14. Arms production and military services

Overview

Sales by the SIPRI Top 100 arms and military services industry declined for the fourth consecutive year in 2014. The Top 100 combined revenue for 2014 totalled US $401 billion—1.5 per cent lower than in 2013. However, despite the continuing overall decrease, the turnover of companies ranked in 2014 remained 43 per cent higher than the Top 100 total revenues in 2002. This tends to emphasize the modest level of the decrease observed since the peak in sales reached in 2010, and the fact that the rate of decline has slowed in recent years.

Companies based in the United States and Western Europe continue to dominate the Top 100 revenues, with a combined share of 80.3 per cent of the total Top 100 arms sales for 2014. Although this predominance is unlikely to change in the near future, it has been eroding in the wake of the 2008 financial crisis and the end of major US-led military operations in the Middle East. This has been reflected in reduced military spending in North America and Western Europe (including spending on weapons and military services procurement) and its evident impact on sales by national arms-producing and service-provider companies.

With a combined increase of 10 per cent, the significant growth in Russian companies' revenues has partially offset the decline of Western-based companies. Despite challenging economic conditions, the Russian Ministry of Defence continues to pursue its goal set in 2008 of modernizing both its arsenal and its domestic arms production capabilities.

Other established producers ranked in the Top 100 have increased their arms sales by 6 per cent in 2014. This rise is mainly due to large increases in arms sales by Polish company PGZ (up 98.4 per cent in real terms) following a major industry consolidation process. Australia and Japan also increased their arms sales by 17.5 and 14.7 per cent respectively.

Firms based in the four 'emerging producer' states ranked in the Top 100 (Brazil, India, South Korea and Turkey) realized a collective increase in revenues of 5.1 per cent in 2014, contributing to mitigating the fall in Top 100 sales. These companies have largely benefited from significant domestic spending on weapons acquisition and are now playing a more active role in offering their products internationally. Brazil secured the largest increase in arms sales in 2014 with 24.7 per cent—and its military-industrial build-up is indicative of some of the challenges and risks of implementing a military industrialization strategy (as discussed in section II)—followed by South Korea (10.5 per cent) *and Turkey (9.5 per cent). By contrast, Indian companies showed an overall 7.1 per cent decrease in sales in 2014.*

Falling gross domestic product (GDP) in countries deriving a significant proportion of their income from oil revenues, such as Russia (but also in several major arms importers such as Saudi Arabia and Venezuela), may change the dynamics that have influenced the Top 100 over the past four years as growth in military budgets is reconciled with falling national revenues. Some export prospects may disappear as importing countries decide how to manage reductions in their revenues. By contrast, security concerns in East Asia and the Middle East may lead states to continue to prioritize military spending and arms procurement, irrespective of their income from oil production.

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