

## 5. Military expenditure and developments in arms production

### Overview

*Estimated global military expenditure rose for the ninth consecutive year in 2023, to surpass \$2.4 trillion, driven by the Russia–Ukraine war and wider geopolitical tensions. However, despite the consequent growth in demand for weapons and continued efforts to meet that demand, arms companies have found it difficult to boost production.*

*The 6.8 per cent increase in total military spending in 2023 was the fastest rise since 2009 and pushed estimated world spending to the highest level recorded in the SIPRI Military Expenditure Database (see section I). As a result, the global military burden—world military expenditure as a share of world gross domestic product (GDP)—rose to 2.3 per cent. Governments around the world allocated on average of 6.9 per cent of their budgets to the military or \$306 per person. Estimated military spending increased across all five geographical regions for the first time since 2009 (see section II). Spending by countries in Africa rose the most (by 22 per cent in 2023), while the smallest increase was in the Americas (2.2 per cent).*

*With the 10 largest spenders accounting for three-quarters of world military spending, changes in their spending have an impact on world trends. In 2023 all 10 increased their military spending. The United States remained by far the largest military spender in the world; its expenditure of \$916 billion was more than the combined spending of the other 9 countries among the top 10 spenders, and 3.1 times as large as that of the next biggest spender, China. US spending included a supplemental budget of \$35.7 billion related to Ukraine, of which \$25.4 billion went to Ukraine as military aid.*

*The trend for increased military spending by European states in response to the Russian Federation's full-scale invasion of Ukraine gained traction in 2023: 39 of the 43 countries in Europe increased military spending. The 16 per cent surge in the European total was spurred by the 51 per cent rise in Ukrainian spending and that of 24 per cent in Russian expenditure. As a result of Central and West European countries substantially boosting their military expenditure, 10 of the 28 European members of the North Atlantic Treaty Organization (NATO) reached or surpassed the 2 per cent of GDP target in 2023, the highest number since the target was set in 2014.*

*In Asia and Oceania—the region with the second highest level of spending—estimated military expenditure rose for the 34th consecutive year, with 4.4 per cent added to the regional total. Half of the regional total consisted of*

spending by China: it rose by 6.0 per cent to reach \$296 billion in 2023. As well as significantly influencing the regional trend, China drove spending decisions in neighbouring countries and the broader region: many countries in the region (i.e. Australia, India, Japan and Taiwan) attributed their increased military expenditure to ongoing tensions and rivalries with China. Japan's spending rose by 11 per cent, the largest year-on-year spending increase since 1972.

Estimated military spending in the Middle East grew by 9.0 per cent in 2023, with increases in all three of the biggest spenders in the region: Saudi Arabia, Israel and Türkiye. The Israel–Hamas war was the main driver for the 24 per cent increase in Israel's military expenditure.

The combined arms revenue of the 100 largest arms-producing and military services companies (the SIPRI Top 100) was \$597 billion in 2022—the most recent year for which data is available. The change in revenue from arms sales was not in line with the change in military spending: while world military spending increased by 3.6 per cent in 2022, the total arms revenue of the Top 100 for 2022 was 3.5 per cent lower than those companies' revenue in 2021 (see section III). This fall was mainly the result of overall decreases in the arms revenue of companies in the USA and Russia.

Arms revenue by US companies in the Top 100 decreased by 7.9 per cent in 2022, but the USA continued to dominate the ranking with 42 companies with a total revenue of \$302 billion. Moreover, the top 5 arms companies in 2022 were all based in the USA. Of the 42 US companies in the ranking, 32 reported a drop in arms revenue, including 4 of the top 5.

Transparency in the Russian arms industry continued to worsen. Due to a lack of available data, only two Russian companies can be included in the Top 100 for 2022. Their combined arms revenue was \$20.8 billion, 12 per cent lower than in 2021. Despite Western sanctions and trade restrictions, Russia has still been able to import components (e.g. microchips) to increase its arms production in response to the increased demand. For components that Russia could not source indirectly from the West, it relied on Chinese-made alternatives. The 12 per cent drop in revenue could be explained by delayed payments for arms deliveries and companies focusing on refurbishment instead of new production. To meet its war requirements, Ukraine entered international collaborations with European and US companies.

The overall imbalance between the increase in demand for weapons and falling arms revenue of the Top 100 highlights the lengthy time lag between the initial demand for weapons and the subsequent scaling up of production and delivery by arms companies. Whereas European and US companies have struggled to translate higher demand into revenue, many companies in Asia and the Middle East—such as those in South Korea and Türkiye—appeared to be able to overcome these challenges (see section IV).