mod.uk/publications/whitepaper2003/index.html>>.

⁸⁴ British Ministry of Defence (note 83), para. 3.2.

diture in real terms than during the previous planning period.⁸⁵ French military spending began to increase in 2002 after a long period of constant or declining expenditure. According to NATO data, the increase was about 2 per cent in real terms in both 2002 and 2003. The draft budget for 2004—of €32.4 billion (c. \$36 billion) excluding pensions and €41.6 billion (\$46 billion) including pensions—unveiled in September 2003, continued this trend, since it proposed a further increase of 4 per cent, against a projected inflation rate of 1.5 per cent.⁸⁶ Increases are particularly focused on equipment (military R&D and procurement) expenditure, with a nominal increase of around 9 per cent, following a similar rate of increase in 2003. In an effort to increase availability of equipment from current rates of 40–65 per cent for most systems to nearer 75–80 per cent, maintenance expenditure is increased from €2.4 billion in 2003 to €2.9 billion in 2004.⁸⁷

The increases in the French defence budget, which exceed the projected rates of GDP growth,⁸⁸ are particularly noteworthy given France's difficult fiscal position, which has caused other department budgets to be frozen or reduced.⁸⁹ The 2004 budget projects a deficit equal to 3.6 per cent of GDP and breaches the EU Stability and Growth Pact (SGP) limit of a 3 per cent deficit for the third consecutive year. This has drawn strong criticism from some of France's EU partners.⁹⁰ France was one of four countries that suggested that defence 'investment' should be excluded from deficit calculations under the SGP.⁹¹ In a further indication of political commitment to the LPM, the Defence Committee of the French National Assembly has established a mechanism to monitor spending. This is to ensure effective use of funds and to prevent a repeat of past experiences, when allocations under previous LPMs have not been fully spent and the military budget has been treated as an 'adjustment variable', subject to mid-year annulments, freezes and transfers of funds.⁹²

⁸⁵ See '2003–2008 military programme bill of law', URL <<http://www.defense.gouv.fr/english/files/d140/index.htm>>; and Vinçon, S., 'Loi de programmation militaire 2003–2008: Rapport sur le projet de loi de programmation militaire' [2003–2008 military programme bill: report on the military programme bill of law], *Défense Nationale*, Jan. 2003, pp. 135–44.

⁸⁶ 'Ministry by ministry, the government's choices examined closely', *Paris Le Monde* (Internet edn), 25 Sep. 2003, in 'French ministries' 2004 budget appropriations reviewed', Foreign Broadcast Information Service, *Daily Report—West Europe (FBIS-WEU)*, FBIS-WEU-2003-0926, 26 Sep. 2003; and 'France: un projet de budget en hausse 4,3%' [France: a draft budget increase of 4.3%], *Air & Cosmos*, no. 1905 (26 Sep. 2003), p. 40.

⁸⁷ 'Paris to boost defence spending 9.2%', *Air Letter*, 30 Sep. 2003, p. 1; and Carmona, R., 'La loi de programmation militaire 2003–2008: L'entretien du matériel: un sursaut nécessaire' [2003–2008 military programme law: equipment maintenance: a necessary awakening], *Défense Nationale*, Jan. 2003, pp. 86–97.

⁸⁸ Ministère de l'Économie, des Finances et de l'Industrie, 'Projet de loi de finances rectificative pour 2003' [Ministry of Economics, Finance and Industry, 'Amendment to the budget bill of law for 2003'], 19 Nov. 2003, URL <<http://www.finances.gouv.fr/minefi/actualites/actu1/index.htm>>.

⁸⁹ Lewis, J.A.C., 'France plans spending increase for 2004', *Jane's Defence Weekly*, 13 Aug. 2003, p. 5.

⁹⁰ 'Paris vows action on deficit', BBC News Online, 25 Sep. 2003, URL <<http://news.bbc.co.uk/1/hi/business/3138520.stm>>. Details of the 1997 Stability and Growth Pact may be found on the European Union Internet site at URL <<http://europa.eu.int/scadplus/leg/en/s01040.htm>>.

⁹¹ 'Four EU nations back budget exemption for defence—French minister', Agence France-Presse, 19 May 2003, in FBIS-WEU-2003-0519, 19 May 2003.

⁹² Tessier, G., 'Garantir le budget de la Défense' [Responsibility for the defence budget], *Défense Nationale*, May 2003, pp. 13–22.

The exceptional priority given to military spending as demonstrated by the 2004 budget relates to a number of factors: the election in 2002 of a centre-right government; a perception of an increasingly diverse range of threats and uncertainties, heightened by the September 2001 terrorist attacks; the desire to maintain the capacity to carry out autonomous military action and to build up an effective and autonomous European defence, seen as necessary for both security and global influence,⁹³ and the growing military R&D expenditure gap between the USA and Europe, which the French MOD has described as threatening 'technological disarmament' on the part of Europe.⁹⁴

France's position as a critical ally of the USA creates a twofold reason for France to be concerned about this gap. On the one hand, it wants to maintain interoperability with the USA: the French Air Force was involved in bombing campaigns against the Taliban and al-Qaeda in Afghanistan in 2002,⁹⁵ and French special forces continue to fight alongside US troops in parts of the country. On the other hand, as its opposition to the Iraq war shows, France is uneasy about the USA's status as sole global superpower and its unilateralist approach, and entertains ambitions of establishing Europe as a 'counterweight' to the USA in a 'multipolar' world and of building up a capable and autonomous European military power.⁹⁶ Given the reluctance of Germany and other European countries to increase military spending, this is seen as requiring a leading role by France.

The projected equipment expenditure under the LPM, a six-year total of €89 billion (\$99 billion) (at 2003 prices), aims to pursue the development of technology required for NCW, increase France's force-projection and deep-strike capabilities, and reinforce France's nuclear deterrent. Space technology is seen as an important part of building NCW capabilities and a key domain for European cooperation.⁹⁷ The space budget of €402 million (\$447 million) for 2004 will include costs for the launch of the Helios II observation satellites and Syracuse III communication satellites. The LPM also envisages the development of a new range of unmanned air vehicles (UAVs) and unmanned combat air vehicles (UCAVs), a domain where France seeks to be a European leader.⁹⁸ Force-projection capabilities will be enhanced by the announced purchase of a second aircraft carrier and the purchase during the course of the LPM of the first four of 17 planned multi-role frigates and the long-delayed European Airbus A400M transport aircraft. The delivery in 2004 of the first

⁹³ Raffarin, J.P., 'Politique de défense et de sécurité' [Defence and security policy], *Défense Nationale*, Nov. 2003, pp. 5–18.

⁹⁴ This conclusion was drawn in a report by the Economic Affairs Department of the French Ministry of Defence, published in Mar. 2003. Lewis, J. A. C., 'France: Europe faces R&D crisis', *Jane's Defence Weekly*, 23 Apr. 2003, p. 11.

⁹⁵ Known as Opération Héraklès in France.

⁹⁶ Graham, R. and Gowers, A., Interview with President Jacques Chirac, *Financial Times*, 26 May 2003, p. 9; and Brenner, M., 'The CFSP factor: a comparison of United States and French strategies', *Co-operation and Conflict*, no. 3, vol. 38 (2003), pp. 187–209.

⁹⁷ Bentegeat, H. (Chef d'état-major des armées), 'Stratégie militaire française' [French military strategy], *Défense Nationale*, June 2003, pp. 28–40.

⁹⁸ 'French funds spur Europe's quest for combat drone', *Jane's Defence Weekly*, 25 June 2003, p. 10; Chuter, A., 'French-Dutch UAV draws interest in Europe', *Defence News*, 14 Oct. 2003; and Tran, P., 'French UCAV program draws interest', *Defence News*, 24 Oct. 2003.

five Rafale combat aircraft and a first batch of Storm Shadow-SCALP cruise missiles will contribute to deep-strike capabilities.⁹⁹ The capability of France's nuclear *force de frappe* will be augmented by the replacement in 2004 of the third of its four nuclear-powered ballistic missile submarines.¹⁰⁰

Expenditure for military R&D will total €7 billion over the six-year period, which involves a large increase on the 2002 figure of €678 million (\$640 million).¹⁰¹ The government is devoting considerable efforts to producing technology demonstrators for new advanced systems, including €80 million for a new ground-based radar system and €70 million for a UAV demonstrator.¹⁰²

The dual considerations of cooperation with, and autonomy from, the USA in the context of new threat perceptions¹⁰³ is driving France's programme of rearmament and technological advance laid out in the LPM. This programme appears to be continuing at full pace despite France's fiscal difficulties.

China

In 2003 official Chinese military expenditure went back to its long-term trend. The official defence budget for 2003, as presented in March 2003, amounted to 185.3 billion yuan (RMB 1853, c. \$22 billion at the market exchange rate),¹⁰⁴ an increase of 9.6 per cent in nominal terms—roughly the same in real terms since China's inflation rate is close to zero—and closer to China's rate of economic growth of 7–8 per cent in most years. This was after two years of above-trend increases in 2001 and 2002, of 17.7 and 17.6 per cent, respectively, which were due at least partly to rises in salaries and benefits of the People's Liberation Army (PLA) in the aftermath of the ban in 1998 on their commercial activities. According to Finance Minister Xiang Huaicheng, the elimination of PLA businesses was completed by 2003 and compensation for this purpose was no longer needed.¹⁰⁵

⁹⁹ 'Country briefing: France', *Jane's Defence Weekly*, 4 June 2003, pp. 21–26; for more details see Vincon, S., 'Loi de programmation militaire 2003–2008' [Draft military programme bill for 2003–2008], *Défense Nationale*, Feb. 2003, pp. 135–44.

¹⁰⁰ Rynning, S., 'Potent or paralyzing? Nuclear weapons in contemporary French military strategy', *Defense and Security Analysis*, no. 1, vol. 19 (2003), pp. 55–68.

¹⁰¹ 'Country briefing: France' (note 99).

¹⁰² Tran, P., 'France starts \$81 million air-defense radar project', *Defense News*, 7 Oct. 2003, URL <<http://www.defensenews.com/story.php?F=2257903&c=df>>; and Bentegeat (note 97).

¹⁰³ As reflected in defence policy statements by leading political and military figures: see Raffarin (note 93); and Bentegeat (note 97).

¹⁰⁴ 'China's defense spending much lower than world's average: interview', *People's Daily*, 8 Mar. 2003, URL <http://english.peopledaily.com.cn/200303/08/eng20030308_112973.shtml>. One RMB = 100 million yuan. Western estimates of Chinese military expenditure are higher in level but do not differ much in trend. The uncertainty of these estimates is reflected in the fact that in 2003 the US DOD, without any explanation, adjusted its estimate of Chinese military spending from 4 times larger than the official figure, which would imply \$80 billion, to 3 times larger and a range of \$45–65 billion. Blasko, D. J., "'Bureaucracy in action": the 2003 Department of Defense Annual Report to Congress on the Military Power of the People's Republic of China', *Chinese Military Update* (RUSI), vol. 1, no. 3 (Aug. 2003), p. 2.

¹⁰⁵ 'Wen Wei Po two sessions reporting team: "China's defense budget markedly drops"', *Hong Kong Wen Wei Po* (Internet edn, in Chinese), 7 Mar. 2003, in 'Observers analyze drop in Chinese defense

The rationale provided for the 2003 defence budget¹⁰⁶ is generally consistent with the goals outlined in the 2002 Defence White Paper: military modernization, reducing force numbers, optimizing the ratio of services and force structures, improving and upgrading weaponry, improving training to make use of modern technology as well as joint and mobile operations, and building a modern logistics system.¹⁰⁷

The overall goal of China's long-term programme of military modernization is to guarantee China's security and unity with the aim of becoming a major power in a multipolar world.¹⁰⁸ This aim is, however, subordinate to economic modernization and based on an assumption of 'peace and development' as the fundamental characteristics of the global situation.¹⁰⁹ Although part of the programme is financed outside the official defence budget,¹¹⁰ the allocation for equipment increased by 27 per cent in 2001 and by 16 per cent in 2002.¹¹¹ China continues to seek to acquire modern weapons, high-technology C⁴ISTAR systems and precision weaponry. Leading Chinese analysts refer to 'informationatization' of the armed forces as the next step from 'mechanization'.¹¹² This has been given a further spur by the Iraq war, described by some analysts as the first true 'information war' in human history.¹¹³ This is likely to swing the debate within the Chinese military establishment in favour of the information-centric view of modern warfare, against the view that more traditional 'people's war' tactics can still be effective.¹¹⁴

Armed forces reform is proceeding in numerical terms, with a further cut of 200 000 men announced in September 2003, reducing the size of the PLA to 2.3 million,¹¹⁵ compared with around 4 million before the first major cuts began in 1985. Radical restructuring of the organization of ground forces is

budget', Foreign Broadcast Information Service, *Daily Report—China (FBIS-CHI)*, FBIS-CHI-2003-0307, 7 Mar. 2003.

¹⁰⁶ Zhuangzhi, X., and Guoli, L., 'PLA financial official explains China's increased military budget in 2003', Beijing Xinhua Domestic Service (in Chinese), 6 Mar. 2003, in FBIS-CHI-2003-0306, 6 Mar. 2003.

¹⁰⁷ Chinese State Council, Information Office, *China's National Defense in 2002* (New Star: Beijing, Dec. 2002). See also Guangye, L., 'China's national defense building at the beginning of the new century', *International Strategic Studies*, no. 2 (2003), pp. 13–35.

¹⁰⁸ See chapter 6 in this volume.

¹⁰⁹ E.g., Roy, D., 'China's reaction to American military predominance', *Survival*, no. 3, vol. 45 (autumn 2003), pp. 53–78; Tao, Z. *et al.*, 'PLA deputies discuss national defence and economic development at NPC session', Beijing Xinhua Domestic Service (in Chinese), 9 Mar. 2003, in FBIS-CHI-2003-0309, 9 Mar. 2003; and 'White Paper on China's national defence', Information Office of the State Council, 9 Dec. 2002, URL <http://www.nti.org/db/china/engdocs/whpandef_2002.htm>.

¹¹⁰ The off-budget items of Chinese military expenditure have been estimated in detail in Wang, S., 'The military expenditure of China, 1989–98', *SIPRI Yearbook 1999* (Oxford University Press: Oxford, 1999), pp. 334–49.

¹¹¹ Chinese Government response to the SIPRI Questionnaire, 30 May 2003 (no disaggregation available for 2003).

¹¹² Zhaoyin, Z., 'Firmly seize period of important strategic opportunities to promote leap-type development', *Beijing Jiefangjun Bao* (Internet edn, in Chinese), 25 Feb. 2003, p. 6, in FBIS-CHI-2003-0225, 25 Feb. 2003.

¹¹³ Albert, G., Chase, M., Pollpeter, K. and Valko, E., 'China's preliminary assessment of operation Iraqi Freedom', *RUSI Chinese Military Update*, no. 2, vol. 1 (July 2003), pp. 1–4.

¹¹⁴ Nan Li., 'Chinese views of the US war in Iraq: warfighting lessons', *RUSI Chinese Military Update*, vol. 1, no. 2 (July 2003), p. 5.

¹¹⁵ Guangqian, P. and Yanping, Z., 'The strategic significance of reducing 200,000 troops', *Beijing Liaowang in Chinese*, 15 Sep. 2003, pp. 30–31, in FBIS-CHI-2003-0923, 23 Sep. 2003.

reportedly also under consideration.¹¹⁶ Training officers and troops for modern warfare and the use of high-technology equipment are clearly a significant focus. A set of ‘regulations’ published in August 2003 calls for more graduates to be recruited as officers, for civilian technological experts to be brought in to assist the military, and for officers to be enabled to pursue part-time studies at engineering colleges and universities.¹¹⁷ These developments are part of an ongoing process of reorienting the doctrine and training of the PLA from cold war thinking to ‘winning a local war under modern conditions’.¹¹⁸

The general direction of Chinese military modernization has traditionally in large measure been geared to the Taiwan issue and the USA. Chinese military thinking focuses on how a technologically inferior Chinese force could defeat a superior foe with asymmetric means.¹¹⁹ Chinese political leaders and analysts remain concerned about the USA’s ‘hegemonic’ tendencies, its aggressive, pre-emptive strategy with respect to potential threats or rivals, anti-Chinese rhetoric from sections of US opinion, and perceived US attempts to ‘split’ China through support of Taiwan. However, the US war on terrorism has helped create an occasion for increased cooperation. China supported the US attack on the Taliban in Afghanistan and did not object to a US military presence in Central Asia, while the USA has declared the East Turkestan Islamic Movement in China’s Xinjiang province an official ‘terrorist organization’ and has toned down criticisms of China’s human rights record.¹²⁰ The crisis over North Korea’s nuclear weapon programme has also created a commonality of interest between China and the USA in seeking a peaceful solution. Partly as a result of the current direction in Chinese modernization, this can be interpreted as aiming more at an assumed regional superiority.

Projections of Chinese military expenditure are usually based on forecast economic growth.¹²¹ However, this shows only what China can afford to spend, but does not provide any guidance as regards the probability that it will. It is likely that Chinese military expenditure will continue to increase for the foreseeable future, in pursuit of goals of military modernization and in order to reduce the massive gap with US military power, or at least to reduce the rate at which the gap is widening. However, provided there is no serious deterioration in China’s strategic position, in particular a crisis over the Taiwan Straits or a severe deterioration of relations with the USA, increases beyond economic

¹¹⁶ E.g., Sae-Liu, R., ‘The great Chinese puzzle’, *Jane’s Defence Weekly*, 24 Sep. 2003, p. 25.

¹¹⁷ Hongjun, Z., ‘PLA issues “regulations” on developing ranks of technical support cadres’, *Beijing Jiefangjun Bao* (Internet edn, in Chinese), 18 Aug. 2003, p. 1, in FBIS-CHI-2003-0818, 18 Aug. 2003.

¹¹⁸ This process is described in more detail in Puska, S. M., ‘Rough but ready force projection: an assessment of recent PLA training’, eds A. Scobell and L. M. Wortzel, *China’s Growing Military Power: Perspectives on Security, Ballistic Missiles, and Conventional Capabilities* (Strategic Studies Institute: Carlisle, Penn., Sep. 2002), pp. 19–62.

¹¹⁹ Roy (note 109).

¹²⁰ E.g., Roy (note 109); and Huisheng, Lin, ‘Sino-US relations after the “ranch meeting”’, *International Strategic Studies*, no. 1 (2003), pp. 16–35.

¹²¹ E.g., The US DOD projection of a 3- to 4-fold growth in Chinese defence spending between 2003 and 2020. US Department of Defense, ‘Annual report on the military power of the People’s Republic of China, Report to Congress pursuant to the FY 2000 National Defense Authorization Act’, 28 July 2003, p. 42, URL <<http://www.defenselink.mil/pubs/20030730chinaex.pdf>>.

growth rates are unlikely. China still officially regards 'peace and development' as a prime goal and is determined not to repeat the mistakes of the Soviet Union in allowing excessive military spending to hamstring economic development.¹²²

Russia

Russian military expenditure has been on a steady upward trend since its low point in 1998. Over the period 2000–2003 military spending increased at an annual average rate of 10 per cent in real terms. The adopted budget for 2004 shows a slower increase. With projected inflation of 12 per cent, national defence, at a total of roubles (R) 411.5 billion (c. \$14 billion at the market exchange rate), is set to increase by around 4 per cent in real terms. Total 2004 military expenditure, according to the SIPRI definition, estimated at R 632 billion (c. \$21 billion) and including spending on paramilitary forces and military R&D outside the official defence budget,¹²³ will increase by 1–2 per cent in real terms in 2004.

Few details are normally available about the content of the Russian defence budget. However, in 2003 the finance and defence ministries, in response to pressure from the parliament, chose to release more details than were normally released in recent years. In a document of 14 October, figures were released for expenditures on procurement, maintenance and R&D in the 2004 budget, amounting to an aggregate total of R 137.6 billion (c. \$4.7 billion), an increase from R 118 billion in 2003.¹²⁴ The total was broken down into about one-third each for military R&D and procurement, with the rest for repair and maintenance made by the industry, and repairs made by the military services. The procurement budget had a strong focus on electronic warfare. The release was presented as part of a step-by-step process of declassifying items in the defence budget to make it more transparent.

Traditional territorial defence remains a top priority, but Russian defence goals are gradually being redefined and Russian armed forces are increasingly engaged in activities against illegal trafficking in small arms and ammunition and against international terrorism. Russia is also interested in substantial international cooperation within the anti-terrorist coalition formed after 11 September 2001.¹²⁵

¹²² E.g., Zhaoyin (note 112).

¹²³ For the items included in the SIPRI military expenditure figures for Russia see Cooper, J., 'Russian military expenditure and arms production', *SIPRI Yearbook 2001: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2001), pp. 313–22. For the SIPRI definition, see appendix 10C.

¹²⁴ Pronina, L., 'Russian budget plans made public: 2004 defense spending released', *Defense News*, 20 Oct. 2003, p. 13.

¹²⁵ Ivanov, S. (Russian Defence Minister), 'Russia rethinks security: wanted: new institutions, global partners', *Defense News*, 1 Dec. 2003, p. 44.

India

India's military expenditure has been on a long-term growth path, with an annual average increase of 4.9 per cent in real terms over the 10-year period 1994–2003. The defence budget for FY 2003–2004, at Rupees (Rs) 653 billion (c. \$14 billion) represents a 12 per cent increase in real terms over the revised budget for the previous year (of Rs 560 billion).¹²⁶ While military expenditure accounts for a moderate share of GDP—around 2.3 per cent—it accounts for 15 per cent of government spending and comes under difficult fiscal conditions (a projected budget deficit of 5.6 per cent of GDP), despite strong economic growth.

The defence budget for 2002–2003 was not fully spent: actual expenditures were only 85 per cent of budgeted. This has led to delays in a number of army and naval programmes. The reoccurring under-implementation of the defence budget has been attributed to flaws in the arms procurement process; for example that all arms procurement has to be cleared by the Defence Research & Development Organisation, which must certify that the equipment cannot be made indigenously. The defence committee has recommended five-year defence plans with assured allocations to prevent a recurrence.¹²⁷

The long-term increase in India's military expenditure reflects the continuing conflict with Pakistan over Kashmir that came close to war in 2002, and India's regional power ambitions, as emphasized by Prime Minister Atal Behari Vajpayee in November 2003,¹²⁸ in particular its goal of developing a blue-water navy to project influence in the Indian Ocean Region (IOR).¹²⁹ Relations with Pakistan improved during 2003, and in January 2004 an agreement was reached to restart high-level negotiations.¹³⁰ India's return to the negotiation table may have been affected by the upcoming election in 2004 and a realization that the electorate has a preference for allocating scarce economic resources to social purposes rather than to continued fighting in Kashmir. A resolution to the Kashmir conflict would also enable a reallocation within the defence budget towards modernization of the naval forces.

The Indian Army receives 53 per cent of the defence budget, reflecting the pressure of operational requirements relating to Pakistan and Kashmir. However, the army's capital budget, at Rs 56 billion (\$1.2 billion), is just above

¹²⁶ Government of India, Ministry of Finance, *Union Budget 2003–2004*, 28 Feb. 2003, URL <<http://indiabudget.nic.in/>>. See sub-heading for expenditures at URL <<http://indiabudget.nic.in/ub2003-04/eb/stat02.pdf>>. See also, e.g., 'India's defence budget 2003–04: an IDC analysis', *India Defence Consultants*, 5 May 2003, URL <<http://www.defenceindia.com/budget2003/news7.html>>.

¹²⁷ Dhar, M. K., 'Populism at the cost of national defence', *New Delhi The Pioneer* (Internet edn), 2 Apr. 2003, in Foreign Broadcast Information Service, *Daily Report—Near East/South Asia (FBIS-NES)*, FBIS-NES-2003-0402; *India Defence Consultants* (note 127); and 'Indian MoD criticised for not spending its budget', *Jane's Defence Weekly*, 30 Apr. 2003, p. 12.

¹²⁸ Raghuvanshi, V., 'India aims to project more power', *DefenseNews.com*, 10 Nov. 2003, URL <<http://www.defensenews.com/story.php?F=2364595&C=asiapac>>.

¹²⁹ E.g., Singh, A. K., 'India's maritime security: challenges ahead', *Indian Defence Review*, vol. 18, no. 2 (2003), pp. 26–35; Das, P. S. (Vice-Adm., rtd), 'Maritime dimensions of India's security', *Indian Defence Review*, no. 2, vol. 18 (2003), pp. 43–47; and Bedi, R., 'Interview: Admiral Madhavendra Singh (India's Chief of Naval Staff)', *Jane's Defence Weekly*, 21 May 2003, p. 32.

¹³⁰ Majumder, S., 'India and Pakistan seek fresh start', *BBC News Online*, URL <http://news.bbc.co.uk/2/hi/south_asia/3369629.stm>, 7 Jan. 2004.

one-quarter of the total capital budget, restricting modernization of what retired senior officers claim is increasingly outdated equipment.¹³¹ Plans to expand the air force in the medium to long term are reportedly aimed at general force projection rather than at Pakistan.¹³² The Indian Navy's share of the military budget increased from 14 per cent to 18 per cent for FY 2003/2004, and its share of the capital budget also increased. This reflects an increasing focus on maritime power by a traditionally land-oriented country as it seeks to develop a role as a leading player in the IOR. The Indian Ocean is a conduit for 50 per cent of global trade and carries particular importance for India because of the country's dependence on oil supplies from the Gulf region and the presence of large Indian Diaspora communities in most of the littoral nations.¹³³ Naval power is seen as important both for countering potential threats such as terrorism and piracy in the region, and in peacetime for diplomacy and cooperation with other naval forces, in particular the USA with whom joint exercises have been expanding.¹³⁴ India is also wary of growing Chinese influence in the Indian Ocean region in the future, although relations between the traditional rivals warmed markedly in 2003, with joint naval exercises conducted in November, focused on rescue and anti-piracy manoeuvres.¹³⁵

India's traditionally cool relationship with the USA has improved considerably since September 2001, with joint military exercises resuming in 2002 after a 39-year break and the two countries moving towards strategic cooperation, including potential arms sales.¹³⁶ India has been a strong supporter of the US war on terrorism, while the USA recognizes India as a 'stabilizer' in the IOR.¹³⁷ On the other hand, India is suspicious of US unilateralism, opposing the Iraq war; is unhappy about the USA's support for the Pakistani Government in return for Pakistan's support in Afghanistan; and distrusts the USA as an arms supplier owing to the sanctions imposed in 1998 following India's nuclear tests.¹³⁸ The recent strengthening of Sino-Indian relations as well as India's joining with China, Brazil and other developing nations for negotiating world trade rules may come in part from a desire to balance US power in the

¹³¹ *Union Budget 2003–2004* (note 126); and Bedi, R., 'Country briefing: India', *Jane's Defence Weekly*, 21 May 2003, pp. 18–24.

¹³² 'Indian Air Force to expand', Agence France-Presse (New Delhi), 7 Nov. 2003, in DefenseNews.com, URL <<http://www.defensenews.com/story.php?F=2377982&C=asiapac>>.

¹³³ Singh (note 129); and Das (note 129).

¹³⁴ Singh (note 129) and Bedi (note 131).

¹³⁵ Morgan, B., 'China, India, complete historic exercises', Agence France-Presse (Shanghai), 14 Nov. 2003, DefenseNews.com, URL <<http://www.defensenews.com/story.php?F=2398935&C=asiapac>>.

¹³⁶ 'India–US DPG—Joint Statement—an IDC analysis', *India Defence Consultants*, 11 Aug. 2003, URL <<http://www.indiadefence.com/>>.

¹³⁷ Budania, R., 'The emerging international security system: threats, challenges and opportunities for India', *India Defence and Security Analysis*, Jan.–Mar. 2003, available at URL <<http://www.idsa-india.org/SA200301/JAN-MAR%2005.htm>>; and Bedi, R., 'Deep-seated distrust mars US relations with India', *Jane's Intelligence Review*, Apr. 2003, pp. 34–37.

¹³⁸ Budania (note 137); and Bedi (note 137).

region.¹³⁹ Nonetheless, the primary direction of US–Indian relations appears to be one of increased cooperation, with India showing no desire to allow differences over issues such as the Iraq war obstruct this.¹⁴⁰ Nor is there any evidence that India’s military spending is in any way directed towards balancing the USA, an impossible task for India in any case.

With India’s long-term plans for regional force projection, Indian military expenditure can be expected to continue to rise as fiscal resources allow, despite its improving relations with Pakistan towards the end of the year. However, this will depend in part on the MOD’s administrative capacity to execute planned spending. If this remains wanting, the rate of increase in the defence budget may well continue to be a target for managing India’s yawning fiscal deficit.

Brazil

Brazil is the major spender in Latin America, accounting for 37 per cent of the regional total. Brazil has long seen itself as a regional and potentially global power. In 2003 the new government of President Lula da Silva stepped up efforts to assert Brazilian regional leadership and, more broadly, leadership within the developing world—in large part as a counterweight to the rich nations, in particular the USA. Brazil played a leading role in creating the G-22 (now the G-20),¹⁴¹ which resisted US and EU agendas in the World Trade Organization trade and investment negotiations in September 2003, and actively promoted efforts to strengthen the Mercado Común del Sur (MERCOSUR) South American customs union,¹⁴² one aim of which is to counter US unilateralism.¹⁴³

Brazil’s military expenditure rose at an average annual rate of 10 per cent in real terms between 1999 and 2002. However, the defence budget for 2003 fell by 7.3 per cent to Reais (R) 22.5 billion (\$7.2 billion). This was subject to further cuts of over R 1 billion by the new government of President Lula da Silva during 2003.¹⁴⁴ The revised budget figure for 2003 represents around 1.7 per cent of GDP. Budget plans for 2004 show military expenditure as

¹³⁹ McGivering, J., ‘Analysis: old Asian rivals get together’, BBC News Online, 21 June 2003, URL <http://news.bbc.co.uk/1/hi/world/south_asia/3007746.stm>; and ‘China–India competition an obstacle to cooperation?’, Stratfor, 22 June 2003, URL <<http://www.stratfor.info/Story.neo?storyId=219129>>.

¹⁴⁰ Budania (note 137).

¹⁴¹ Previously called the G-22 after the number of member states, but after 3 countries decided to leave the group in Dec. 2003 it was called the G-20, after the date on which it was formed, 20 Aug. 2003. ‘Brazil seeks to forge common stance for trade talks’, *Instituto de Estudos do Comércio e Negociações Internacionais*, 12 Dec. 2003; and ‘Defections hit G21 Doha rebels’, *Financial Times*, 10 Oct. 2003, Internet site of the Institute for International Trade Negotiations, URL <http://www.i-conebrasil.org.br/english/index_news.asp?idnews=411&secas=1>.

¹⁴² For the member states of Mercosur see the glossary in this volume.

¹⁴³ ‘Sleeping giant flexes its muscles’, *Latin American Regional Report—Brazil and Southern Cone*, 30 Sep. 2003, pp. 8–9; ‘Lula launches diplomatic crusade to shore up hemispheric support’, *Latin American Brazil Report*, 29 Apr. 2003, p. 1; and ‘Flying the flag for Mercosul’, *Latin American Brazil Report*, 3 June 2003, p. 2. (Mercosul is the Portuguese acronym for MERCOSUR.)

¹⁴⁴ Ministério do planejamento [Ministry of Economics], ‘A Programação Orçamentária e Financeira para 2003’ [The budgeting and financial program for 2003], 11 Feb. 2003, URL <http://www.planejamento.gov.br/arquivos_down/asssec/programação_orcamentaria_financeira_03.pdf>.

roughly constant in nominal terms,¹⁴⁵ representing a significant fall in real terms, given a target inflation rate of 5.5 per cent.¹⁴⁶ Caution is needed in inferring rates of change of expenditure, because the defence budget for 2003 may not be spent in full, as has been the norm in recent years, but the direction would appear to be downwards in real terms.

The cuts result from the difficult economic conditions in Brazil following the Argentina crash of 2002 and a resulting tight fiscal policy, with a target for the government's primary surplus of 4.25 per cent of GDP agreed with the International Monetary Fund (IMF) in February 2003.¹⁴⁷ However, a further cause of the cuts in 2003 is the social priorities of the new Labour Party Administration, in particular the 'Zero Hunger' programme, for the funding of which the planned \$700 million purchase of 12 advanced combat aircraft (the F-X programme) was postponed.¹⁴⁸ The shift in priorities away from the military is emphasized by the fact that, while the budgets of all departments were cut in February 2003 to meet the enhanced budget surplus target, the MOD sustained a cut of over 32 per cent in 'discretionary' funding,¹⁴⁹ compared to an average of 22 per cent.¹⁵⁰ The spending cuts in 2003 have also resulted in the postponement of planned purchases of helicopters and maritime patrol aircraft, the grounding of 70 per cent of the Brazilian Air Force's planes because of the lack of fuel and spare parts, cuts in army training and barracks maintenance, and a cut in the Navy's working week.¹⁵¹ The F-X programme was revived in September 2003, however, with a decision between the various bidders expected in February 2004.¹⁵²

The lack of funding for the military is not surprising given the lack of any conventional external threat to Brazil. One area that received increasing priority in 2003, however, is the effort to deal with the growing problems of drug and arms smuggling in the vast Amazon region, and spillovers from the conflict in Colombia—from where Fuerzas Armadas Revolucionarias de Colombia (FARC, Colombian Armed Revolutionary Forces) guerrillas are reported to have established training camps and bases in Brazil.¹⁵³ This has been aided by the Amazon surveillance system (Sistema de Vigilância da Amazônia,

¹⁴⁵ 'Anexo II-Despesa dos Orçamentos Fiscal e da Seguridade Social por Órgão Orçamentário' [Annex II-Expenditures of the fiscal and security budgets by budget heading], Brazil budget law 2004, URL <http://www.planejamento.gov.br/arquivos_down/sof/orcamento_2004/PL_2004/anexo_II.pdf>.

¹⁴⁶ 'Economy: pretty rosy', *Latin News Brazil and Southern Cone Report*, 28 Oct. 2003, pp. 6–7.

¹⁴⁷ 'Brazil: letter of intent', Letter from Government of Brazil to IMF, 28 Feb. 2003, available at URL <<http://www.imf.org/external/np/loi/2003/bra/01/index.htm>>.

¹⁴⁸ Ministério do planejamento/Ministério da Fazenda (note 144); and Cviic, S., 'Brazil opts for butter before guns', BBC News Online, 4 Jan. 2003, URL <<http://news.bbc.co.uk/2/hi/americas/2626683.stm>>.

¹⁴⁹ Discretionary spending is not regulated by special laws and thus not predetermined.

¹⁵⁰ Ministério do planejamento/Ministério da Fazenda (note 144).

¹⁵¹ Day, M., 'Country briefing: Brazil', *Jane's Defence Weekly*, 7 May 2003, pp. 22–27; and Monteiro, T., 'Brazil: Defense Minister refers to armed forces budget constraints', *O Estado de São Paulo* (Internet edn) (in Portuguese), 12 Oct. 2003, in Foreign Broadcast Information Service, *Daily Report—The Americas (FBIS-LAT)*, FBIS-LAT-2003-1013, 13 Oct. 2003.

¹⁵² Rezende, P. P., 'Brazil will restart next-generation fighter contest', *Jane's Defence Weekly*, 17 Sep. 2003, p. 6.

¹⁵³ 'Colombia chaos bridges geopolitical divides in South America', Stratfor, 15 May 2003, URL <<http://www.stratfor.biz/Story.neo?storyid=217343>>. On the conflict in Colombia see also chapter 3 in this volume.

SIVAM), that became operational in 2002. Thirteen new military bases were to be constructed along the Amazonian borders with Colombia in 2003, according to Brazilian newspaper reports.¹⁵⁴ Despite cuts in other programmes, the first batch of Embraer EMB-314s Super Tucano light attack aircraft, designed to provide enforcement capability to go with the SIVAM surveillance system, was delivered.¹⁵⁵ However, while seeking to deal with guerrillas who may cross into Brazil from neighbouring countries, Brazil has maintained its neutrality with respect to the Colombia conflict, refusing a Colombian request in March 2003 to classify FARC as terrorists. This reflects Brazil's disinclination to be drawn into what it sees as a US-led conflict, one that it viewed with suspicion even before the election of left-wing President Lula da Silva.¹⁵⁶

What is interesting about recent developments in Brazil is that, unlike other major and medium-rank powers, Brazil appears to be pursuing global influence without rising military expenditures. A combination of a claim to moral leadership, and of new and enhanced trading and industrial relations, is the engine of influence, while the strategy also allows some reallocation of scarce resources from military to economic and social development. While these choices undoubtedly reflect Brazil's comfortable strategic position and uncomfortable fiscal position, they also suggest a model of 'soft power' that has been given little more than lipservice in other parts of the world.

V. Summary and conclusions

The acceleration in world military spending in 2003 is the result mainly of the rise in US military expenditure, much reinforced by the supplementary appropriations to fund military operations in Iraq and Afghanistan. In the absence of these appropriations, US military expenditure would still show a significant increase, but at a much lower rate, and world military spending would show a rise of 3.5 per cent rather than 11 per cent in 2003.

While military expenditure is also rising in several other major countries, these increases are much smaller, and there is little indication that the strong increase in US military spending is resulting in an equally strong tendency for other countries to follow suit. The review of military expenditure trends in seven other major spenders in this chapter shows that military expenditure has risen in most years of the five-year period 1999–2003 in all seven countries, but there are differences in trend, background and context between them. China and India have a long history of rapidly rising military expenditure and Japan of a slowly rising trend. In the other countries, the rising trend is a more recent phenomenon. In Russia and the UK military spending has increased only during the most recent five-year period, and in France only during the

¹⁵⁴ *Journal do Brasil*, 5 May 2003, cited in Stratfor (note 139).

¹⁵⁵ 'Brazil: Sivam, attack aircraft remain priorities despite reduced budgets', *O Estado de São Paulo* (Internet edn, in Portuguese), 25 May 2003, in FBIS-LAT-2003-0527, 27 May 2003.

¹⁵⁶ 'Colombia's Uribe courts Brazil on guerrilla war', *Latin American Weekly Report*, 18 Mar. 2003, p. 4.

past two years. In Brazil the rise in military spending during the early 2000s was reversed in 2003. As regards military burden, India and Japan have raised their military spending in line with their GDP growth. Apart from the two years 2001 and 2002, the same is true for China. In France and the UK, the military burden declined in recent years, but in France it began to rise in 2003 and the burden is planned also to increase in the UK. In Brazil and Russia, the increases have exceeded the rate of GDP growth over the period 1999–2002 and thus involved a higher military burden. In Brazil, the military burden was projected to fall again in 2003.

The impact of the recent trend in US military spending on the trend in the monitored countries, apart from China, France and the UK, seems to be weak. However, it is difficult to assess the importance of US influence relative to more basic drivers of military spending, such as changing threat perceptions, increased global responsibilities and force projection, and the dynamics of military technology—in particular, since these factors are often strongly inter-linked with the relevant countries' relations with the USA. China continues its long-term military modernization programme, which is reflected in a long-term steady growth rate in military spending, without any apparent economic constraints. For China, long-term ambitions for global influence are based on calculations of its military power relative to the global superpower, but whether changes in US military expenditure have any short-term influence on those of China is difficult to discern. For France, the link is perhaps stronger, with the new pace being set by the USA serving as a clear spur for renewing French military capabilities to avoid loss of global influence. For the UK, the desire for interoperability with the USA in joint offensive operations is crucially related to shared threat perceptions in the war on terrorism. Nonetheless, in these three countries, a desire to if not keep up with US military advances then at least keep them in sight is clearly discernible. What is also clear is that the rapid pace of US military technology is strongly affecting the focus of their military spending. These countries see NCW technologies as crucial for the relevance of their military forces in the 21st century.

For Japan, Russia, India and Brazil, developments in US military spending and technology do not seem to directly influence the level or focus of their own spending. For Japan, the alliance with the USA is crucial for its military strategy. However, the key focus is not interoperability for joint military action, but a desire to 'take responsibility' for its own defence, to roll back the post-war 'pacifist' constitution, and to counter potential threats from North Korea. Russia is making determined efforts to rebuild and reform its military forces, which has resulted in increased military expenditure in both real terms and as a share of national output, but there is no strong evidence of a US impact on its military spending. For India, the conflict with Pakistan is a perennial concern, while developing a blue-water navy to project influence in the Indian Ocean Region is a new focus of military spending. For Brazil, a desire to balance US hegemony is being expressed in the economic, rather than the military, sphere. Brazil provides an interesting example of a developing country with scarce economic resources trying to achieve ambitious eco-

conomic and social aspirations without an expensive reliance on national military capabilities.

During most of 2003, much of the focus in national military spending debates continued to be on the need to increase military spending, for purposes of national interests and global security, to meet increasing dangers and risks in an increasingly complex and globalized world. However, towards the end of the year and in early 2004, there were several indications that other factors, related to the economic burden of the military sector and to ethical considerations, tended to increase in importance in several countries. In particular, the US doctrine of pre-emptive wars was being challenged on both ethical and international law grounds as well as because of the large costs and dubious successes associated with it. Thus, while US military expenditure is set to continue to grow and will continue to propel world military spending, the pace is likely to fall back somewhat in the next few years. In the longer term it is doubtful whether current levels will be economically and politically sustainable.