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## MILITARY EXPENDITURES IN THE MAELSTROM OF THE GLOBALIZED WORLD

### ABSTRACT

*The concept of military expenditures is as old as the first antic civilizations. The military, as the first and only line of defense, has always had a great role in the expenditures of countries. Military expenditures changed through history, as has the very understanding of the armed forces which represented the military might of a country. Through the evolution of society many other priorities have emerged concerning state expenditures, but because of their focus on population defense, upholding peace and protecting the country borders as the first and primary forms of public goods, have the military expenditures kept their steadfastness through the entire human history.*

*The globalized world we live in today has changed all this, especially when speaking about insuring the safety of our country against foreign and domestic threats. The development of technology and the globalization itself have drastically changed the concept of waging war and as a result influenced the very structure and level of military expenditures. The level of technology is one of the best indicators of a countries development, but also of the power of its military force. Naturally, military might is very hard to sustain without equally adequate economical power since a developed economy and a strong industry is exactly what enables the development of defense potentials of a country and it's financing.<sup>1</sup>*

**Key words:** military expenditures, military spending, globalization, arms, USA, Great Britain, Croatia

JEL classification: H5, H56

### 1. THE WORLDS GEOSTRATEGIC SITUATION

A whole and perfect understanding of the general international security state is the prerequisite for creating any national defense program. The international situation is in a constant state of flux primarily since it is determined by the economy and politics of each individual country, especially from the most developed ones. This means that it's very hard to estimate the future development of events and that the military force needs to be able to cope with every challenge modern warfare has to offer.

With the exception of the World Wars, the longest period of militarization has been the Cold War, from the late 40s until the end of the 80s of the last century. During this period the NATO alliance and the Warsaw Pact have invested greatly in their military which represented almost 85% of the total world military expenditures, reaching the highest point in the mid 80s of the last century with the sum of one trillion US dollars per year.<sup>2</sup> Along with huge spending on conventional weapons, the two superpowers were waging a constant race in

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<sup>1</sup> Paper received 9 September 2009.

<sup>2</sup> Leger Sivard, R. (1987-1996). edition „World Military and Social Expenditure“, World Priorities, Washington DC

nuclear armament which resulted in more than 70.000 nuclear missiles worldwide. The Cold War, along with the process of mass armament, had three other important effects. The first was the redirection of huge amounts of money dedicated to social welfare and development projects and the redirection of intellectual and technological resources to military programs as the second effect. But, the most important was the deflection of conflict from a direct confrontation between the superpowers to “alternative” conflicts which they led indirectly. Many wars from 1945 until the end of the 20<sup>th</sup> century, which include Korea, Vietnam, Afghanistan and other countries, were led in the shadow of the Cold War and caused many casualties.<sup>3</sup> The early 90s of the 20<sup>th</sup> century were marked by three big changes concerning army conditions and its deployment. The first was the fact that the states of the former Soviet Union were undergoing a deep economical crisis which, among other things, has resulted in the total collapse of their military forces. The second big change was a combination of unilateral and bilateral measures of nuclear disarmament through which the arsenals of the USA and Russia were decreased from 70.000 to 20.000 nuclear missiles, although the stored nuclear warheads were never permanently deactivated. Also, an important international agreement has been signed<sup>4</sup> on the Chemical Weapons Convention which led to the destruction of great chemical arsenals, a very technologically demanding process which required a few years to complete. In the end the US military forces have undergone a progressive transformation. There was a considerable decrease in Cold War type weaponry (heavy armored vehicles and tanks in Europe, US Navy anti-submarine warfare systems), but at the same time the spending for maintenance and upgrading of the long range warfare systems has increased. Great attention has been dedicated to amphibian forces, aircraft carriers, long range air systems and Special Forces, as to the national and global missile defense shield. By the end of the 20<sup>th</sup> century the United States were the only country with a true global reach and their policy of using military force to maintain this “state of security” was deeply rooted.

The world's political scene has undergone through major changes in 1991 after the collapse of the Soviet Union, Yugoslavia and other socialist countries, but this change didn't bring the expected positive effects because the funds promised from the reduction of military budgets were still being invested in the national defense and police armament. The collapse of the Warsaw Pact wasn't met with the similar gesture from the USA in the sense of disbandment of the NATO alliance. The United States of America soon afterwards showed their true intent for global domination when George H.W. Bush announced, in a Pentagon document from March 1992 named “Defense Planning Guidance”<sup>5</sup> and constructed by Paul D. Wolfowitz (U.S. Undersecretary of Defense for Policy), plans not only for the USA but also for the entire World. The first mission of this plan was to stop the emergence of a new rival taking also into consideration the interests of the most developed countries thus discouraging any kind of dispute over the American leadership or any attempt of destroying of the established political and economical order. It has also been stated that the USA has to maintain the deterrent mechanisms for any possible rival and that they will keep and expand the functions of the NATO alliance so they could prevent the creation of an independent European safety arrangement. The Gulf War followed with the goal to drive the Iraqi armed

<sup>3</sup> Rogers, P. (2005). „A World Becoming more Peaceful?“ na [www.OpenDemocracy.net](http://www.OpenDemocracy.net).

<sup>4</sup> A bilateral agreement between the USA and Russia signed in 1990 to stop the production of chemical weapons, reducing their stockpiles by 20% and the beginning of its destruction in the year 1992. - [www.opcw.org](http://www.opcw.org/Chemical%20Weapons%20Convention/Genesis%20and%20Historical%20Development)

<sup>5</sup> The document draft, known also as the *Wolfowitz Doctrine*, has “leaked” from the Pentagon and published by the New York Times, March 8<sup>th</sup> 1992. George Packer later used and explained the same document in his book „The Assassin's Gate: America in Iraq“ in 2005. - [www.nytimes.com/1992/03/08](http://www.nytimes.com/1992/03/08)

forces out of Kuwait and in this way to secure the precious oil fields. The lands that were caught in these changes were going through rough times. In some of them there even came to ethnic and territorial conflicts with the weakening and destabilization of government control and authority which resulted in the inability to stop the escalation of organized crime. The implementation of western political, economical and cultural values in this new environment led to a counter reaction of those political groups that had a hard time accepting these changes. In many countries the sense of discontent among the socially affected population led to their turning to socialist, nationalist or religious radicalism. All those problems that were suppressed in the bipolar world order now became the most important element of international relations. Countries and national securities had to face new threats which were not any more hostile relations between nations, but the constantly growing socio-economical disparities and the inadequate development of large regions strengthened by the spread of radical ideology, especially in countries with a weak government that was allowing groups of extremists the organization of terrorist acts across the globe.

Before the attacks of September 11 in 2001, the Bush administration rose to power with neoconservative beliefs deeply imbedded into their foreign and security politics. Numerous multilateral weapon control agreements were regarded as limiting and unfit, they were against the new International Court of Justice and they withdrew from the Kyoto protocol. The USA firmly believed their mission was to encourage other countries to follow their economical and political system because it would surely lead to a safer world. The attacks of September 11 shattered this concept. The Taliban regime in Afghanistan was quickly dealt with, the “Axis of evil” composing of Iraq, Iran and North Korea was identified and the strategy of preemptive strikes against potential threats was adopted, all under the wider “Bush Doctrine”.<sup>6</sup> With 20 military bases and several large combat groups with air support from the aircraft carriers, the USA established a very strong military presence in the Middle East. Despite this, terrorist activity remains high, even higher than before September 11. There is no end in sight to these conflicts and as mentioned previously there are various interests to keep the whole Persian Gulf a volatile and conflict torn region for as long as possible.

Technology is today probably one of the best indicators of a countries development, but at the same time also of its military power. Naturally, military power is hard to maintain without sufficient economical power, because strong industry and a developed economy allow the development of one’s defense potential. China had for many years the largest land army, but with very limited military capabilities. While the size of the Chinese army was enormous, the training quality wasn’t high and the technology they were using was outdated. In the past two decades the Chinese economy has been growing extremely fast and the government started the modernization of their armed forces constantly increasing the funding for military needs. This modernization is very expensive, but the advantages of technologically advanced systems and units are more than worth the cost and this is the main reason why large investments are being made for the development of cutting edge technologies. The demonstrations of modern weapons capabilities, which are the result of USAs technological superiority, left many governments with a sense of discomfort after seeing how much superior were the American systems to their own. Advance technologies give the USA military capabilities which are by far superior compared to the rest of the world. The geopolitical implications of new technologies on international relations and foreign policy are great. Countries that own and are developing new technologies will be more and more advanced and

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<sup>6</sup> A study from the John Hopkins University which was published in the British medical journal “The Lancet” in October 2006.

as the gap between them and the lesser sophisticated countries grows, so will the possibility of conflict. The increase in productivity and economical benefits that innovations allow will result in a shift of economical influence marginalizing the less developed countries and putting them in unfavorable economical position. The losers in this technological race will lose their economical productivity, which can lead to a decreased GDP and a possible economical depression.

The security environment of the future will be shaped by international threats which will vary from wars, violent extremism, pandemics, natural disasters, all the way down to the problems that are not being handled properly like poverty, organized crime and the degradation of the environment. Technology will remain the key factor which will influence a countries military power, but at the same time it will be a source of power for violent extremists, not only in the form of higher destructiveness of their actions but also for propaganda purposes. Global communications have huge power which can be used, through information filtering and their manipulation, to worsen and deepen the psychological effect of possible threats and events right after incidents. The sum of all these conditions will lead to a higher state of anxiety and insecurity on an international level, with a high concern for personal safety, well being and even sustainability of human existence. Population growth puts the biggest strain on the already depleted natural resources and if we take into consideration that by the year 2050 there will be 9,5 billion<sup>7</sup> inhabitants on this planet, with the biggest growth in the poorest countries, than we can with certainty predict the problems that those countries and the entire world will face. The division between the rich countries and the poor ones will grow faster than ever and this very fact will fuel the hatred towards all that is modern and advanced. This hatred will be primarily based on fear, real and imaginary.

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<sup>7</sup> Official UN assessment, New York, February 24<sup>th</sup> 2005. Source: [www.un.org](http://www.un.org)

## **2. TRENDS IN MILITARY EXPENDITURES**

Military expenditures have been changing throughout history as has the very meaning of the armed forces that were the military power of a country. While the development of firearms was still rudimentary and primitive, man count and their motivation were the determining factors of an army's size and force potential (B. Liddell-Heart, C. Clark).<sup>8</sup> The end of the 20<sup>th</sup> century practically marks the end of the massive armies' era and the turning point in this evolutionary process was the Gulf War in 1991, which was very different from any other conflict in the past century and marks the beginning of a new type of armed conflicts later known as "asymmetric wars". This type of armed conflict redefines the military skill tradition and customs by introducing new elements into the tactical military operation plan. The first time in history military operation planners use certain market logic when contemplating about the use of its armed forces and weapon systems because by the end of the 20<sup>th</sup> century weapons and military technology became extremely expensive. Managing and piloting these new combat systems has also become very complicated and requires a special crew selection with, from the (public) expense aspect, a long (and expensive) training and education. In this situation, the loss of every combat aircraft, battleship or modern tank is a serious problem, not only because valuable war machinery was lost and it's replacement is a heavy strike on the tax payers (which they don't take very lightly), but foremost because when such a loss occurs we usually also lose the highly trained crew which cannot be replaced in a short period of time. This is the main reason why it is necessary to carefully manage the troops and cut down the losses to the minimum.

The next table shows the ten most powerful world powers according to their active troop count. However, the order of countries in this table does not relate to their real combat power, but only to their army's troop size count. Even though China and India have a very big military growth potential, the USA is currently the mightiest power in the world and the main reason behind this is their technological supremacy which is ensured with high investments into military programs and the military itself. Even when we consider how well its forces are equipped, the USA is far ahead from every other country in the world which only proves their global range of operations.

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<sup>8</sup> Liddell Hart, B. H. (1954). „Strategy: The indirect approach“, Frederick A. Praeger, New York.

**Table 1**

**The ten most powerful world forces in 2008.**

Rank	State	Active troops (in thousands)	Reserves (in 000.)	Defense Budget (in billions USD)	Tanks	Aircraft carriers	Cruisers	Destroyers	Frigates	Corvettes	Nuclear submarines	Air force*	Nuclear weapons
--	The World	17,442	44,925	2,410.00	86,681	78	71	204	319	335	150	27,489	20,000
1.	China	2,255	800	70.2	7,580	0	0	26	49	~ 93+	8	1900	410
2.	USA	1,452	1,458	611.1	7,620	12	22	61	30	5	71	2471	5400
3.	India	1,325	1,155	40	4,160	2	0	8	13	24	0	1430	40-50
4.	DNR Korea	1,190	7,700	4.89	3,500	Nd	Nd	Nd	6	3	Nd	590	4-13
5.	Russia	1,037	1,150	50	22,950	1	~ 5	23	~ 15	~ 145	36	2,118	14,000
6.	Rep. Korea	690	4,500	28.9	2,360	0	0	7	9	28	0	610	0
7.	Pakistan	619		4.4	2,461	0	0	0	7		0	340	24-48
8.	Iran	545	350	6.2	1,613	0	0	0	5		0	271	0
9.	Turkey	514	380	8.7	4,205	0	0	0	24	6	0	1,199	NATO**
10.	SR Vietnam	484	4,000	3.47	1,315	0	0	0	6	5	0	221	0

All provided data is official. Where official data could not be retrieved or is missing, official approximations from various institutions have been used.

\*The stated numbers refer only to combat aircraft.

\*\*Turkey is using the NATO nuclear weapon sharing strategy. It doesn't have any nuclear missiles, but it has tactical nuclear capabilities.

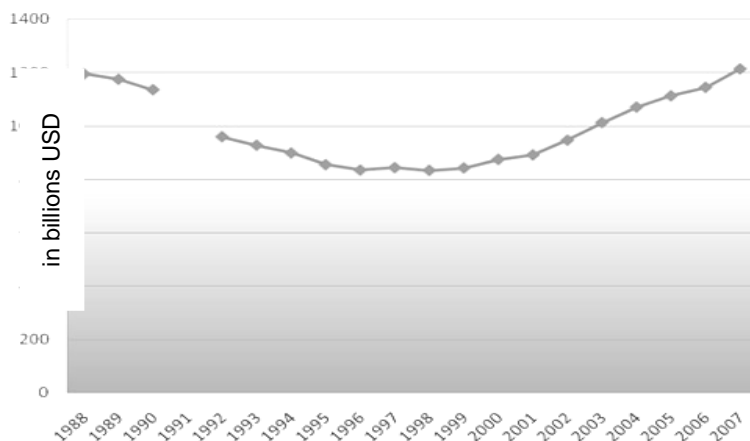
Source: Departments of Defense from various states, Centre for Strategic and International Studies (CSIS), Centre for International security and cooperation (FAS), CIA, NTI (2005 – 2009)

The trend of world military expenditures between the years 1988 and 2007 is shown in the next chart from which we can clearly see a sudden drop in the total military expenditures after the collapse of the Soviet Union and the Warsaw Pact, but also a constant growth in the period from the year 2000 to 2007. The total world military expenditures for the year 2007 have been estimated to 1.339 trillion USD, which is a real increase of 6% in comparison to the year 2006 and an increase of 45% in comparison to 1998. If we compare this amount to the world GDP, 2.5% of the world gross domestic product is used for military expenditures or 202 USD per capita on the world level. The region with the biggest expenditure growth over the 10 years period (1998 – 2007) was Eastern Europe with 162%. This region has also, in 2007, recorded the largest increase in expenditures of 15%, from which 86% refers to Russia whose increase was 13%. The US military expenditures make 48% of the total world military spending in 2008. Compared to the year 2001, American military expenses have risen by 67%, mostly because of larger spending to fund military operations in Afghanistan and Iraq, but also because they increased the basic military budget. The other regions that recorded military expenditures over 50% in this 10 year period are North America with 65%, the Middle East with 62%, South Asia with 57% and Africa and East Asia both with 51%. Regions with the lowest increase were West Europe with 6% and Central America with 14%.<sup>9</sup>

<sup>9</sup> Stockholm International Peace Research Institute Yearbook 2008

**Chart 1**

**World military expenditures in the period between the years of 1988 and 2007**

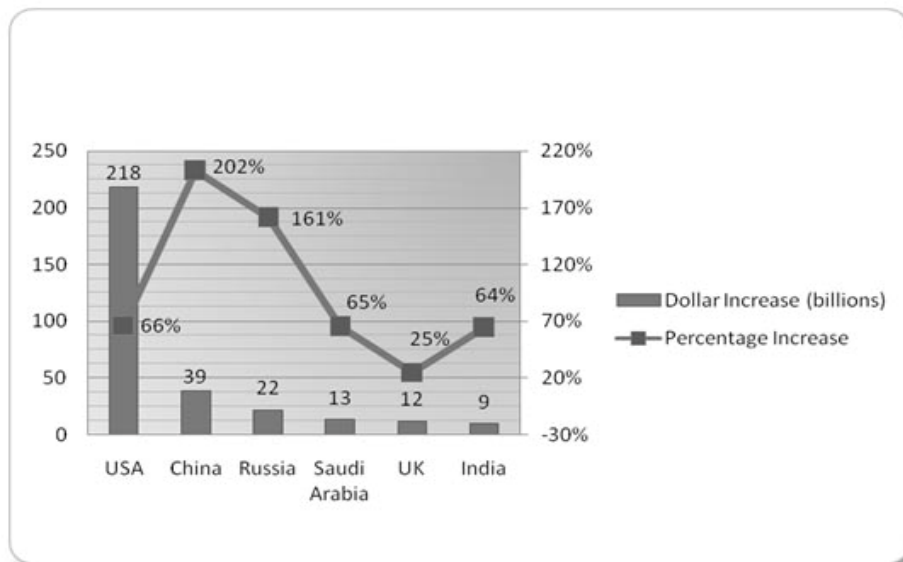


Source: Stockholm International Peace Research Institute Yearbook 2008, [www.sipri.org](http://www.sipri.org)

From the following chart we can see that in the year 2008 the US military spending was higher than ever in the period after World War II. However, because of the US economy and total public expenditure growth, the economical and financial burden of military expenditures is lower now than ever before in the stated period. Chinese military spending rose three times in the last decade, but because of their fast economic growth, this level of spending represents no burden whatsoever and amounts to 2.1% GDP. Except for China, large increases in military expenditures have been recorder in the South Caucasus lands, Georgia, Armenia and Azerbaijan. The reason behind this is probably the sensitive and unstable situation in this region which is marked by rebellions and conflicts, but also the involvement of external factors. This increase in expenditures has been made possible by the boosted economy from oil and gas exports. The factors that encourage this world military expenditure growth include state foreign policy goals, real and estimated threats, armed conflicts and the policy for participating in multilateral peace missions, all balanced on the available economical resources.

**Chart 2**

**Increase of military expenditures for the chosen countries in the period between the years 1998 and 2007**



Source: SIPRI Military Expenditure Database, 2009

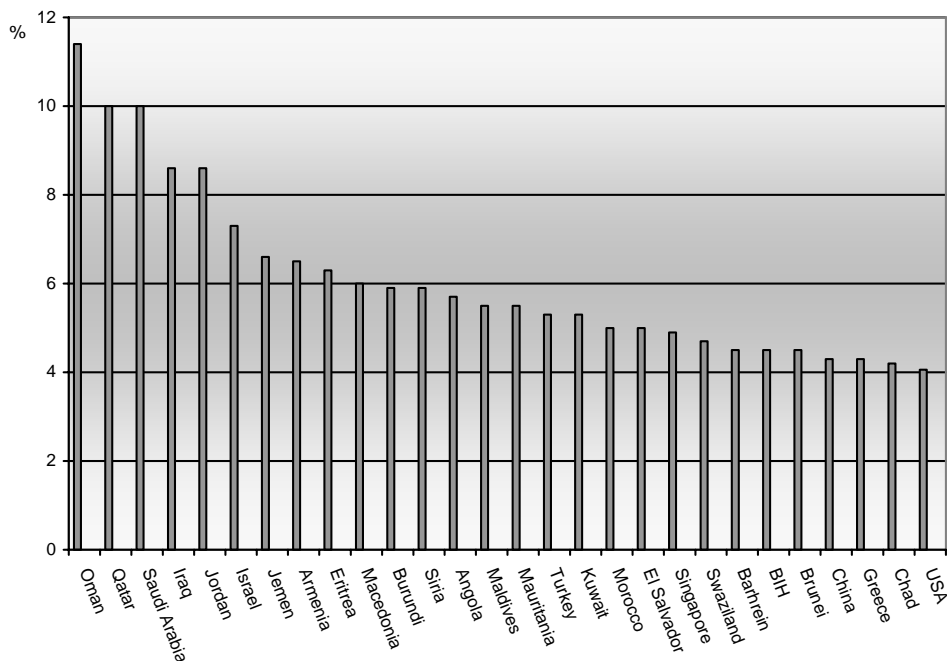
When military expenditures from different countries are observed, their level is very important since it directly influences the development and purchasing power of a country. Comparing the level of spending will give us an insight to which are the most powerful countries in the world, but it won't tell us how these expenditures affect its economy. To better understand this, we have to observe military expenditure as the percent of GDP of these countries. The percentage of each expenditure in the GDP reveals the priorities of the observed country. If military expenditures have a high percent in the GDP, it is safe to assume that this country is military oriented. USA, with the highest military expenditures in the world which make only 4% of their GDP, is the best example that a high military budget doesn't have to have a deep influence on the economy of a country.

From the next chart we can clearly notice that Oman (11.4%), Qatar (10%), Saudi Arabia (10%), Iraq (8.6%), Jordan (8.6%) and Israel (7.3%) are on top of the list of countries with the highest military expenditures percent in the GDP. All the named countries are located in the Middle East, which is the main focal point of numerous conflicts in today's world. Figures for some of the countries are not available for the reasons of isolation politics or secrecy of data concerning military affairs, as in the example of North Korea. Unofficial data for North Korea suggest a level of military expenditures of around 25% of their GDP. High military expenditure levels as percent of the GDP are characteristic for less developed countries that still rely on outdated military forces with high maintenance costs.



**Chart 3**

**Classification of countries according to their military expenditure percent of GDP in 2008.**



Source: Index Mundi, 2009

Although big growth in military expenditures in most countries has marked the last decade, the year 2009 will be in many opinions a turning point that could stop this trend. The main reason behind this opinion is the big economic crisis which slowly spreads and affects countries one after the other. The decrease in economic growth, recession and various saving methods will greatly affect military expenditures in most countries and it is safe to expect their decrease. Still, the threat of North Korea and Iran and their frequent nuclear tests brings up the issue of global security and it calls the international community to find a solution, in peaceful or military nature. Military and economic analysts throughout the world are torn between two contradictory views: to lower military spending in order to lower the general level of public spending or to rise military spending in order to control the growing global instability and the changes in military power.<sup>10</sup> The basic budget of the US Department of Defense, not including the funds for nuclear weapons and the 12 billion dollars each month for the “war on terror”, rose between the years of 2001 and 2009 by almost 70%. The economic climate, globalization, war against terrorism and the rapid advancement of China and India, gave all the needed excuses and material both to the politicians and military experts. However, the global economic crisis combined with the drastic reduction in oil prices, forces them to think hard about future military spending. The Russian economy<sup>11</sup> is taking a nose dive in the middle of a reform and expansion plan for their military forces, which have been

<sup>10</sup> Abbott, C., Rogers, P., Sloboda, J., (2006). “Global responses to global threats: Sustainable security for the 21<sup>st</sup> century”, Oxford Research Group, Oxford

<sup>11</sup> Homeland Security Research (2009). “Balancing Military Spending and Economic Crisis”, [www.homelandsecurityresearch.net](http://www.homelandsecurityresearch.net). Refers to all the named countries.

in a state of disarray ever since the collapse of the Soviet Union. Oil profits, which were supposed to be used to finance a newly equipped and influential Russian military, have gone dry leaving many plans and ideas unrealized. Even the Russian arms and military technology export, which is a valuable source of income and foreign currency, is growing weaker as the economic crisis is decreasing the credit potential of potential buyers. The Indian government and their military experts are in a very unpleasant situation. In one hand, the Indian economy is in a very difficult position because of the economic market decrease throughout the world and will have a big impact on the Indian military budget, which was growing very fast over the whole last decade. On the other hand, the vulnerability on foreign and domestic threats, both conventional and asymmetric, is constantly growing. Indian defense experts point out that their main rivals, China and Pakistan, are spending around 4% of their GDP for military expenditures, while the defense budget of India is barely 2%. Taking into consideration the whole situation, it has been decided to increase the Indian defense budget for the next year to 40 billion USD (3% of GDP), slowing down economic trends, which can lead even to protests. Chinese military spending also shows its dependence on the large long term economic growth. It is very hard to acquire actual data, but experts estimate that by the year 2010 the Chinese military budget will be between 100 and 180 billion dollars.<sup>12</sup> The Chinese army modernization is in danger because of the world market weakening economic activity, which may lead to serious internal destabilization or to the growing sensation of vulnerability to outside factors. Even the British army is facing problems with the lack of funds. Politics and profession are trying to find a balance between perceived threats and the needed budget cuts. In the meantime, the British army is constantly diminishing, while its involvement in Iraq and especially Afghanistan presents a great strain for the soldiers and the equipment. The proven vulnerability to terrorist threats puts additional pressure on this situation, and with the world economy in crisis, neither the constituency nor the politicians want to hear about how it is important to spend billions on wars that the majority considers to be an excuse to the American imperialistic ambitions.<sup>13</sup>

The traditionally big military equipment buyers, like the states of the Persian Gulf, are also feeling the consequences from the drop in oil prices and are forced to change their military plans and projects. This will surely affect the American, French, British and every other arms exporter. If this crisis persists, there is a high chance for the total cancellation of military projects and military equipment purchase, thus damaging military suppliers and the workers in the military industry through the entire western hemisphere. With the economic crisis and its long term consequences and the fact that countries around the world are growing more and more accustomed to the influences of this crisis on their economy, it is likely to expect decreases and stagnation of military budgets in the future. In the next few years it will be very hard to make long term plans for military spending, but changes are definitely necessary. A way has to be found on how to keep the delicate balance between military expenditures and economic growth, decreasing the basic military budgets, but at the same time increasing the readiness and efficiency of the army itself and the whole defense system.

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<sup>12</sup> Official Chinese data show that the amount in question is only 60 billion dollars.

<sup>13</sup> Feickert, A. (2005). „U.S. Army's Modular Redesign“ CRS report for Congress

## **2.1. USA – THE MEANING AND LEVEL OF MILITARY EXPENDITURE**

The United States of America are without a doubt the strongest military force in the last few years. The American military spending is the main determinant of the world military spending, which is on the raise since 1998. If compared to the rest of the world, the following conclusions about the American military spending can be made:

- The US military spending makes almost for the half of the entire world military spending (48%).
- The US military expenditure is higher than those of the combined expenditure of the next 46 countries.
- The US military expenditures are 5.8 times higher than those of China, 10.2 times higher than those of Russia and 98.6 times higher than the military expenditures of Iran.
- The US spending is higher than the combined spending of the next 45 countries.
- The USA and its strongest allies (NATO countries, Japan, South Korea and Australia) spend together 1.1 trillion dollars on their armies, making up for 72% of the total world military spending.
- The six possible “enemies” (Cuba, Iran, Libya, North Korea, Sudan and Syria), Russia and China have a combined military spending of 250 billion dollars, which is in fact 29% of the US military budget.<sup>14</sup>

From the next table is noticeable that in the observed period of time there is a national defense budget growth, which implies the growth of the total military expenditures. The US Government Budget is very complex, especially its military component. In the part of the budget intended for the Department of Defense, combat operations and their costs are not included. These funds are additionally allocated through a Congress resolution. The costs for nuclear weapons, which are allocated under the Department of Energy, amount to 29 billion dollars in 2009. Accordingly, every other expenditure like the war veteran spending, military training and rescue, health care plans and covert operations can be allocated under other departments or counted separately. In this way the military expenditures are being concealed because the military budget is already too big. The decrease in spending for the last two years is the consequence of the reduction and reorganization of the armed forces in Iraq and Afghanistan, but also a consequence of the global financial crisis which is expected to have an impact on the American military expenditures.

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<sup>14</sup> Center for Arms Control and Non-Proliferation, 2009.

**Table 2**

**US military budget in the period from the year 2000 till 2010**

<b>Year</b>	<b>National Defense Budget (billion \$)</b>	<b>War supplements (billion \$)</b>	<b>Total military expenditures (billion \$)</b>
2000.	387	0	387
2001.	401	25	426
2002.	428	20	448
2003.	472	75	547
2004.	489	81	570
2005.	451	114	565
2006.	471	134	605
2007.	471	134	660
2008.	516	194	710
2009.	536	144	680
2010.*	534	130	664

\* Forecast

Source: Center for Arms Control and Non-Proliferation, 2009.

Advocates of the high American military expenditures usually point out that the use of sums in dollars, as a system of expressing the height of military expenditure, is unfair, and that these expenditures should be shown as the percent of GDP or per capita. The American economy might be able to handle with high military expenditures, but the question being raised here is it really necessary to spend so much on the army and if these funds are being distributed to the real priorities.<sup>15</sup> What also needs to be taken into consideration that, even for a big economy as the American one, military expenditures of this magnitude are not sustainable in the long run. Along with the insight in military expenditure trends, SIPRI added that the massive increase in US military expenditures was one of the factors that contribute to the weakening of the American economy ever since the year 2001. Experts also add that along with the direct effects of high military expenditures, there are also indirect ones and those that will be visible in the future. The SIPRI study<sup>16</sup>, which takes into consideration these factors, states that the overall costs, past and future ones, for the US war in Iraq will reach 2,267 trillion dollars till the year 2016.

## **2.2. GREAT BRITAIN - THE MEANING AND LEVEL OF MILITARY EXPENDITURE**

The British foreign policy, according to the words of Winston Churchill, has always been formed in a traditional way in three mutually overlapping spheres. The first is certainly the British role as the post imperialistic power with many post colonial obligations and close relations with the Commonwealth countries. The second is the special relation between Great Britain and the USA and the third is its role as a European country and a member of the EU. It is only natural that in the interaction between these three roles tensions would rise up and periods when one role is prioritized over the other two. The Evolution of British defense policy can be followed through a series of strategic documents, The Defence White Papers, from 1991 all the way down to the last one "Future Capabilities" from June 2004. Throughout

<sup>15</sup> Grunberg, Isabelle (1990). "Exploring the "Myth" of Hegemonic Stability", International Organization, br. 44, str. 431-477, Cambridge

<sup>16</sup> Refers to the SIPRI Institute study which is a part of their yearbook from 2007

the Ministry of Defence budget, long term and expensive projects are dominant, and beside the large investments made into each project, an interest web has been imbedded around them in certain industrial circles, government administration, armed forces and the local community which all stand in the way of their review and possible cancellation depending on real needs and economic analysis. Still, Great Britain as the biggest US ally has a different structure of military expenditures than the USA.

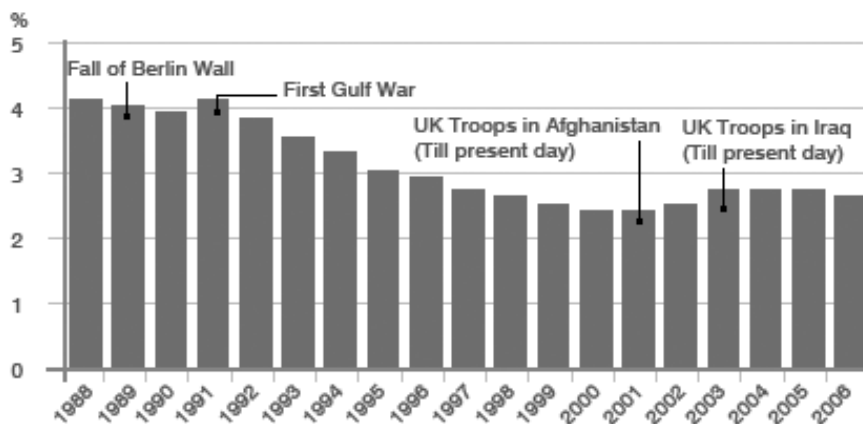
From the attached charts a conclusion can be made that military expenditures in Great Britain are not a priority, as it is in the case of the USA, and that are more socially oriented. Still, the trend in military expenditure growth cannot go unnoticed. If they are observed as the percent of GDP, than we can see that their share is decreasing over the years, but in the last two it began to rise again. In 1990 military expenditure had a share of 4% of the British GDP and in 2006 it was 6%. Another thing that needs to be considered is the fact that the British army has undergone through a restructuring process in the last few years that raised the total costs. By the year of 2011 military spending is predicted to be 11% higher than the one from 1997 and this period of time represents the longest period of military expenditure growth since the 80s. This growth has been forecasted in 2007 by a revision held by the British government and by a statement from the Minister of Defence that military spending will grow by 1.5% each year over the next three years. The involvement in the Iraq and Afghanistan conflicts and the military force modernization plans, like the building of new aircraft carriers and restoration of the nuclear submarine fleet, have brought the Ministry of Defence budget under pressure, which has been confirmed by the Ministry itself<sup>17</sup> and has led to the insecurity and postponement of new projects. The Ministry of Defence continues to use external resources, partners and business arrangements in order to develop and make available the use of the newest defense systems. The willingness for the cooperation with experts that are not from the Ministry of Defence and through the elaboration of their own technologies and strategies, they create new and improved national defense strategy models. Through the analysis of future technologies and their own needs certain fields can be indentified that, through investments and development, would bring major advantages.

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<sup>17</sup> The UK Ministry of Defence – Defence White Paper (2003) “Delivering Security in a Changing World”

**Chart 5**

**Military expenditures of Great Britain in the period from 1988 till 2006  
(Percent of GDP)**



Source: UK Ministry of Defence, 2007.

### 3. WHAT ABOUT THE MILITARY EXPENDITURES IN THE REPUBLIC OF CROATIA?

The early 90s were marked by great changes and shifts in the balance between military powers, especially in countries from the socialistic block. The aspirations for dominance and Great Serbian ideas, the fall of the communist system along with the economic crisis that struck Yugoslavia at the end of the 80s, started a chain reaction which resulted in the declaration of Croatia, Slovenia and Macedonia as independent states in 1991, and Bosnia and Herzegovina in 1992. But, with the independence and the creation of a new democratic and market oriented country, Croatia had to face, at the beginning of the 90s, a war called the Croatian War of Independence (The Homeland War) and with no inherited military forces from the previous regime it had to create its own under very difficult circumstances in regards of transition and war. Through the decree of establishment of the forces named "Zbor narodne garde", the Croatian President dr. Franjo Tudman formed, on April 20<sup>th</sup> 1991, the first professional armed formation for Croatian national defense purposes. By the end of 1991, under the Law of Defense, the armed forces were united and renamed into the Croatian Army, marking the beginning of a more systematic mobilization of reserve soldiers and the set up of formations, commands and institutions, allowing more efficient usage of military force. The war was waged from 1991 till 1995, but Operation Storm brought the decisive turnover on the military strategic plan. On the economic side, the war has additionally exhausted Croatia. Direct war damages exceeded 236 billion of Croatian Kuna and the costs of waging war and army outfitting were enormous. The actual data on military spending in the period from 1991 till 1998 is very hard to find. There are estimations that military expenditures reached 15% of GDP during the war. After the war for independence the time had come for damage control and a long recovery period followed, with the diminishing role of the army in the budget. With the after war situation stabilized a reform period of the whole Croatian military sector followed. With the extra army forces that appeared after the war, cuts in the number of

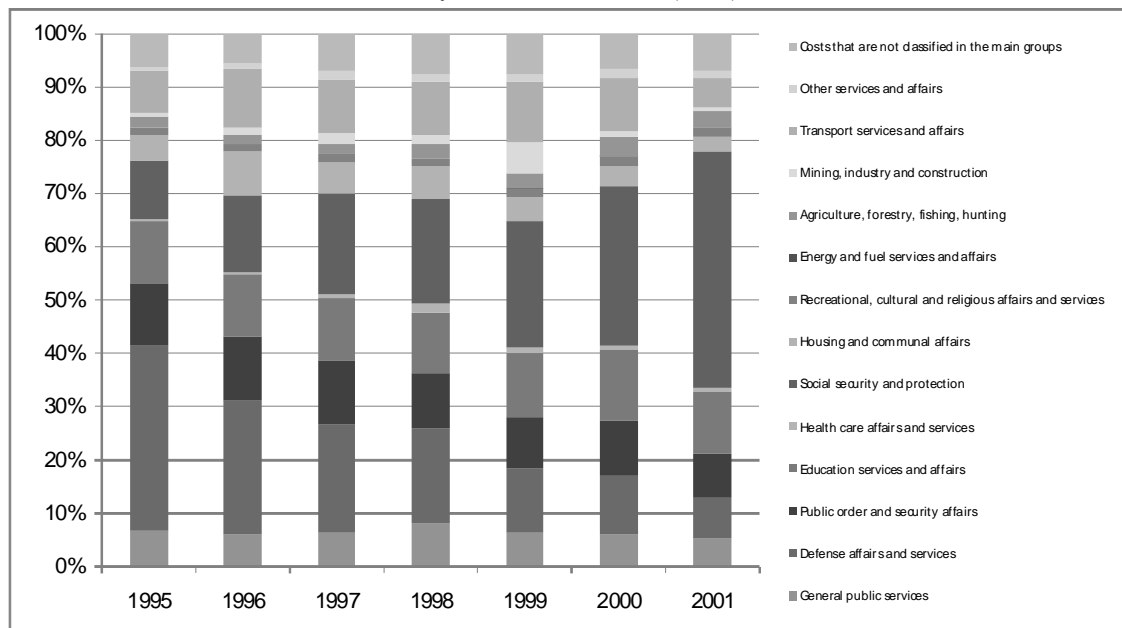
personnel had to be done and return the extra soldiers to civilian life and civilian structures. This proved to be a great challenge for the institutions and the individuals because of different organizational and especially financial demands. The inadequacy and economic burden of the old cold war military conception and the changed security environment triggered changes in the Croatian Armed Forces. The restructuring process of the defense system started in 2002. The reorganization and reform goals were the establishing of a modern defense system structure which would be able to respond to modern challenges, taking also into consideration the future Croatian membership in the NATO alliance and other security arrangements under the European Union. The main directives for this reform were laid down in the strategic documents that Croatia passed, named „Strategija nacionalne sigurnosti RH“ (National security strategy of the Republic of Croatia), „Strategija obrane RH“ (Defense strategy of the Republic of Croatia) and „Vojna strategijom RH“ (Military strategy of the Republic of Croatia). One of the most important steps was the concept of a professional army and the cancellation of the compulsory military service.<sup>18</sup> A professional army is not necessarily without drafted recruits, but at the same time the food, equipment, arms and drill for new recruits represents a large expenditure for the Ministry of Defense of the Republic of Croatia (MORH). A drafted army represents a non perspective segment of active Croatian military forces, especially if we take into consideration that their knowledge and expertise are very limited and the result of only 8 months of training. Professional soldiers should be put as a top priority and they would, with extra training and learning, gain special military knowledge needed for the accomplishment of missions during times of peace or war. The document known as “Strategijski pregled obrane” (Strategic survey of defense) from 2005 gave a clearer picture of the Croatian military forces planned size, the development of the civilian and military component of defense, with an emphasis on the development of abilities for international military operations. Today the military needs of each country are different and countries base the development of their military according to its own strategy. Croatia is developing its own Armed Forces to become NATO operational and functional in the structure of allied forces in order to be deployable, adaptable, efficient and equipped with modern gear according to available budget resources. The next charts show the state budget expenditure trend between 1995 and 2007 according to functional classification. It is clear that the defense expenditures in 1995 were 9.9 billion Kuna or 34.8% of Croatian total expenditures, but in the following years they were rapidly decreasing. The lowest point of defense expenditure level was reached in 2005 when they were 3.5 billion Kuna that equaled 4% of total Croatian expenditure or 1.5% of GDP, which is the lowest ever recorded level of military expenditure in Croatia. The year 2005 was also a sort of a turning point considering defense spending, because in this very year the reform of the Croatian Armed Forces began. By 2007 defense expenditure increased up to 4.5 billion Kuna and this trend was continued till the year 2009. From the end of the war till the year 2004, more than 6 billion Kuna has been spent for costs unrelated to the equipping and modernization of the army, building new infrastructure for army needs or for the improvement of the training for new soldiers, which has been revealed in the analysis and revision of the MORH budget. A very big portion of the defense budget is being spent for employee payrolls and expenses, more than 2 billion, which makes for 40% of the Ministry of Defense 2009 budget. A very large military expenditure reform is needed that would lower and remove unnecessary costs and thus allow the growth and development of the Croatian Armed Forces.

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<sup>18</sup> Ministry of Defense (2006) “Dugoročni plan razvoja Oružanih snaga Republike Hrvatske 2006. – 2015.”

**Chart 10**

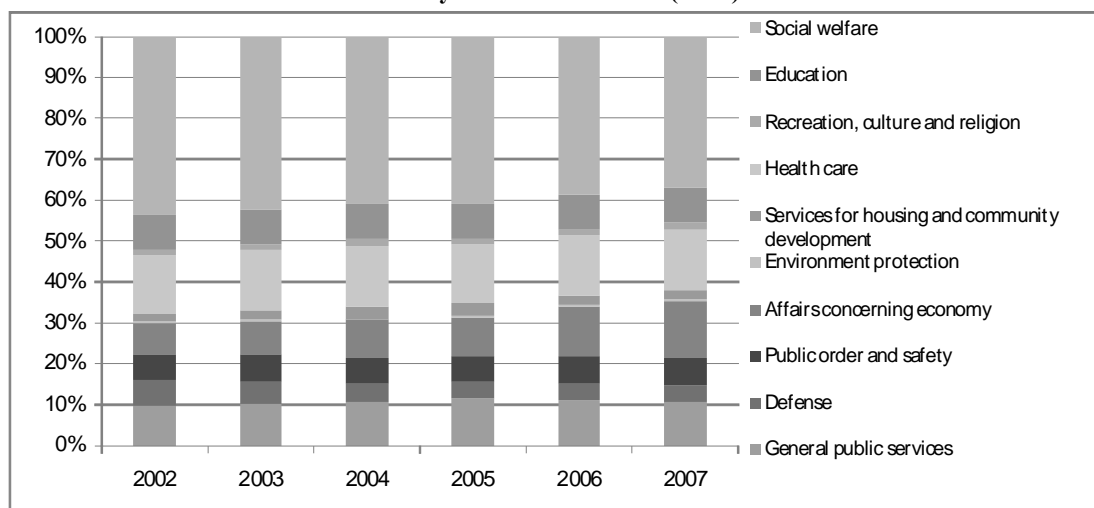
**Government budget spending according to the functional classification for the period between the years 1995 and 2007 (in %)**



Source: Yearbooks from the Ministry of Finance, Ministry of Finance Republic of Croatia [www.mfin.hr](http://www.mfin.hr)

**Chart 11**

**Government budget spending according to the functional classification for the period between the years 2002 and 2007 (in %)**



Source: Yearbooks from the Ministry of Finance, Ministry of Finance Republic of Croatia [www.mfin.hr](http://www.mfin.hr)

\*The charts have been divided into these two time periods because the expenditures from the year 2002 onwards are expressed according to the GFS 2001 methodology. What is specific about this is the fact that in accordance

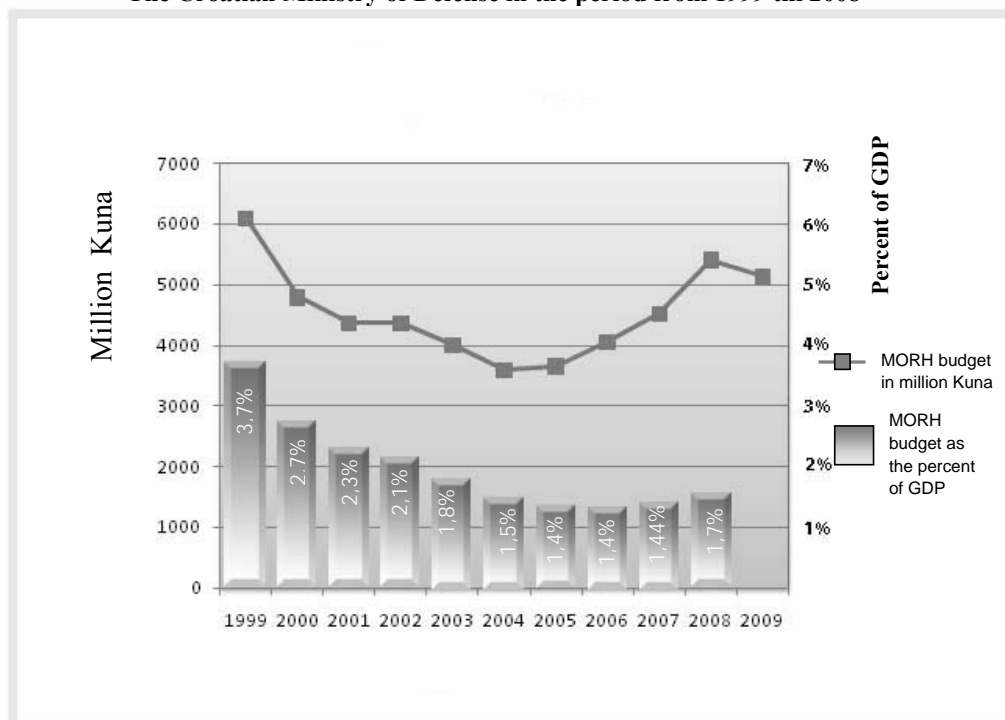


with the valid methodology in financial reporting in the Republic of Croatia, under the functional classification, along with the expenditures, the acquisition of non financial property in gross sums is also included.

The MORH budget change throughout the years can be observed on the next chart. A decrease till the year 2004 is clearly visible and is a direct consequence of bad investment and army neglect. This very neglect led to the creation of very serious problems in the Croatian Armed Forces (OSRH) like outdated equipment or the inadequate level of military training. In the year that followed (2005), a strategic plan on military reform has been devised and it triggered many positive changes within the Armed Forces. The restructuring of the Armed Forces is the main reason why the Croatian military budget started to raise after 2005. If military spending is observed as the percent of GDP, a conclusion can be made that military expenditure were of low priority throughout the years. Their share in the GDP has been decreasing till the year 2005 and during the years 2007 and 2008 it only increased slightly by 0.04% in 2007 and 0.26% in 2008. The share of military expenditure in the GDP is definitely too small considering the restructuring plans made and because of this most of the projects are delayed or haven't been even started.

**Chart 12**

**The Croatian Ministry of Defense in the period from 1999 till 2008**



Source: National budget archive, Ministry of Finance Republic of Croatia, 2008

Therefore a conclusion can be made that Croatia still needs to work a lot on the highly needed military modernization, which is currently in a very bad condition. This modernization is a bit late considering the fact that there wasn't any considerable investment in the military

for the past 15 years. The war has drained the already weakened economy and it took a long time for Croatia to recover from the damages caused by the war. The military wasn't an investment priority which led to a long term decrease of the Ministry of Defense budget. The direction of modernization is based on a complete modernization and equipping of every Armed Forces division, consisting of numerous capital projects and the restructure of the Ministry of Defense by decreasing the number of its employees. In this way the military budget would be unburdened and necessary funds would be made available for the needed modernization. The investment in the modernization and equipping of the Croatian army opens many possibilities in various economy sectors like shipbuilding, metal industry and the manufacturing of combat equipment thus creating a multiplicative effect in the Croatian economy. From a strategic point of view, Croatia would with this modernization strengthen its position as the regional leader in this part of Europe as a member of the EU and NATO alliance, insuring the peace and stability of the whole region, also improving its image as a reliable, friendly and partner country.

#### **4. CONCLUSION**

In today's globalized world, interlaced with problems, uncertainties and rapid technological progress, it is next to impossible to take into consideration all the factors that could affect the security situation of a country. Financial assets are becoming thinner and if the military evolution is not to be focused on specific development areas, saving budget funds in the process, there is a high danger that the whole financial construction of a country would collapse. Because the possibilities and situation, domestic and foreign, of each country in the world is different, so should also be the approach to the situation at hand.

Every amount that is spent on unnecessary projects or becomes lost because of a bad judgment represents a heavy blow to the state treasury. The key aspect that every military in the world should turn to is the efficiency of the armed forces and to maximize it their restructuring is needed, along with the expenses that follow them. The USA, Great Britain, China and many other countries have already begun with their armed forces restructuring plans. Even though the whole process is very expensive, long term effects should be positive because of all the investments made into technology and equipment. The biggest focus is being put on mobility, accuracy and army sustainability, and all these goals are accomplishable through the advantages of networked military communications, guided armaments and joint military operations.

The world military expenditures have been growing in the past few years. In 2007, 2.5% of the world GDP or 202 US dollars per capita of the world population was used for military needs. The United States of America have by far the largest military expenditures that represent 48% of the total world military expenditures, which means that the USA is spending almost as much as the rest of the whole world. China, India, North Korea, Russia, France, Great Britain are all countries that also have a high level of military expenditures. The developments in technology and the globalization have thoroughly changed the conception of waging wars, while in the same time countries around the world are strengthening their cooperation and their joint acting presents the future of warfare. All this is being done while keeping close attention to the financial aspects of military expenditures in the way of armed forces restructuring and diverting resources for military needs according to the financial possibilities of a country.

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## VOJNA POTROŠNJA U VRTLOGU GLOBALIZIRANOG SVIJETA

### *Sažetak*

*Koncept vojne potrošnje je star koliko i prve stare civilizacije. Vojska je, kao prva i jedina crta obrane, oduvijek imala veliku ulogu u potrošnji zemalja. Vojna potrošnja se mijenjala kroz povijest baš kao i shvaćanje vojnih snaga koje su predstavljale vojnu silu neke zemlje. Razvojem društva pojavili su se mnogi drugi prioriteti po pitanju državne potrošnje, no s obzirom na to da je usmjerena na obranu stanovništva, održavanje mira i očuvanje državnih granica kao primarnih oblika javnog dobra, vojna potrošnja je zadržala svoj status kroz cjelokupnu povijest čovječanstva.*

*Globalizirani svijet u kakvom danas živimo je sve to promijenio, posebno kad govorimo o obrani države od stranih i domaćih prijetnji. Razvoj tehnologije i sama globalizacija su drastično promijenile koncept ratovanja a time i samu strukturu i razinu vojne potrošnje. Tehnološka razina je jedan od najboljih pokazatelja razvoja jedne zemlje, no i snage njene vojske. Naravno, vojnu silu je teško održati bez jednako adekvatne gospodarske sile jer su upravo razvijeno gospodarstvo i jaka industrija ono što omogućuje razvoj obrambenog potencijala zemlje i njegovo financiranje.*

**Ključne riječi:** vojna potrošnja, globalizacija, oružje, SAD, Velika Britanija, Hrvatska