5. Military expenditure

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I. Introduction

World military expenditure rose in 2009, reaching an estimated $1531 billion, an increase of 5.9 per cent in real terms compared with 2008, and 49 per cent higher than in 2000.[1] This represents approximately 2.7 per cent of global gross domestic product (GDP)—the 'military burden'—or $224 per person.[2] The sharp increase in the military burden—from 2.4 per cent of GDP in 2008—is due to the increase in real military spending, the fall in global GDP and an increase in the value of the US dollar, which magnifies the impact of the high US military burden on the global figure.[3]

Almost all regions and subregions shared in the global increase (see figure 5.1). Over half of the real-terms increase came from the United States, but such major spenders as Brazil, China and India also made large increases, reflecting their continued economic growth and aspirations for global and regional influence.

The global financial crisis and economic recession have not led to a general fall in military spending, despite the resulting falls in government revenues and increases in deficits. While military spending has not been a major component of the one-off economic stimulus packages that most developed countries and other large economies have used to counteract the effects of the recession, it has not usually been cut either.[4] Of the 120 countries for which data is available, 65 per cent increased military spending in 2009, including 16 of the Group of 20 (G20) leading developed and developing economies.[5] However, some smaller economies that are less able to sustain high deficits have cut military spending.

[1] Except where otherwise stated, all US dollar figures for 2009 are at current (2009) prices and exchange rates, while all percentage changes are in real terms, calculated using constant 2008 prices and exchange rates. The change of base year for constant dollar calculations to 2008 from 2005 (as used in *SIPRI Yearbook 2009*) has led to substantial changes in the constant dollar figures, due to both inflation and the change of the value of the dollar against other currencies.

[2] See appendix 5A.

[3] The International Monetary Fund forecasts a fall in global output of 1.1% in 2009. International Monetary Fund, World Economic Outlook database, Oct. 2009, <http://www.imf.org/external/ns/cs.aspx?id=28>.

[4] For a survey of these stimulus packages see chapter 6, section IV, in this volume.

[5] The G20 is made up of representatives of 19 states—Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the USA—and the European Union. Of the 19 states, only Argentina, Indonesia and Italy did not increase their military spending.

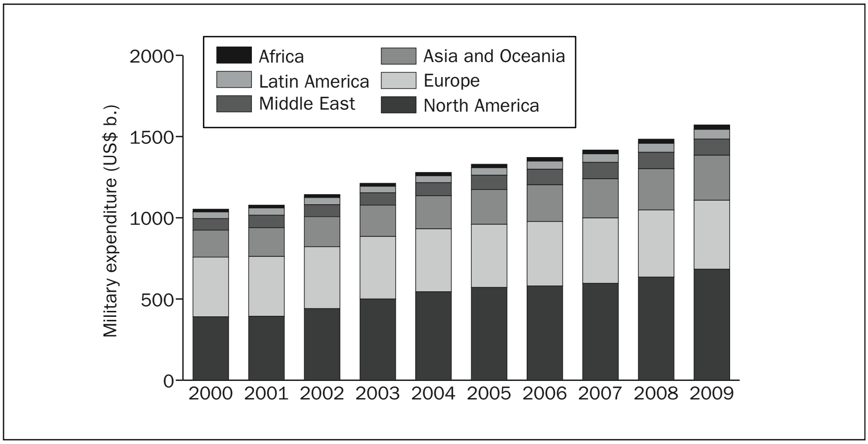

Figure 5.1. World and regional military expenditure estimates, 2000–2009

Figures are in US$ b., at constant (2008) prices and exchange rates.

Source: Appendix 5A, table 5A.1.

Sections II–VII of this chapter survey regional trends in military spending in Africa, Latin America, the Middle East, Asia and Oceania, Europe, and North America, respectively. In the first three of these regions, natural resource revenues have played an important role in determining both the levels and the dynamics of military spending in many countries. Although these revenues have often contributed to rapid rises in spending in recent years, in 2009 falls in commodity prices linked to the economic crisis have slowed this trend in some cases. The conflict in Afghanistan has created increasing costs for the European and North American countries with a major troop presence there. Meanwhile both Afghanistan and Iraq illustrate the difficulties of rebuilding and sustaining a country's armed forces from scratch following invasion, in particular when external military aid is reduced. Section VIII concludes.

Appendix 5A contains comprehensive data on military spending in 2000–2009, including information on world and regional trends, the major spenders, and tables of data for 165 countries, along with the sources and methods used to produce this data. Appendix 5B presents statistics on the reporting by governments of their military spending to SIPRI and the United Nations.

II. Africa

Military expenditure in Africa is estimated to have been $27.4 billion in 2009, an increase of 6.5 per cent in real terms compared to 2008. The increase, continuing the trend of the past decade, has been underpinned by a combination of ongoing military modernization programmes, counter-terrorism measures, internal security challenges and economic growth, fuelled especially by increased oil and gas production and prices. Many established major spenders in Africa (e.g. Algeria, Angola, Nigeria, Libya and Sudan) and emerging mid-level spenders (e.g. Chad) have huge endowments of energy resources.

Over the past decade, the expansion in the global economy has sustained high demand and high prices for oil and gas, providing increased income and investment for energy-rich countries in Africa, which have helped to shape the level and dynamics of their military expenditure. Oil extraction can also be a source of conflict, and the need to secure production often becomes a rationale for military spending.[6] High oil demand has also heightened the strategic importance of African countries to countries and corporations outside the region, with whom most African energy producers have reached military accords that have facilitated major procurement programmes. The examples of Angola, Chad and Nigeria show how revenues from oil are influencing military spending in all corners of Africa.

Angola's military spending reached 251 billion kwanzas ($3.2 billion) in 2009, an increase of 19 per cent in real terms since 2008 and of 40 per cent since 2000. Increased oil production and prices have contributed to this rise, coupled with the modernization and reform of Angola's armed forces following the end of the civil war in 2002. Oil production increased from 750 000 barrels per day in 1999 to around 2 million in 2009, and income from oil sales accounted for 83 per cent of government current receipts in 2007.[7]

Chad's military expenditure totalled 206 billion CFA francs (436 million) in 2009. While this is 33 per cent lower in real terms than in 2008, it is almost six times higher than spending in 2005. The changes in military spending can be explained by a burgeoning rebellion—with successive rebel incursions into the capital city of N'Djamena in 2006 and 2008[8]—and fluctuations in state oil revenues—specifically from increased oil output from 2005.[9] Under a 2001 agreement, the Chadian Government agreed to devote a substantial proportion of its oil revenue to poverty reduction in return for the World Bank part-financing construction of the 1070-

[6] See e.g. Kaldor, M., Karl, T. L. and Said, Y. (eds), *Oil Wars* (Pluto Press: London, 2007); and Ross, M. L., 'What do we know about natural resources and civil war?' *Journal of Peace Economics*, vol. 41 (2004), <http://dx.doi.org/10.1177/0022343304043773>; and Pronińska, K., 'Energy and security: regional and global dimensions', *SIPRI Yearbook 2007*.

[7] Angolan Ministry of Finance (MOF), *Orçamento Geral do Estado 2007: Balanço Geral da Execução* [State budget 2007: general balance of execution] (MOF: Luanda, Apr. 2007), p. 23.

[8] 'Battle for control of Chad palace', BBC News, 3 Feb. 2008, <http://news.bbc.co.uk/2/hi/7223760.stm>.

[9] Esso Exploration and Production Chad Inc., *Chad/Cameroon Development Project Annual Report 2009*, Project Update no. 27 (Exxon Mobil: [2010]), p. 70.

kilometre Chad–Cameroon oil pipeline.[10] However, Chad failed to comply with key requirements of the agreement, with revenues used to fund military expenditure.[11] In 2008 the World Bank pulled out of the agreement and recalled its loans.[12]

Nigeria

Nigeria in many ways encapsulates the complex relationship between—on the one hand—military expenditure and—on the other—corruption, off-budget spending, armed conflict, revenues from oil and other commodities, and military ties with external powers that may be seen in several other African countries (e.g. Chad and Sudan).[13] In 2008 it was the largest exporter of crude oil in Africa and the 13th largest worldwide, and oil and gas sales accounted for 81 per cent of government revenues.[14] Oil revenues have fuelled high economic growth, which averaged 7.7 per cent annually in 2000–2008, and has contributed to increased military expenditure.[15] Official military spending totalled 224 billion naira ($1.5 billion) in 2009, an increase of 4.0 per cent in real terms since 2008 and of 101 per cent since 2000.

Nigeria's military spending figures are uncertain and are probably significantly underestimated, due to weak budgetary systems and substantial extra-budgetary spending.[16] In particular, the management of Nigeria's oil revenues are surrounded by severe accountability and transparency issues, including several off-budget practices used to finance additional military spending. These practices include the use of proceeds from 'excess crude accounts'—in which any oil revenues above budgeted projections are deposited[17]—and 'security votes' by state governments to provide financial

[10] World Bank, 'The Chad–Cameroon Petroleum Development and Pipeline Project', <http://go.worldbank.org/WBTHSIE6S0>.

[11] International Monetary Fund (IMF), *Chad: Staff Monitored Program*, IMF Country Report no. 09/206 (IMF: Washington, DC, July 2009). Between the beginning of the project and the end of 2009, the government had received $5 billion in royalties and tax from oil exports. Esso Exploration and Production Chad Inc. (note 9), p. 70.

[12] World Bank, 'World Bank statement on Chad–Cameroon Pipeline', Press Release 2009/073/AFR, 9 Sep. 2008, <http://go.worldbank.org/2XPFIDG260>.

[13] Oyefusi, A., 'Oil-dependence and civil conflict in Nigeria', Working Paper WPS/2007-09, Oxford University, Centre for the Study of African Economies, June 2007, <http://www.csae.ox.ac.uk/workingpapers/wps-list.html>.

[14] World Bank, 'Nigeria: country brief', Sep. 2009, <http://go.worldbank.org/FIIOT240K0>.

[15] International Monetary Fund (IMF), International Finance Statistics, <http://www.imfstatistics.org/>.

[16] Omitoogun, W. and Oduntan, T., 'Nigeria', eds W. Omitoogun and E. Hutchful, SIPRI, *Budgeting for the Military Sector in Africa: The Processes and Mechanisms of Control* (Oxford University Press: Oxford, 2006), pp. 169–78.

[17] In particular, the Excess Domestic Crude Account is managed by the state-owned Nigerian National Petroleum Corporation (NNPC) on behalf of the president. See e.g. Shekarau, A. I., 'Israeli arms contract: govt paid 107.5 million euros from crude account', *Daily Trust*, 1 Aug. 2006.

and material support to the military when conducting internal security operations.[18] The latter practice is most common in oil-producing states, which are guaranteed 13 per cent of the revenue from locally produced oil; for example, the governments of Delta, Akwa Ibom and River states are reported to have contributed 15 billion naira ($100 million) to finance the military operations in Gbaramatu, Delta State, on 13 May 2009.[19] The funds provided by these state 'security votes' are neither audited nor transparently disbursed as they are used at the discretion of the state governor and are rarely routed through the national Ministry of Defence (MOD).

Military operations to protect oil production in the Niger Delta have directly driven increases in federal military expenditure. While there has been an upsurge in internal security challenges across Nigeria since 1999, they have been most acute in the oil-rich Niger Delta region, where an insurgency has disrupted oil production. The situation worsened in 2009, with attacks reported to have cut production by 1 million barrels per day in mid-2009.[20]

The high demand for oil and gas has also affected military expenditure through recent and planned arms acquisitions. Increased oil income has funded successive supplementary budgets that have tended to include substantial extra funding for the military.[21] This is due to the strong influence of the military in politics, the insurgency in the Niger Delta region, opportunities for financial corruption and reduced pressure (in response to transnational terrorism) from international aid donors to lower military spending. Since 2000 the Nigerian Government has invested heavily in aerial surveillance systems, attack helicopters and fighter aircraft for the air force; new amphibious craft, including 193 Cobra armoured vehicles for the army; and new patrol boats and forward operating bases for the navy.[22] Some acquisitions have been made using off-budget funds, including direct payments by the presidency or through the state-owned Nigerian National Petroleum Corporation (NNPC), thereby bypassing the MOD, the parliament and the government's own Due Process Office. For example, in 2006 the government made a €107.5 million ($135 million) payment from the

[18] Under Nigeria's constitution, funding and control of the military are the exclusive preserve of the federal government, but state governors also have a role in security provision. Constitution of the Federal Republic of Nigeria 1999, 29 May 1999, <http://www.nigeria-law.org/ConstitutionOfTheFederalRepublicOfNigeria.htm>, Article 4.

[19] Ganagana, M., 'Governors, JTF may scuttle amnesty', *Sunday Sun*, 19 July 2009; Abbah, T., 'FG sinks N3.2 trillion into Niger Delta', *Sunday Trust*, 9 Aug. 2009; and Constitution of the Federal Republic of Nigeria 1999 (note 18), Article 162.

[20] E.g. Oredein, O, 'Attacks cripple Shell's Niger Delta operations', *Wall Street Journal*, 19 July 2009.

[21] E.g. Folasade-Koyi, A., 'Senate approves N102.2bn supplementary budget', *Daily Independent*, 31 July 2009.

[22] Bergen Risk Solutions, *Niger Delta Maritime Security*, Quarterly Review vol. 1, no. 1 (Bergen Risk Solutions: Bergen, July 2007); and SIPRI Arms Transfers Database, <http://www.sipri.org/databases/armstransfers/>.

Domestic Crude Account to the Israeli company Aeronautics for the supply of air surveillance weapons.[23] The high price of oil has also led to an increase in the trade in stolen crude oil in the Niger Delta region, with illegal armed groups using proceeds to acquire arms.[24]

Oil also appears to be shaping Nigeria's military relationships with other countries; interest in Nigeria's resources seems to have led to strengthened military ties and enhanced military cooperation packages with China in particular. China has bid for up to 6 billion barrels of Nigerian oil and has sought oil licensing concessions in exchange for infrastructural developments, while simultaneously emerging as a major supplier of Nigeria's military acquisitions, including F-7NI combat aircraft and munitions.[25] The emergence of China in the military expenditure–oil nexus in Nigeria may reflect its speedier responses to demand and their lower emphasis on human rights concerns when making arms sales.[26]

Nigeria's increased oil income has generated economic growth, but has also created a vicious cycle of increased revenues lacking in transparency, increased strategic importance of oil infrastructure, increased grievances and insurgency, and increased military spending to secure production.

III. Latin America

The effects of the global economic crisis on military spending in Latin America were varied in 2009. The crisis slowed previously high economic growth rates and reduced exports—the region's GDP was projected to fall by 1.8 per cent and exports by 23 per cent in 2009[27]—which affected state revenues, in particular in countries reliant on commodity exports. However, Latin America was less affected by the crisis than had been expected, largely due to a combination of current account surpluses, remittances from outside the region and expansionary fiscal policies.[28]

In Central America and the Caribbean, military spending rose by 9.7 per cent in real terms to reach $5.6 billion in 2009. In Mexico, the militarization of the response to drug-related violence led to an increase of military expenditure of 11 per cent in real terms compared to 2008.[29] The budget of

[23] Shekarau (note 17).

[24] Davis, S., *The Potential for Peace and Reconciliation in the Niger Delta* (Coventry Cathedral: Coventry, Feb. 2009), pp. 151–70.

[25] 'Nigeria spends $251m for Chinese F-7 fighters after oil deals', *Defense Industry Daily*, 30 Sep. 2005, <http://www.defenseindustrydaily.com/nigeria-spends-251m-for-chinese-f7-fighters-after-oil-deals-01269/>.

[26] Mahtani, D., 'Nigeria shifts to China arms', *Financial Times*, 28 Feb. 2006.

[27] Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean*, Briefing Paper (ECLAC: Santiago, Dec. 2009), pp. 7, 15.

[28] Economic Commission for Latin America and the Caribbean (note 27), p. 14.

[29] On the drug-related criminal violence in Mexico see chapter 2, section IV, in this volume.

the Mexican Navy, which has been key in intercepting drugs and arms shipments to the USA, was increased by 20 per cent to cover the costs of personnel increases and equipment acquisitions.[30]

The recent trend of increasing military expenditure in South America continued in 2009: military spending in the region reached $51.8 billion, an increase of 7.6 per cent in real terms compared to 2008. Brazil and Colombia, the biggest spenders in the region, increased their military spending by 16 per cent and 11 per cent in real terms, respectively. However, Chile and Venezuela, two other big spenders that both have a high dependence on commodity exports, cut their military budgets.

Chile

Largely because of a fall in copper prices, Chile's military spending decreased by 5 per cent in 2009 compared to 2008, following an increase of 56 per cent in the period 2000–2008. Under the 1958 Restricted Law on Copper, the Chilean armed forces automatically receive 10 per cent of copper revenues to help finance arms acquisitions.[31] Between 1990 and 2007, the state-owned copper company Corporacion Nacional del Cobre (CODELCO, National Copper Corporation) is reported to have transferred $7.4 billion to the military, amounting to 21 per cent of the country's military budget.[32] However, in the first nine months of 2009, CODELCO transferred $650 million to the military, 37 per cent less than in the same period in 2008.[33]

Funding the Chilean military with off-budget revenues from a state-owned company is controversial. The off-budget nature of the funds has raised concerns in recent years, including accusations that military officers have received illegal commissions from arms deals.[34] In September 2009 President Michelle Bachelet announced a proposal to repeal the 1958 law. Under the proposal, allocations for arms procurement will be made on a yearly basis as part of the national budget; there will be a 12-year strategic plan for long-term procurement, revisable every four years by the president; and the unspent funds received under the 1958 law will be used to

[30] 'El presupuesto de la Armada mexicana aumentará un 20% en 2008 [*sic*]' [The Mexican Navy's budget will increase by 20% in 2008], Infodefensa.com, 27 Dec. 2008, <http://infodefensa.com/lamerica/noticias/noticias.asp?cod=994>.

[31] Ley Reservada del Cobre [Restricted Law on Copper], Law no. 13.196 of 29 Oct. 1958 (most recently modified in 1987), unpublished.

[32] Gastine, A., 'CODELCO CEO questions Copper Law', *Santiago Times*, 25 June 2008.

[33] CODELCO, 'Profits through September: Codelco earned more than US$2 billion thanks to record production', 30 Oct. 2009, <http://www.codelco.cl/english/prensa/archivo/fr_prensa_archivo2009.html>; and CODELCO, 'Codelco obtains pre-tax profit of US$4.864 billion through 30 September 2008', 3 Nov. 2008, <http://www.codelco.cl/english/prensa/archivo/fr_prensa_archivo2008.html>.

[34] Bonnefoy, P., 'Chile reconsiders military expenditure provision', *Global Post*, 21 Mar. 2009.

create a contingency fund for the replacement or refurbishment of equipment.[35]

The aim of the proposed funding system is to match future military acquisitions to the security priorities of Chile. Under the current system, arms may be acquired in part because of the availability of funds rather than for clear security needs. Ending automatic military funding from copper revenues would improve transparency in Ministry of Defence finances and ensure that the whole military budget falls within parliamentary oversight, thus allowing proper scrutiny of defence issues.[36] By early 2010 the proposed law was in discussion in the Defence Committee of the Chilean Chamber of Deputies.

Venezuela

Venezuela's actual military expenditure has consistently exceeded the initial budget in recent years.[37] Thus, although the country's budgeted military spending of 9.0 billion bolívares ($4.2 billion) in 2009 would represent a decrease of 25 per cent over 2008—the largest fall in Latin America—the drop may not be realized.

As oil revenues make up almost 50 per cent of Venezuela's revenue, high oil prices have allowed the Venezuelan Government to increase its financial reserves, undertake large-scale social programmes and cushion the impact of the global economic crisis on the country.[38] Oil revenues and economic growth have permitted Venezuela to increase military expenditure by 136 per cent in real terms between 2003 and 2008.

This long-term increase in Venezuela's military spending is connected to a far-reaching modernization and restructuring of the country's armed forces. In 2009 the government continued implementation of a 2005 military doctrine which aims to modernize military equipment, improve civil–military links and increase civilian participation in the defence of the country.[39] In March 2009 the Ministry of Defence was restructured, including the appointment of a vice-minister of defence education, responsible for training military personnel, and a vice-minister of services, in charge of providing logistical support to the armed forces.[40] In July a new River

[35] Higuera, J., 'Chile submits draft for procurement funding reform', *Jane's Defence Weekly*, 7 Oct. 2009, p. 11.

[36] 'Chile derogaría ley de cobre que financia compra de armas' [Chile would eliminate copper law that funds arms imports], *El Comercio* (Lima), 9 Sep. 2009.

[37] Actual spending in 2008 was 9.3 billion bolívares ($4.3 billion), 30% more than the approved budget of 7.1 billion bolívares ($3.3 billion).

[38] By 2008 Venezuela is reported to have accumulated more than $40 billion in foreign reserves. 'Venezuela: oil prices increases sustainability fears', *New York Times*, 2 Feb. 2009.

[39] Stålenheim, P. et al., 'Military expenditure', *SIPRI Yearbook 2006*, pp. 314–15.

[40] 'Chávez modifica la estructura de su Ministerio de Defensa' [Chávez modifies the structure of the Ministry of Defence], Infodefensa.com, 20 Mar. 2009, <http://infodefensa.com/lamerica/

Squadron was activated and reserve units were upgraded to combat battalions. The government also decided to double the number of armoured battalions and secured a $2.2 billion loan from Russia to buy tanks and anti-aircraft systems.[41] Although Venezuela's use of a loan to purchase arms may seem strange given its large oil reserve funds, the terms of the loan are obscure and the advantages to Venezuela are therefore unclear.

Two new laws were passed in 2009 aimed at increasing civilian involvement in the military, one of the pillars of Venezuela's defence strategy. The first, on the military draft and recruitment, made military service compulsory for Venezuelan men and women between the ages of 18 and 60.[42] The second established the Bolivarian National Militia as a full component of Venezuela's military. The militia, whose main mission is to assist with territorial defence, will contain civilians, or 'citizen-soldiers', who register to receive military training.[43] It will be under the operational command of the president but the administrative responsibility of the MOD.[44]

Although the decision to create the militia dates back to 2005, it is not coincidental that the announcement came shortly after Colombia and the USA approved an agreement on military bases in October 2009.[45] Venezuela has denounced the agreement—which grants the USA access to seven military bases in Colombia—as US interference in regional affairs, heightening the tensions that have prevailed between Colombia and Venezuela since 2008.[46] Given the current relationship with Colombia, Venezuela's

noticias/noticias.asp?cod=1262>; and Decreto no. 6.628 mediante el cual se dicta el Reglamento Orgánico del Ministerio del Poder Popular para la Defensa [Decree no. 6628 dictating the Organic Regulations of the Ministry of People's Power for Defence], 12 Mar. 2009, *Gaceta Oficial de la Republica Bolivariana de Venezuela*, no. 39,137, 12 Mar. 2009.

[41] Guevara, I., 'Venezuela announces latest reorganisation programme', *Jane's Defence Weekly*, 5 Aug. 2009, p. 8; Dickerson, L., 'Venezuelan Army to strengthen tank force', Forecast International, 27 July 2009; and 'Chávez gets USD 2.2 billion loan to buy Russian weapons', *El Universal* (Caracas), 14 Sep. 2009. See also chapter 7, section II, in this volume.

[42] Ley de conscripcion y alistamiento militar [Law on conscription and military recruitment], *Gaceta Oficial de la Republica Bolivariana de Venezuela*, extraordinary no. 5933, 21 Oct. 2009, p. 24.

[43] The militia will be composed of 2 units: the 'territorial militia' of general citizens and 'combatant troops' from 'public and private institutions'. Ley de reforma parcial del Decreto no. 6.239 con rango valor y fuerza de ley orgánica de la Fuerza Armada Nacional Bolivariana [Law for the partial reform of Decree no. 6239 with the rank value and force of organic law of the Bolivarian National Armed Forces], *Gaceta Oficial de la Republica Bolivariana de Venezuela*, extraordinary no. 5933, 21 Oct. 2009.

[44] 'Chávez reforma las Fuerzas Armadas y crea la Milicia Bolivariana' [Chávez reforms the Armed Forces and creates the Bolivarian Militia], Infodefensa.com, 23 Oct. 2009, <http://infodefensa.com/lamerica/noticias/noticias.asp?cod=1997>.

[45] On the initial militia plans see Stålenheim et al. (note 39); and 'Venezuela: Chávez plans for "integral defence"', *Latin American Security & Strategic Review*, Feb. 2005.

[46] See e.g. 'UNASUR and the Colombian bases issue', *Latin American Security & Strategic Review*, Aug. 2009; 'As US–Colombia bases deal is signed, Lula calls for all-round transparency', *Latin American Security & Strategic Review*, Oct. 2009; and 'Colombia: revelado el texto final del acuerdo con EE.UU. sobre bases militares', [Colombia: final text of the agreement with the US on military bases is revealed], Infolatam, 22 Oct. 2009, <http://www.infolatam.com/entrada/colombia_revelado_el_texto_final_del_acu-16802.html>.

own restructuring of its military and an expected economic recovery, more increases in military expenditure are likely in coming years.

IV. The Middle East

The continuous increase in Middle East military spending since 2002 has levelled off from 2008, with the regional total estimated at $103 billion in 2009. While the global economic crisis may be one factor behind this change, through its effect on the price of oil, the impact on the region has been mixed.

The crisis certainly affected revenues of oil-producing countries in the Middle East, as oil prices first rose from an average of $92 per barrel in January 2008 to $141 in July before falling to $33 in December; members of the Gulf Cooperation Council (GCC) suffered the most.[47] Some governments were able to mitigate the effects by implementing countercyclical measures, such as the use of international reserves and increased spending.[48] As oil prices have stabilized at around $70 per barrel since August 2009, it is expected that the incomes of oil exporting countries in the region will grow once more in 2010.[49]

The 2009 military budgets of some of the biggest oil-producing countries declined sharply as they were based on the lower oil prices of 2008. For example, Iraq's military spending fell by 28 per cent in real terms (see below) and Oman's by 13 per cent. In contrast, Saudi Arabia—the world's second-largest oil producer—increased its military expenditure by 2.7 per cent in real terms, to 155 billion riyals ($41.3 billion) in 2009 or 33 per cent of its total national budget. Despite a decline of 9 per cent in estimated government revenues in 2009, the Saudi Government increased total expenditure by 16 per cent, creating an estimated budget deficit of 65 billion riyals ($17.3 billion), its first such deficit since 2004.[50]

Iraq[51]

As a result of the fall in oil prices, Iraq's 2009 budget for the Ministry of Defence decreased by 28 per cent in 2009 in real terms to 4863 billion

[47] Organization of the Petroleum Exporting Countries (OPEC), *World Oil Outlook 2009* (OPEC Secretariat: Vienna, 2009), p. 23; and International Monetary Fund (IMF), *Regional Economic Outlook: Middle East and Central Asia* (IMF: Washington, DC, Oct. 2009), p. 6. The GCC members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[48] International Monetary Fund (note 47), p. 6.

[49] International Monetary Fund (note 47), pp. 12, 14.

[50] Saudi Arabian Monetary Authority (SAMA), *Forty Fifth Annual Report: The Latest Economic Developments* (SAMA: Riyadh, July 2009), p. 127; and 'Saudi Arabia's 2009 budget', Jadwa Investment, 23 Dec. 2008, <http://www.jadwa.com/research/pages/economic-research.aspx>.

[51] All conversions of Iraqi dinars to US dollars in this subsection are made at the average exchange rate of the year to which they refer.

dinars ($4.2 billion). The total security budget was 11 332 billion dinars ($9.7 billion) in 2009, including the Ministry of Interior budget of 6469 billion dinars ($5.5 billion), down from 13 196 billion dinars ($11.1 billion) in 2008.[52] The total national budget for 2009 was cut from an originally proposed 89.4 trillion dinars ($79 billion) to 66.3 trillion dinars ($58.6 billion) due to a one-third reduction in oil export prices compared with the original expectations.[53]

According to one report, the MOD had originally estimated that it required a budget of $15 billion; it then requested $9 billion, but it only received $4.2 billion.[54] Paradoxically this budget reduction has come at a time when Iraq is slowly taking over responsibility for its own security. The Ministry of Defence had to cut its hiring quota and limit or cancel some of its planned arms procurement programmes, which may cause further delays in training and equipping the Iraqi security forces (ISF) before the complete withdrawal of US military forces in 2011.[55] The budget cut may also have further implications for the integration of the Sons of Iraq (SOI) local Sunni militias into the ISF, which ground to a halt in 2009. The Iraqi Government is committed to funding the salaries of SOI members, as their integration is widely seen as important to promoting Sunni–Shia reconciliation, but the future extent of the integration programme, and its effect on the budget, remains uncertain.[56]

The USA has also sharply reduced its funding to the Iraqi Government. US contributions to the Iraqi Security Forces Fund (ISFF), which supports the Iraqi defence and interior ministries, totalled $18 billion between 2003 and 2009.[57] However, funding for the ISFF for 2009 was reduced to $1 billion from an initial request of $2.8 billion, itself reduced from an original planned request of $5.1 billion. This reduction was based on the assumption that Iraq would spend $8 billion in 2008 and $11 billion in 2009.[58] More reductions are likely as the USA reduces its presence in Iraq and

[52] Federal General Budget Law 2009, approved by the Presidency Council on 2 Apr. 2009, *Official Gazette of the Republic of Iraq*, no. 4117, 13 Apr. 2009 (in Arabic); and US Department of Defense (DOD), *Measuring Stability and Security in Iraq*, Report to Congress (DOD: Washington, DC, Sep. 2009), pp. 11–12. The 2008 figure includes the original and supplementary budgets assigned to the ministries of Defence and Interior. See Perlo-Freeman, S. et al., 'Military expenditure', *SIPRI Yearbook 2009*, p. 206.

[53] International Monetary Fund (IMF), *Iraq: Second Review Under the Stand-by Arrangement and Financing Assurances Review*, IMF Country Report no. 08/383 (IMF: Washington, DC, 3 Dec. 2008), p. 9.

[54] Cordesman, A. H. and Mausner, A., *Withdrawal from Iraq: Assessing the Readiness of Iraqi Security Forces* (Center for Strategic and International Studies: Washington, DC, Aug. 2009), p. 97.

[55] 'Budget of Iraqi security forces strained, PM says', *USA Today*, 10 July 2009; and 'U.S.: Iraq budget shortfall poses security challenge', *USA Today*, 30 Sep. 2009.

[56] US Department of Defense (note 52), p. 24.

[57] US Special Inspector General for Iraq Reconstruction (SIGIR), *Quarterly Report and Semiannual Report to the United States Congress* (SIGIR: Arlington, VA, 30 Jan. 2010), pp. 20–22.

[58] Cordesman and Mausner (note 54), p. 96.

refocuses its attention on Afghanistan, where it continues to fund the expansion of the Afghan National Army (ANA; see section V below).

Iraq's budget reduction—as well as structural and organizational issues such as budget execution problems, deficiencies in funding plans and inadequate decision-making processes[59]—is likely to have an impact on the ability of the ISF to maintain security in the country. While violence has decreased and security incidents are at their lowest levels in more than five years, sectarian violence and insurgent attacks have continued to cause heavy casualties.[60] In June 2009 Iraqi security forces assumed responsibility for the security of Iraqi cities, villages and localities. They will assume further responsibility at the end of August 2010, when the mission of the United States Force–Iraq will change from combat to providing training and support to the ISF, in line with the 2008 Status of Forces Agreement between Iraq and the USA.[61]

Although Iraq has been updating its military equipment in recent years, the planned improvements of its land and air capabilities are far from completed. The cuts in military expenditure may affect future orders of military equipment for the ISF and plans to create a 6000-strong air force. An outdated and under-equipped ISF could have negative consequences for the country's future stability, and may hamper the country's ability to take full responsibility for its security following the scheduled withdrawal of US troops.[62] Given the resources and time needed to equip and train a new air force, these problems will be particularly acute for the Iraqi Air Force, which is expected to take over control of Iraqi air space from 2012.

The decrease in Iraq's military budget could be reversed in 2010, depending on oil production levels and prices. Even so, with oil revenues contributing 99 per cent of Iraq's total central government revenues, this creates difficulty in assuring a predictable level of long-term funding. A further problem is the poor levels of budget execution which affect all areas of government expenditure.[63] The challenges ahead for Iraq illustrate the difficulties of rebuilding the military after conflict as well as those of sustaining post-conflict security over the longer term.

[59] US Department of Defense (note 52), p. 53. See also Cordesman and Mausner (note 54).

[60] US Department of Defense (note 52), p. 22.

[61] US Government Accountability Office (GAO), *Operation Iraqi Freedom: Preliminary Observations on DOD Planning for the Drawdown of U.S. Forces from Iraq*, GAO-10-179 (GAO: Washington, DC, 2 Nov. 2009), p. 1; and Iraq–USA Agreement on the withdrawal of United States forces from Iraq and the organization of their activities during their temporary presence in Iraq, signed 17 Nov. 2008, entered into force 1 Jan. 2009, <http://georgewbush-whitehouse.archives.gov/news/releases/2008/11/20081127-2.html>. Until 1 Jan. 2010 the United States Force–Iraq was known as the Multi-National Force–Iraq.

[62] Gelfand, L. and D. Wasserbly, 'US accelerates Iraq withdrawal', *Jane's Defence Weekly*, 7 Oct. 2009, p. 18; and Darling, D., 'Iraqi budgetary issues hinder equipment outfitting of security forces', Forecast International, 2 Oct. 2009. On Iraq's recent and upcoming arms acquisitions see chapter 7, section V, in this volume.

[63] Cordesman and Mausner (note 54), pp. 98–102.

V. Asia and Oceania

Military expenditure in Asia and Oceania increased by 8.9 per cent in real terms in 2009, to reach $276 billion, with increases in all subregions.

China is the biggest military spender in the region: its expenditure of 686 billion yuan ($100 billion) in 2009 was 15 per cent higher in real terms than in 2008. China's absolute real-terms increase was almost equal to the total regional increase.[64] The Chinese Government's official budget report describes the purposes of increased spending as being to improve the living conditions and benefits of troops; to continue to develop the use of information and communications technology within the armed forces (what is usually called 'network-centric warfare' in the West and 'informationized warfare' in China); to improve equipment and support facilities; to improve disaster-relief capabilities; and to rebuild infrastructure following the 2008 Sichuan earthquake.[65]

India's military expenditure totalled 1851 billion rupees ($36.3 billion) in 2009, an increase of 13 per cent in real terms over 2008. India's military spending has risen by 67 per cent since 2000. This increase has been pushed by the country's economic growth and rise as a regional power but also by the growth of China—its main regional competitor[66]—the continuing conflict with Pakistan and, increasingly in recent years, the rising threat of terrorism. India plans to spend at least $30 billion by 2012 on military modernization, although this may be affected by continuing delays in procurement processes.[67]

Kazakhstan was the only country in Central Asia for which 2009 military expenditure data is available. Although its spending was unchanged in real terms in 2009, at 199 billion tenge ($1.3 billion), since 2000 it has increased by 360 per cent—enabled by rapid economic growth due in part to oil and gas revenues—as the country has sought to modernize its armed forces. Kazakhstan is seeking to create a 'mobile, professional [military] force' able to undertake a range of missions, focused on what the country's 2007 military doctrine identifies as cross-border threats of terrorism, arms and drugs smuggling, and illegal migration.[68]

[64] The official defence budget does not cover the whole of Chinese military expenditure. The figures given here for China are SIPRI estimates, which are *c.* 45% higher than the official budget. For the basis of SIPRI's estimates, which have been revised in 2010, see appendix 5A, section II.

[65] Chinese Ministry of Finance, 'Report on the implementation of the central and local budgets for 2008 and on the draft central and local budgets for 2009', 5 Mar. 2009, <http://www.gov.cn/english/2009-03/15/content_1259811.htm>.

[66] Indian Ministry of Defence (MOD), *Annual Report 2008–09* (MOD: New Delhi, 2009), pp. 5–6.

[67] Matthews, N., 'Acquisition plans aimed at raising India's capabilities', *Defense Technology International*, Jan. 2009, p. 40.

[68] Hodge, N., 'Kazakhstan identifies modernisation plans', *Jane's Defence Weekly*, 25 Apr. 2007, p. 31.

Military expenditure in Australia increased by 8.5 per cent in real terms in 2009, to reach 25.7 billion Australian dollars ($19.0 billion). Following a major restructuring of its defence policy, as reflected in its 2009 defence white paper, Australia plans to increase its military spending by 3 per cent annually up to 2018, and then by 2.2 per cent each year until 2030.[69] The white paper also sets out plans to acquire military equipment worth $52 billion over 20 years.[70] These acquisitions reflect an expected change in the military situation in the Asia–Pacific region, in which the USA would decrease its current engagements and China would continue to grow in power.[71]

Afghanistan

Military expenditure in Afghanistan cannot be separated from the ongoing conflict in the country, the role played by the USA and other international forces, and military aid from the USA.[72] Like Iraq, Afghanistan faces challenges to rebuild its army from scratch and to sustain, over the long term, a military capable of securing the state. Unlike Iraq, Afghanistan has no oil revenues, and so has a much smaller budget than Iraq. Although this means that the budget is not subject to fluctuations in oil prices, Afghanistan's revenues cannot pay for the country's reconstruction, including the army.

Afghanistan's military spending has increased steadily, at an average annual rate of 7.5 per cent since 2003, when the Afghan National Army started to increase its size. In 2009 military expenditure totalled 12.8 billion afghanis ($250 million), an increase of 19 per cent in real terms over 2008 and of 55 per cent since 2003. The 2009 increase is driven by the decision in 2008—encouraged by the USA and the North Atlantic Treaty Organization (NATO)—to further increase the size of the ANA from 80 000 to 134 000 troops by 2011.[73] This major increase also reflects the fragile security situation in Afghanistan, which has deteriorated since 2005: the number of attacks by insurgent groups increased from 2388 in 2005 to

[69] Australian Department of Defence (DOD), *Defending Australia in the Asia Pacific Century: Force 2030, Defence White Paper 2009* (DOD: Canberra, 2009), p. 137.

[70] Grevatt, J., 'Australia reveals 20-year Defence White Paper', *Jane's Defence Weekly*, 13 May 2009, p. 5; and Australian Department of Defence (note 69), chapter 9.

[71] 'Australia outlines military plans', BBC News, 2 May 2009, <http://news.bbc.co.uk/2/hi/8030292.stm>.

[72] On developments in Afghanistan see also chapter 2, section III, and chapter 4, section II, in this volume.

[73] In 2008 the US Administration of President George W. Bush had proposed to increase the ANA to 134 000 personnel by 2010, at a cost of $12 billion. A proposal was also discussed in 2009 by the new US Administration of President Barack Obama to double that number, but a decision has not been taken on this. See Shanker, T. and Schmitt, E., 'US plans vastly expanded Afghan security force', *New York Times*, 18 Mar. 2009.

10 889 in 2008.[74] Between January and August 2009, almost 13 000 attacks were reported, over 2.5 times the number during the same period in 2008.[75]

In 2009 the government reported that security spending—that is, spending by the Defence and Interior ministries—absorbed 47 per cent of Afghanistan's core operating budget. The domestic funding of Afghanistan's military is dwarfed by external military aid: 94 per cent of ANA funding in 2009 came from military aid.[76] Between 2002 and 2009 the USA provided $21 billion to the ANA and the Afghan National Police (ANP)—$14.2 billion for the ANA and $7 billion for the ANP. In 2009 alone it provided $4 billion for the ANA and $1.5 billion for the ANP—almost double the total given in 2008.[77] Funding has been mainly directed at equipping and sustaining the ANA, upgrading garrisons and support facilities, enhancing ANA intelligence capabilities, and expanding education and training.[78] The Afghan Government is committed to funding only the core costs—salary and food—of 70 000 military personnel.[79] Thus, the Afghan Government will remain dependent on external aid for the continued build-up of the ANA.[80]

The attempt to increase the size of the ANA has met some challenges including high illiteracy rates, a low proportion of Pashtun recruits and reluctance by some soldiers to fight fellow Afghans.[81] After months of recruiting objectives being missed, a salary increase in 2009 helped to raise the number of ANA and ANP recruits. The new salary—$240 per month—is intended to compete with the payments offered by the Taliban.[82] In Afghanistan, even more so than in Iraq, if recruitment targets are met, a major concern around the growth of the army is that funding still depends on external donors, especially the USA. Self-reliance for the Afghan military would require expenditure far higher than current national budgetary

[74] US Government Accountability Office (GAO), *Afghanistan: Key Issues for Congressional Oversight*, GAO-09-473SP (GAO: Washington, DC, Apr. 2009), p. 15.

[75] US Government Accountability Office (GAO), *Afghanistan's Security Environment*, GAO-10-178R (GAO: Washington, DC, Nov. 2009), p. 2. On the violence in Afghanistan see chapter 2, section III, in this volume.

[76] Afghan Ministry of Finance (MOF), *1388 National Budget* (MOF: Kabul, 2009), p. 5. Afghanistan's national budget consists of a core operating budget and a core development budget. External donors funded almost all of the development budget and 39–50% of the operating budget over the period 2005–2009.

[77] US Government Accountability Office (note 74), p. 4.

[78] US Department of Defense (DOD), *United States Plan for Sustaining the Afghanistan National Security Forces* (DOD: Washington, DC, June 2008), p. 7.

[79] Afghan Ministry of Finance (note 76), p. 17.

[80] Afghan Ministry of Finance (note 76), p. 28.

[81] Constable, P., 'You have to learn this now', *Washington Post*, 2 Aug. 2009; 'What to watch in the Afghanistan war: training the Afghan Army', *Christian Science Monitor*, 11 Dec. 2009; and Sellin, L., 'Outside view: training the Afghan Army', 5 Jan. 2010, United Press International, <http://www.upi.com/Top_News/2010/01/05/UPI-83911262709907/>.

[82] Kessler, G., 'Pay increase for Afghan troops boosts interest', *Washington Post*, 10 Dec. 2009.

resources allow; Afghan President Hamid Karzai has acknowledged that achieving self-reliance could take 15 years.[83]

VI. Europe

Military expenditure in Europe was $386 billion in 2009, an increase of 2.7 per cent in real terms over 2008. The effect of the global economic crisis on military expenditure in Europe varied. In Western Europe, the recent trend of flat or slightly rising spending was largely unchanged, as governments chose to sustain public spending to boost the economy.[84] However, in Central and Eastern Europe—where in may cases the crisis has struck economies harder and where governments' had insufficient reserves and levels of credit-worthiness to maintain large deficits—a number of countries made significant cuts to military spending as a direct result of the crisis, including Bulgaria, Croatia, Estonia, Lithuania, Romania, Serbia, Slovakia and Ukraine.[85] Some of the richer Central European countries—the Czech Republic, Hungary and Poland—increased spending.

Meanwhile, Russia was forced to produce a revised budget in mid-2009 with substantial cuts to initial spending plans, leading to its smallest real-terms rise in military spending in a decade.[86] Nonetheless, President Dmitry Medvedev and Prime Minister Vladimir Putin emphasized that, because of the high priority given by the government to modernizing the Russian arms industry and military, the State Defence Order—which covers all equipment and supplies procured for the security forces—would be maintained.[87]

[83] 'Afghanistan "unable to pay for troops for 15 years"', BBC News, 8 Dec. 2009, <http://news.bbc.co.uk/2/hi/8400806.stm>; and Byrd, W., 'Financing, oversight critical for Afghanistan army, police', End Poverty in South Asia blog, World Bank, 2 Apr. 2009, <http://blogs.worldbank.org/endpovertyinsouthasia/financing-oversight-critical-afghanistans-army-police>.

[84] France and Germany even included modest amount of military spending in their stimulus packages. See chapter 6, section IV, in this volume.

[85] 'Economic woes hurt SE Europe defense budgets', Agence France-Presse, 21 Oct. 2009, <http://www.defensenews.com/story.php?i=4335014>; Višnar, F., 'I vojska mora štedjeti' [The army also has to economize], *Vjesnik*, 5 Mar. 2009; Cowan, G., 'Estonia cuts defence budget in economic downturn', *Jane's Defence Industry*, 17 Feb. 2009; Holdanowicz, G., 'Lithuania slashes defence budget', *Jane's Defence Industry*, 10 Feb. 2009; 'Serbian Defence Ministry to cut spending, minister says', Radio B92, 7 Apr. 2009, Transcript, World News Connection; Kominek, J., 'Slovakia faces hard choices after 10% budget cut', *Jane's Defence Weekly*, 8 Apr. 2009, p. 12; and Petrov, V., 'Defence budget shortfall will lead to cuts, says Ukrainian MoD', *Jane's Defence Industry*, 24 Feb. 2009.

[86] Cooper, J., 'Military expenditure in the Russian Federation, 2007–2009: a research note', n.d., <http://www.sipri.org/research/armaments/milex/publications/unpubl_milex>.

[87] Cooper (note 86); and 'Volume of the State Defense Order in 2009 will remain on preplanned level of 1.3 trillion rubles', ARMS-TASS, 2 June 2009, Translation from Russian, World News Connection.

Spending on the conflict in Afghanistan

One factor in the military expenditure decisions of numerous European countries is their participation in NATO's International Security Assistance Force (ISAF) in Afghanistan.[88] This creates direct operational costs and raises strategic questions about procurement priorities, a dilemma sharpened by the strain on budgets caused by the global economic crisis. This is most acute for the United Kingdom, which has the largest European force in Afghanistan and which is most directly involved in combat operations (see below), but similar debates have arisen in other countries.[89] In particular, the UK's present focus on major naval and air platforms and systems—aimed at maintaining or increasing global power-projection capabilities—has been called into question. Some commentators, including senior military figures, have argued that more emphasis should be placed on equipment designed to support large numbers of troops engaged in the type of low-intensity, asymmetric warfare seen in Afghanistan. This includes military vehicles, body armour, unmanned aerial vehicles (UAVs), helicopters, and equipment for communications, intelligence, surveillance and reconnaissance.[90]

At the end of 2009 the UK had 9500 troops in Afghanistan, followed by Germany (4280), France (3750) and Italy (3150).[91] For most countries, the cost of these deployments represents a relatively small share of their overall military spending. Germany budgeted €570 million ($792 million) for operations in Afghanistan in 2009, and France €330 million ($458 million), while Italy budgeted €242 million ($336 million) for the first 6 months of 2009.[92] For Germany this represents 1.7 per cent of total military spending and for France less than 1 per cent, while for Italy the implied annual cost is

[88] European countries covered by the SIPRI Military Expenditure Database that did not participate in ISAF are Belarus, Cyprus, Malta, Moldova, Montenegro, Russia, Serbia and Switzerland. For a list of countries that contributed troops to ISAF in 2009 see appendix 3A, table 3A.2, in this volume. See also North Atlantic Treaty Organization, 'International Security Assistance Force and Afghan National Army strength & laydown', 22 Dec. 2009, <http://www.isaf.nato.int/en/isaf-placemat-archives.html>.

[89] E.g. on the debate in France see Withington, T., 'France's Afghan dilemmas', ISN Security Watch, 9 Feb. 2009, <http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?lng=en&id=96200>.

[90] E.g. Richards, D. (Gen.), Chief of the General Staff, 'Future conflict and its prevention: people and the information age', Speech, International Institute For Strategic Studies, London, 18 Jan. 2010, <http://www.iiss.org/recent-key-addresses/general-sir-david-richards-address/>.

[91] North Atlantic Treaty Organization (note 88). The USA had 45 780 troops in Afghanistan.

[92] 'Bundeswehr-Einsatz verteuert sich massiv' [Bundeswehr use expands massively], *Der Spiegel*, 25 Nov. 2009; French Senate, *Avis présenté au nom de la commission des affaires étrangères, de la défense et des forces armées (1) sur le projet de loi de finances pour 2010, adopté par l'Assemblée Nationale* [Notices submitted on behalf of the Committee on Foreign Affairs, Defence and Armed Forces (1) on the budget bill for 2010 passed by the National Assembly], vol. 4, *Défense: Préparation et emploi des forces* [Defence: preparation and use of forces] (French Senate: Paris, 19 Nov. 2009), p. 31; and Valpolini, P. and Pape, A., 'The Italian balancing job', *Jane's Defence Weekly*, 1 July 2009, pp. 22–27.

Table 5.1. British expenditure and troop numbers in Afghanistan, 2003–2009

Year	2003	2004	2005	2006	2007	2008	2009	Total, 2003–2009
Expenditure on Afghanistan (£ m.)[a]	46	67	199	738	1 504	2 623	3 495	8 672
Total military expenditure (£ m.)[a]	29 338	29 524	30 603	31 454	33 486	36 431	37 784	
Troops deployed in Afghanistan[b]	267	580	461	5 200	7 753	8 750	9 500	

[a] Expenditure figures are for the financial year from April of the given year to March of the following year.

[b] Troops deployed figures are the numbers deployed at the end of the calendar year.

Sources: UK Defence Statistics <http://www.dasa.mod.uk/>; British House of Commons, Defence Committee, *Ministry of Defence Main Estimates 2009–10*, 9th Report of Session 2008–09, HC 773 (The Stationery Office: London, 2 July 2009); SIPRI Multilateral Peace Operations Database, <http://www.sipri.org/databases/pko/>; North Atlantic Treaty Organization, 'International Security Assistance Force and Afghan National Army strength & laydown', 22 Dec. 2009, <http://www.isaf.nato.int/en/isaf-placemat-archives.html>.

1.8 per cent of total military spending. The costs are much more significant for the UK, which budgeted £3.5 billion ($5.4 billion) for Afghanistan operations for the 2009/10 financial year, 9.2 per cent of total military spending. British spending on Afghanistan has increased exponentially from just £46 million ($75 million) in 2003/2004, especially since the deployment of forces in the Taliban stronghold of Helmand in 2006 (see table 5.1).

The United Kingdom

The cost of the conflict in Afghanistan is one of several factors putting heavy strain on the British military budget. While some war-related purchases are funded from the Treasury's contingency fund, new equipment purchases for use in Afghanistan, such as the 22 Chinook helicopters ordered in 2009, come from the main Ministry of Defence budget and are expected to lead to cuts in personnel and equipment elsewhere.[93] Moreover, the British Government has faced criticism—including, tacitly, from the military—that British forces in Afghanistan are under-equipped, which has created pressure to devote more resources there.[94]

In addition to the financial pressure caused by the ongoing conflict in Afghanistan, military spending is likely to be cut in coming years, along

[93] 'Cuts made to boost UK Afghan mission', BBC News, 15 Dec. 2009, <http://news.bbc.co.uk/2/hi/8413135.stm>.

[94] Ritchie, A., 'British MPs set to challenge Brown on Afghanistan', Agence France-Presse, 16 July 2009, <http://www.defensenews.com/story.php?i=4190239>.

with other areas of spending, in order to reduce the UK's soaring budget deficit caused by the economic crisis. The deficit for 2009/10 is estimated at £178 billion ($277 billion).[95] This will be true whoever takes power after the May 2010 general election—both the Labour and Conservative parties have promised to hold a strategic defence review.[96]

Furthermore, two major reports have exposed a 'black hole' in the UK's military finances caused by an equipment programme whose cost over the coming decade exceeds even high-end projections of military spending. This programme includes aircraft carriers, a replacement for the Trident nuclear weapon system, nuclear-powered submarines, a new generation of surface combatants, F-35 (Joint Strike Fighter) combat aircraft, A400M transport aircraft, a third tranche of Typhoon combat aircraft, military vehicles, UAVs and communications systems. A review of acquisition for the MOD (the Gray Review), published in October 2009, found that the MOD had 'a substantially overheated equipment programme, with too many types of equipment being ordered for too large a range of tasks' and that the programme 'is unaffordable on any likely projection of future budgets'.[97] The National Audit Office Major Projects Report for 2009 agreed. It found that, if the military budget were to increase by 2.7 per cent (in absolute terms) from 2011, the gap between the cost of the equipment programme and available resources would be £6 billion ($9.3 billion) over the subsequent 10 years, while with a constant budget (and a real-terms decrease), the gap would rise to £36 billion ($56 billion).[98]

The Gray Review identified a range of systemic failings in the equipment planning and acquisition system. It concluded that no clear responsibility exists to ensure that plans match available resources. Individual services have an incentive to bid as high as possible for themselves and to under-estimate likely costs in order to maximize the chance of their programme being approved. This tendency is reinforced by the government's extreme reluctance to cancel programmes once initiated. Instead, budgetary shortfalls have been dealt with by extending programme schedules, which saves money in the short term but costs more in the long term.

[95] British Treasury, *Securing the Recovery: Growth and Opportunity—Pre-Budget Report 2009*, Cm 7747 (Her Majesty's Stationery Office: London, 9 Dec. 2009).

[96] British Ministry of Defence, 'Strategic Defence Review outlines', Press release, 7 July 2009, <http://www.mod.uk/DefenceInternet/DefenceNews/DefencePolicyAndBusiness/StrategicDefenceReviewOutlined.htm>; and 'Tories plan early defence review', BBC News, 16 Sep. 2009, <http://news.bbc.co.uk/2/hi/8258719.stm>.

[97] Gray, B., *Review of Acquisition for the Secretary of State for Defence*, Independent report (Bernard Gray: Oct. 2009), p. 6.

[98] British National Audit Office, *Ministry of Defence: The Major Projects Report 2009*, HC85-I, Session 2009–2010 (The Stationery Office: London, 15 Dec. 2009), p. 22.

VII. North America

The conflict in Afghanistan has also been causing a growth in costs in both Canada and the USA.

Canada's military expenditure reached 22.3 billion Canadian dollars ($19.2 billion) in 2009, an increase of 6.6 per cent in real terms over 2008, and of 49 per cent compared to 2000. Afghanistan accounted for a significant share of this increase. Canada had 2830 troops stationed in Afghanistan as of the end of 2009.[99] Unlike the USA, Canada does not make specific war appropriations; however, information on war costs is available in annual Department of National Defence (DOND) performance reports.[100] The Canadian Government has estimated that the total 'incremental costs' (i.e. costs that would not have been incurred were it not for the conflict) of the Afghanistan mission would total 11.3 billion Canadian dollars ($9.9 billion) by the time when Canadian forces are due to leave in 2011; 9 billion Canadian dollars ($7.9 billion) of this is for the DOND.[101] Incremental costs include equipment destroyed and capital equipment procured specifically for Afghanistan and not returned to Canada, but it has been argued that some purchases are not accounted for, including tanks, artillery and armoured vehicles worth over 2 billion Canadian dollars ($1.75 billion), which, while having uses beyond Afghanistan, were bought primarily for use there.[102] The long-term costs of veteran care are also not included (as in the USA).

The United States

The US Administration of President Barack Obama made its first defence budget request in 2009, for financial year (FY) 2010, representing a refocusing of US military spending, albeit not a major strategic shift.[103] The economic crisis has not been a significant factor in US military spending—like other major Western economies, the US Government has sought to provide a fiscal stimulus to the economy and postpone reducing the budget deficit. The $787 billion stimulus package included only $7 billion of extra military expenditure, perhaps reflecting the view that military spending is not the most effective way to create jobs: according to one study, each $1 billion of US military expenditure created 8900 jobs, compared to 12 200

[99] North Atlantic Treaty Organization (note 88).

[100] E.g. Canadian Ministry of National Defence, *National Defence 2008–09 Estimates*, part III, *Departmental Performance Report* (DOND: Ottawa, 2009).

[101] Canadian Government, 'Cost of the Afghanistan mission 2001–2011', Backgrounder, 25 Nov. 2009, <http://www.afghanistan.gc.ca/canada-afghanistan/news-nouvelles/2009/2009_02_25a.aspx>.

[102] Perry, D., 'Canada's seven billion dollar war: the cost of Canadian forces operations in Afghanistan', *International Journal*, vol. 63, no. 3 (summer 2008), pp. 703–25.

[103] US financial years start on 1 Oct. of the year before the named year.

jobs for spending on clean energy, 14 000 jobs for health spending and 20 800 jobs for education.[104] However, President Obama has excluded 'national security' spending from a planned future spending freeze aimed at reducing the deficit.[105]

US military expenditure (outlays for 'National Defense') increased in FY 2009 by 7.7 per cent to reach $661 billion. This was mostly the result of budget decisions of the previous administration of President George W. Bush, but includes $79.9 billion from a war supplemental appropriation passed by the US Congress in 2009, and $7 billion from the stimulus package.[106]

The Obama budget for 2010

President Obama presented his first budget request—for FY 2010—to the Congress in May 2009. The proposed budget included $534 billion for the 'base' Department of Defense (DOD) budget, which covers the regular expenditure of the DOD not directly related to the conflicts in Afghanistan and Iraq. The proposed budget also included a separate request for $130 billion for 'Overseas Contingency Operations' (OCO), which covers the costs of these conflicts. By making a separate request for funding for war costs as part of the main budget request, the Obama Administration hoped to replace the Bush Administration's much-criticized use of 'emergency' war supplemental appropriations.[107] This change in practice involved moving $13 billion of items formerly funded by supplementals into the base budget. After this change, the total budgetary authority requested ($693 billion) was almost identical to the amount authorized in 2009 ($694 billion).[108]

The FY 2010 budget presented in May 2009 did not take account of President Obama's decision in November 2009 to send an additional 30 000 troops to Afghanistan, which will take the US force in Afghanistan

[104] Pollen, R. and Garrett-Peltier, H., *The U.S. Employment Effects of Military and Domestic Spending Priorities: An Updated Analysis* (University of Massachusetts, Political Economy Research Institute: Amherst, MA, 9 Oct. 2009).

[105] White House, 'Remarks by the President in State of the Union Address', 27 Jan. 2010, <http://www.whitehouse.gov/the-press-office/remarks-president-state-union-address>.

[106] The large increase comes despite a levelling-off of the budgetary authority passed by Congress for FY2009. A *budgetary authority* authorizes government spending; however the actual expenditure itself—or *outlays*—may take place in both the current and in subsequent financial years. The years 2006–2008 saw substantial excesses of authority over outlays, with outlays catching up in 2009 as previously authorized funds were spent. US Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2011: Historical Tables* (Government Printing Office: Washington, DC, 2010), pp. 56–62, 90–94; and US Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018* (US Congress: Washington, DC, Jan. 2008), pp. 165–81.

[107] For a discussion of the issues surrounding US war funding see Perlo-Freeman et al. (note 52), pp. 185–89.

[108] As well as the base budget and the OCO budget, the total includes a small amount of mandatory defence spending, Department of Energy spending on the US nuclear weapon programme and some military spending in other departments.

Table 5.2. US outlays for the Department of Defense and total national defence, financial years 2001, 2003, 2006–2010

Figures are in US$ b. Years are financial years (starting 1 Oct. of the year before the named year).

	2001	2003	2006	2007	2008	2009	2010[a]
Outlays at current prices							
DOD, military	290.2	387.2	499.3	528.6	594.6	636.7	692.0
Military personnel	74.0	106.7	127.5	127.5	138.9	147.3	155.0
O&M	112.0	151.4	203.8	216.6	244.8	259.3	279.4
Procurement	55.0	67.9	89.8	99.6	117.4	129.2	147.2
RDT&E	40.5	53.1	68.6	73.1	75.1	79.0	79.3
Military construction	5.0	5.9	6.2	7.9	11.6	17.6	23.8
Family housing	3.5	3.8	3.7	3.5	3.6	2.7	4.0
Other[b]	0.3	–1.6	–0.4	0.2	3.2	1.5	3.3
DOE, military	12.9	16.0	17.5	17.1	17.1	17.6	20.0
Other, military	1.6	1.6	5.1	5.7	4.3	6.8	7.2
Total national defence	**304.8**	**404.8**	**521.8**	**551.3**	**616.1**	**661.0**	**719.2**
Outlays at constant (FY 2005) prices							
Total national defence	363.1	444.6	499.3	509.2	548.6	580.2	626.2
Outlays as a share of gross domestic product (%)							
Total national defence	*3.0*	*3.7*	*4.0*	*4.0*	*4.3*	*4.6*	*4.9*

DOD = Department of Defense; DOE = Department of Energy; FY = financial year; O&M = operations and maintenance; RDT&E = research, development, test and evaluation.

[a] Figures for 2010 are estimates.

[b] A negative number in this category is the result of difficulties in classifying budget activities according to function rather than to spending agency or organization.

Source: US Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2011: Historical Tables* (Government Printing Office: Washington, DC, 2010), pp. 61–62, 131–32.

to 98 000—treble the level at the end of 2008.[109] As a result, the administration presented a $33 billion supplemental request for FY 2010 to the Congress in February 2010, despite Obama's intention to abandon the practice.[110] This figure—which equates to $1.1 million for each extra soldier—is in line with an analysis by the Centre for Strategic and Budgetary Assessments (CSBA) in December 2009, which found that, while the cost per troop deployed varied according to composition of forces, mission and the

[109] White House, 'Remarks by the President in address to the nation on the way forward in Afghanistan and Pakistan', 1 Dec. 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-address-nation-way-forward-afghanistan-and-pakistan>; and US Department of Defense, 'Active duty military personnel strengths by regional area and by country (309A)', 31 Dec. 2008, <http://siadapp.dmdc.osd.mil/personnel/MILITARY/miltop.htm>.

[110] The supplemental request for FY 2010 was included with the FY 2011 budget request. US Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2011* (Government Printing Office: Washington, DC, 2010), pp. 55–59.

actions of opposing forces, overall operational costs in both Afghanistan and Iraq depended closely on troop numbers.[111]

The Obama budget request for FY 2010 called for the termination of a number of major weapon programmes, in particular the F-22 stealth combat aircraft, the C-17 transport aircraft, an alternative engine for the F-35 (Joint Strike Fighter) combat aircraft and the VH-71 presidential helicopter, and also included cuts to missile defence funding and some major land and naval systems. In contrast, additional funding was included for increases in US Army and US Marine Corps troop strengths; an increase in DOD contracting personnel; increased funding for UAVs, intelligence, surveillance and reconnaissance (ISR) equipment, and cyberwarfare; and an increased purchase of F-35 aircraft. Supporting the budget proposal, US Defense Secretary Robert Gates argued that it was more important to spend money on areas related to current US conflicts than to increase the USA's lead in capabilities where it is already dominant.[112] Nonetheless, the bulk of procurement spending in the budget is still devoted to traditional major weapon platforms and systems. However, while the 2010 DOD Appropriations Act, passed by the Congress in December 2009, accepted the termination of the F-22 programme, it restored the C-17 and F-35 alternative engine programmes. Overall, the $636.3 billion of spending approved in the act was around $3 billion less than the president requested.[113]

The original modest real-terms increase in 2010 outlays proposed by the FY 2010 budget has now been further increased by the supplemental appropriation. US military expenditure in 2010 is now forecast to reach $720 billion, or 4.9 per cent of GDP (see table 5.2).

VIII. Conclusions

The long-term rise in global military expenditure continued—indeed, accelerated—in 2009. The global financial crisis and economic recession have not slowed this rise, even though spending on the military has not been widely included in government's economic stimulus packages. However, in the near future governments will have to reduce their public sector deficits. When the cuts take place will depend on governments' overall economic strategies—the balance between reducing deficits and the fear of

[111] Harrison, T., 'Estimating funding for Afghanistan', Center for Strategic and Budgetary assessments (CSBA) Update, 1 Dec. 2009, <http://www.csbaonline.org/2006-1/3.Publications/Publications_List.shtml?>.

[112] Gates, R., US Secretary of Defense, 'Defense budget recommendation statement', 6 Apr. 2009, <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1341>.

[113] The act covers only spending on personnel, operations and maintenance, procurement. and research and development. Department of Defense Appropriations Act 2010, US Public Law 111-118, signed into law 19 Dec. 2009, <http://www.govtrack.us/congress/bill.xpd?bill=h111-3326>.

jeopardizing economic recovery by cutting too quickly; whether the resulting spending cuts affect military expenditure will depend on the degree of priority given to the military. A number of smaller economies, less able to sustain high deficits, have already cut military spending as a result of the crisis.

One impact of the crisis on military spending in some countries has been through the fall in the price of oil and other commodities. In the Middle East, the link between commodity exports and military spending and arms imports has for a long time been a feature almost too obvious to be remarked on. However, in recent years this link has become an increasingly significant factor in other developing regions, including Africa and South America. In many countries in both regions, exploitation of recently discovered reserves combined with rising oil prices in particular have fuelled rapid growth in military spending over the past five years or so. The fall in oil prices in 2009 contributed to reductions in spending in some countries, including Chad, Chile and Iraq, and smaller rises than in recent years in others, including Nigeria, Saudi Arabia and Russia. However, while falling oil prices may have slowed the rising trend in military expenditure, it has not been halted.

The escalating conflict in Afghanistan is having a growing impact on the military spending of both Afghanistan itself and the foreign countries with forces there. By far the largest costs are incurred by the United States, which accounts for the majority of foreign troops, but the costs are also high in relative terms for Canada and the United Kingdom. This is one of a number of factors putting pressure on the British military budget at present.

The inauguration of the Obama Administration has not halted the growth in US military spending. While the US presence in Iraq is starting to wind down, that in Afghanistan is escalating; meanwhile, while there has been some refocusing of priorities in regular ‘peacetime’ spending, the overall goal of retaining global military dominance has not changed. Other emerging powers, such as Brazil, China and India, have also continued to increase spending. While local conflicts drive spending in some cases, it is in general hard to link the rising trend to any increase in major global security threats; rather, it appears to reflect the long-term strategies of the world’s major global and regional powers.