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Article — Digitized Version

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Intereconomics

Suggested Citation: Straubhaar, Thomas (1986) : The economics of Third World arms imports, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 21, Iss. 3, pp. 137-141, <https://doi.org/10.1007/BF02925284>

This Version is available at:

<https://hdl.handle.net/10419/140028>

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The Economics of Third World Arms Imports

by Thomas Straubhaar, Berkeley*

The international trade with weapons and its effects on the Third World are rarely mentioned in papers on international trade. This is not really surprising, given the fact that military affairs are kept very secret. Of all social science data it is probably that of the military sector which is the most scarce and unreliable. Despite these difficulties the author of the following article describes some recent trends in the international trade in major weapons and analyses their negative effects on Third World countries.

In international economics, arms trade is a rather neglected subject. In a situation of potential or actual conflict no-one is interested in unveiling information on defense capabilities to potential or actual enemies. Secrecy, as an important ingredient in military strategy, protects the international arms market very effectively from investigation. Of all social science data it is probably that of the military sector which is the most scarce and unreliable. Many economists have found themselves frustrated in their search for "real" facts by the paucity and inaccuracy of data on arms trade.

Since the Second World War, however, considerable advances have been made and military economics has begun to emerge partly from its obscurity. Statistics on military expenditure and international arms trade have become more widely available. Today the International Peace Research Institute in Stockholm (SIPRI) and the International Institute for Strategic Studies in London (IISS) offer a large quantity of military data. With these data sources a few statements on international arms trade are possible.¹

If we first examine recent trends in international arms trade flows, we can see the following from Table 1:²

- At the beginning of the 1980's the United States was the leading arms supplier, with a share of almost 40 % of total arms exports.
- The Soviet Union followed in the rank order of suppliers with a share of 32 %.

□ The two superpowers taken together accounted for more than 70 % of global arms trade.

□ France as the third largest arms supplier accounted for 10 %, while the share of the United Kingdom, Germany and Italy together made another 10 %.

□ The United States has been in the lead in total arms exports since 1981 and its share has increased from 26 % (1979) to 40 % (1984) as a result of the expansive arms export policy pursued by the Reagan Administration.

□ On the other hand, the share of the Soviet Union has declined from 46 % (1979) to 22 % (1984).³

¹ If not stated otherwise, all the following data are taken from Stockholm International Peace Research Institute: World Armaments and Disarmament, Yearbook 1968/69 to Yearbook 1985. To characterize a single yearbook we will refer to it as (SIPRI 1985, 200), where the first figure indicates the year and the second figure indicates the page. Following the SIPRI statistics by speaking of data on "international arms trade" we mean the international arms trade in four categories of "major weapons": aircraft, armoured vehicles, missiles and warships. Not included is therefore the international arms trade in small arms, in equipment that may be needed for operating, maintaining and repairing a weapons system (e.g. all kinds of munitions, communication systems, radar and warning systems, repair and maintenance parts and facilities). For a detailed treatment of all questions related to sources and methods used in the SIPRI data of international arms trade cf. SIPRI: The Arms Trade with the Third World, Stockholm, New York 1971, pp. 785-820. In the following we use the terms "weapons", "arms" and "military equipment" as synonyms.

² Cf. also SIPRI 1985, 346-351.

³ "One possible reason for this is the Soviet reluctance to part with advanced production technology, which is now often required by the recipients. Another explanation is the poor performance of Soviet weapons in the 1982 Lebanon War. Some of the Soviet Union's main clients also seem to have acquired more weapons than they have been able to absorb (e.g. Libya and South Yemen)." (SIPRI 1985, 347).

⁴ By "Third World" the SIPRI means all countries outside Europe with the exception of the USA, Canada, Australia, New Zealand and Japan. Therefore Israel and South Africa are included in the group "Third World".

* Postdoctoral Fellow at the University of California. A longer version of this paper will be published in: Leisinger, Tuchtfield, Straubhaar: Studien zur Entwicklungsökonomie, Sozioökonomische Forschungen, Bern and Stuttgart 1986, forthcoming.

ARMS TRADE

Table 1 shows that the Third World⁴ supply share of global arms trade has been comparatively small and reached only 2.5 % for the period 1980-84.

In contrast to the developed countries, for which the arms trade is motivated by political *and* economic reasons, for underdeveloped countries arms exports result mainly from economic reasons. However, there are only five Third World countries which have been able to sell arms of more than an insignificant value on the international weapons market (Table 2):

- Brazil and Israel (which together accounted for about two thirds of all weapons exported by the Third World) have been successful with the export of domestically (incl. licence-)produced weapons.
- South Korea, Egypt and Saudi Arabia have participated in arms sales by re-exporting weapons originally purchased from industrialized countries to other Third World countries.

Arms Imports

On the demand side of the international arms trade the importance of the Third World is completely inverse to its position on the supply side (Table 1, last column):

- About two thirds of total international arms trade during 1980-84 consisted of arms imports by the Third World.

□ For China and Italy with more than 90 %, and for France and the Soviet Union with about 80 %, the Third World was the most important buyer of major weapons.

□ For weapon-exporting Third World countries, other Third World countries have been almost the only buyers.

Over the last twenty years the rate of growth of Third World arms imports has fluctuated considerably (Figure 1):

- From 1965-69 to 1970-74 their value rose by 60 % and it rose even faster during the boom period 1975-79. But since then the rate of growth is only about 4-5 % (causing the five-year moving average in Figure 1 to decrease).⁵
- This decline in arms imports for the last few years is most pronounced in Africa and the Far East (end of the Vietnam war) while the import of major weapons in Latin America has become more and more important (Central American crisis).

⁵ "This downward trend has been largely determined by economic factors. Many countries . . . in the Third World, are burdened by debts and can no longer allocate so much funding to armaments. The decline can also in part be explained by market saturation – cycles of weapon acquisition were terminated in the early 1980s in many countries, and they are now pausing to catch their breath. Countries are also increasingly substituting domestic arms production for arms import." (SIPRI 1985, 345).

Table 1
The Leading Major-weapon Exporting Countries: Values and Respective Shares for 1979-84

Figures are SIPRI trend indicator values, as expressed in US \$ million, at constant (1975) prices; shares in percentages. Figures may not add up to totals due to rounding.

Country	1979	1980	1981	1982	1983	1984	1980-84	Percentage exported to Third World, 1980-84
USA	3 901 26.0	5 577 36.7	5 559 38.5	6 186 42.9	5 655 40.1	4 685 40.4	27 662 39.7	48.2
USSR	6 921 46.1	6 538 43.1	4 741 32.9	4 184 29.0	4 174 29.6	2 532 21.9	22 170 31.8	76.8
France	1 633 10.9	1 144 7.5	1 347 9.3	1 241 8.6	1 360 9.7	1 242 10.7	6 335 9.1	80.6
UK	446 3.0	431 2.8	532 3.7	667 4.6	519 3.7	822 7.1	2 972 4.3	73.5
FR Germany	468 3.1	316 2.1	435 3.0	250 1.7	613 4.4	746 6.4	2 359 3.4	61.0
Italy	483 3.2	366 2.4	531 3.7	576 4.0	374 2.7	372 3.2	2 219 3.2	91.9
Third World	349 2.3	192 1.3	306 2.1	438 3.0	467 3.3	311 2.7	1 714 2.5	96.1
China		82 0.5	148 1.0	221 1.5	222 1.6	430 3.7	1 103 1.6	99.4
Others	810 5.4	533 3.5	831 5.8	668 4.6	707 5.0	444 3.8	3 182 4.6	62.9
Total	15 011	15 179	14 430	14 431	14 091	11 584	69 715	65.8

Source: SIPRI, Yearbook 1985, p. 346 and Yearbook 1984, p. 177.

Table 2
Rank Order of the Six Largest Third World Major-weapon Exporting Countries, 1979-81

Percentages are based on SIPRI trend indicator values, as expressed in US \$ million, at constant (1975) prices

Exporting country	Percentage of total Third World exports
1. Brazil	45.6
2. Israel	21.1
3. Libya	12.3
4. South Korea	8.2
5. Egypt	6.2
6. Saudi Arabia	1.6
Others	5.0
Total	100.0
Total value	993

Source: SIPRI, Yearbook 1982, p. 188.

□ At the beginning of the 1980's about 50 % of weapons imported by the Third World were bought by countries of the Middle East, 20 % by African and 15 % by Latin American countries (Figure 2).

When we ask which countries are the highest ranking Third World arms-importing countries, Table 3 shows that Egypt, Syria and Iraq are the leaders with a share of 10 % each. With the exception of India, the seven highest ranking countries are located in the Middle East. Together their shares account for about 50 % of all Third World arms imports. Seven of the 20 largest Third World arms-importing countries belong to the group of the low-income economies, with an average income per capita of less than 800 US-Dollars in 1983 (India, Pakistan, People's Democratic Republic of Yemen, Indonesia, Egypt, Morocco and Nigeria).⁶

Consequences for the Third World

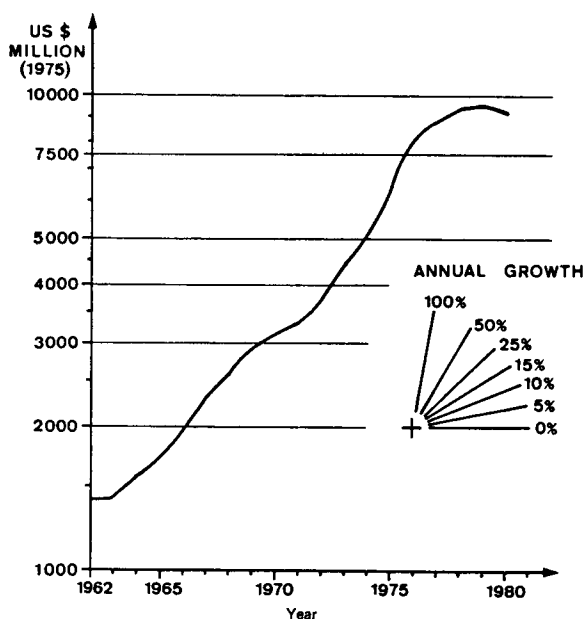
Every good and every service a country imports, absorbs foreign currency. The quantity of foreign exchange which a country has at its disposal is restricted by the inflows of foreign exchange, whether through exports of goods and services or through loans raised in the international capital market. Therefore the *direct* consequences⁷ of the arms imports for a country are twofold:

⁶ Cf. World Bank: World Development Report 1985, Washington 1985, pp. 174-5.

⁷ In the following we will mention only those consequences of arms imports which are either typical for the Third World compared to the industrialized countries or which are typical for arms imports compared to the import of other goods and services. Effects which are the same for the Third World and for the industrialized countries or general effects of international trade are neglected. We also neglect the fact that (mostly for political reasons) some arms imports have been offered with bargain-basement prices, giveaway prices, non-interest financing with long grace and repayment periods (up to forty years) and with a willingness to accept barter transactions.

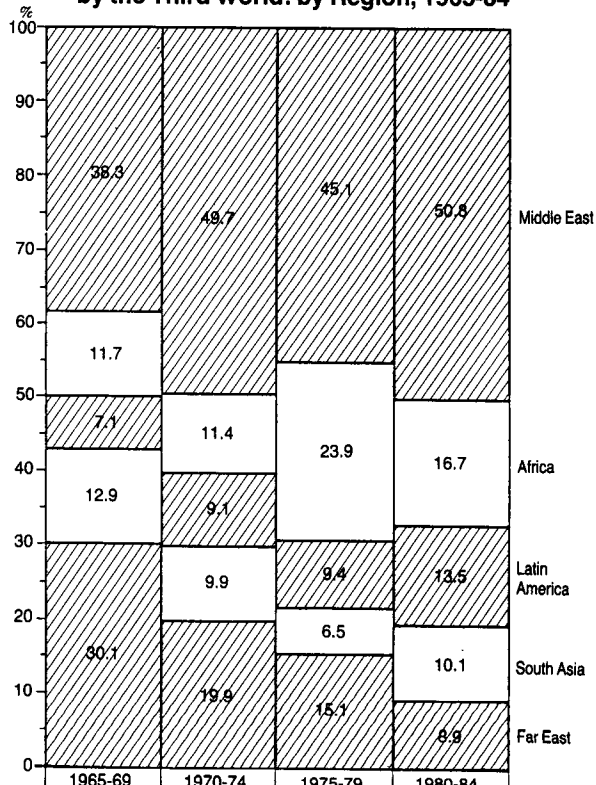
Figure 1
Imports of Major Weapons by the Third World, 1962-80

Based on five-year moving averages of SIPRI trend indicator values, as expressed in US \$ million, at constant (1975) prices.



Source: SIPRI, Yearbook 1982, p. 178.

Figure 2
Percentage Shares of Imports of Major Weapons by the Third World: by Region, 1965-84



Source: SIPRI, Yearbook 1985, p. 347.

□ First, there is an opportunity cost: the import of military equipment precludes the possibility of the import of civil goods or services. Because of the limited availability of foreign exchange, a country has to give up a bundle of non-military goods and services which it could have imported otherwise for every arms import.

□ Secondly, if the country borrows the foreign exchange to pay for the arms imports, it will be burdened by repayment and interest liabilities.

In the case of Third World countries these consequences are especially significant. For most of them the scarcity of foreign exchange represents one of the strongest development restraints: it restricts the import of goods and services necessary to increase productivity in the agricultural sector and/or in the industrial sector. The absorption of foreign exchange through the import of military equipment places an additional restriction on the import of such investment goods.

To give an idea of the magnitude with which the import of arms has crowded out the import of other goods and services, we estimated how many civil goods and services might have been additionally imported if no military equipment had been purchased abroad. Column (5) of Table 3 gives the answers to this question

for the 20 largest Third World weapon-importing countries in the period 1980-84.

□ For Syria, Jordan, the People's Democratic Republic of Yemen and Cuba the arms imports have reached a level of at least one third of the imports of civil goods and services, and for Egypt this ratio was one fifth.

□ For all the other highest ranking Third World arms-importing countries, these imports have crowded out the import of other goods and services by less than 10 %, a figure which confirms a former estimation that the annual average importation of major weapons in recent years represents 3-4 % of total Third World imports of all kinds.⁸

If the foreign exchange to pay for the arms imports is borrowed from the international capital market, the consequences for the Third World countries will be negative because the import of military equipment does not normally lead to stimulated outputs which would generate sufficient additional income to repay the loans. Therefore, besides the interest payments for the initial loan, new costs will arise from the debt conversion.

In an attempt to estimate the contribution of arms imports to the burning problem of the debt burden in the

⁸ D. K. Whyne: The Economics of Third World Military Expenditure, London and Basingstoke 1979, p. 95.

Table 3
Rank Order of the 20 Largest Third World Major-weapon Importing Countries 1980-84
and Crowding-out Effect for their Civil Imports

Rank	Importing country	Arms Imports in US \$ billion ¹	% of Total Third World Arms Imports	Total Imports in US \$ billion ¹	(4) = (3)-(1)	(5) = [(1):(4)]·100
		(1)	(2)	(3)		
1	Egypt	4.9	10.6	27.5	22.6	21.5
2	Syria	4.8	10.5	11.0	6.2	77.3
3	Iraq	4.7	10.3	78.1	73.4	6.4
4	India	3.4	7.5	53.9	50.5	6.8
5	Libya	3.2	6.9	84.3	81.1	3.9
6	Saudi Arabia	3.1	6.7	420.4	417.3	0.7
7	Israel	2.2	4.8	24.5	22.3	9.9
8	Cuba	1.7	3.7	6.8	5.1	33.3
9	Argentina	1.4	3.1	47.4	46.0	3.1
10	Jordan	1.0	2.1	3.6	2.6	36.6
11	Taiwan	0.8	1.8	—	—	—
12	Pakistan	0.7	1.6	14.1	13.4	5.5
13	Yemen, PDR	0.7	1.5	2.6	1.9	36.4
14	Morocco	0.7	1.5	13.2	12.5	5.5
15	Indonesia	0.7	1.5	53.9	53.2	1.3
16	Nigeria	0.6	1.3	97.0	96.4	0.6
17	Peru	0.6	1.3	18.3	17.7	3.4
18	Algeria	0.6	1.2	72.6	72.0	0.8
19	South Korea	0.6	1.2	104.2	103.6	0.5
20	Venezuela	0.6	1.2	96.1	95.5	0.6

— not available.

¹ Five-year values at constant prices (1975). Arms imports deflated with the SIPRI trend indicator, total imports deflated with the price changes in the exports of the industrialized countries, given in: World Bank: World Development Report 1985, Washington 1985, p. 153 (Table A.9).

Source: SIPRI 1985, 351 and International Monetary Fund: Direction of Trade Statistics Yearbook 1985, Washington 1985, pp. 2-7.

Third World, we can ask how much lower the external debt might have been for a country if no military equipment had been purchased abroad. Rita Tullberg found that in the period 1972-82 for the non-oil developing countries their additional borrowing "could have been an estimated 20 percent less each year, and their accumulated debts by the end of the period could have been roughly 15 percent smaller", if they had made no foreign arms purchases during this period.⁹

Indirect Effects

Besides the direct and immediate consequences, arms imports generate indirect and mediate effects, which lead to additional costs for the importing Third World countries:

□ Once imported, the military equipment has to be operated and maintained. Because of the highly sophisticated technology of most of the imported arms, this work has to be done by specialists, who are scarce in Third World countries. This skilled manpower either has to be taken away from other tasks within the country or it has to be imported from abroad. In the former case it is hard to replace and the average domestic product is likely to fall. In the latter case the importing of foreign specialists generates further foreign exchange outflows.

□ The import of "major weapons" only represents the "hardware" of the military equipment. But a particular "major weapon" can rarely be used in isolation. It is generally part of a system comprising a lot of additional "software." To get the desired effect from an aircraft, an armoured vehicle, a missile or a warship requires the support of "minor weapons" and also the existence of a certain infrastructure to assure firepower, mobility, communication and logistic.

□ In most of the Third World countries existing technical capacity does not allow many of those complementary products (not even the less complex ones) to be produced. Therefore these running costs require additional imports and a large spill-over effect from them

to industrial branches in the Third World is rather unlikely.

□ The same pessimistic expectation might be justified for the domestic production of military-related services. The hope that the foreign specialists spend a lot on transportation, travel, leisure, communication and other services is not assured. Often the quality of the domestically produced services is far below the level required by the foreign technicians.

□ And even if the arms imports led to large spill-over effects, we would still have to compare these with the effects which an alternative use of the arms import-related resources would have generated.

□ It is at least doubtful that the operating, maintaining and repairing of imported military equipment provides the Third World with skills and manpower training. Besides the possibility that foreign specialists are hired for that work, there is the question as to what extent the skills learnt by operating and maintaining weapons can be transferred easily into the civil sector. And even if this transfer is easy we still have to compare the costs of these additional skills and training with the effects of a possible alternative use of the military-bound resources.

Finally we have to mention some possible dynamic effects of arms imports: "The importation of armaments by one nation can easily lead to a local arms race as each country in the region attempts to gain a strategic superiority. . . Each nation in the race will constantly increase its import requirements at increasing cost. Furthermore, in order to achieve this superiority, the weapons imported will have to be as advanced as possible, and this will lead to ever-increasing costs of operation and maintenance."¹⁰ The experiences in the Middle East, in Central America and in Southern Africa – to name only a few of many examples – have shown clearly enough how extremely hard it is to stop an arms race once it has begun. There is always the potential danger that, by importing arms, a Third World country might commit itself to constant arms imports to maintain parity with its rivals.

⁹ SIPRI 1985, 448.

¹⁰ D. K. Whynes, op. cit., p. 100.

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ISSN 0342-6335

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