

G.C.C. MILITARY SPENDING IN ERA OF LOW OIL PRICES

JAROSŁAW JARZABEK



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Dr. Jaroslaw Jarzabek explores military spending increases across G.C.C. states to illuminate the drivers for military expansion and spending in the region, and the relevance of these issues in a global context. The type of weaponry that is commonly purchased by G.C.C. states is not geared toward counterterrorism, but rather to external threats, largely emanating from Iran. While G.C.C. military spending spiked largely in tandem with high oil prices, the current drop in oil prices has yet to result in a reduction in military spending. The cost of G.C.C. military development continues to rise as regional tensions soar, and is potentially unsustainable as Gulf governments attempt to diversify their economies. A reduction in current high military expenditures is unlikely to occur without a broader calming in regional tensions, particularly with Iran.

KEY POINTS

- ◆ The U.S. invasion of Iraq in 2003 triggered a rapid, unprecedented, upward trend in military spending of G.C.C. states
- ◆ Domestic unrest and the threat of terrorism do not appear to be the main causes of the recent spike in military spending, as the bulk of arms purchases have largely been conventional heavy weaponry, such as combat aircraft, armored vehicles, and missile systems
- ◆ G.C.C. appear to be arming themselves in response to the perceived threat of Iranian military strength, and concern over a U.S. retreat from the region
- ◆ The rise in G.C.C. military spending mirrored high oil prices at the time, but a drop in oil prices has not resulted in reduced military spending
- ◆ A reduction of tensions between Iran and the G.C.C. would require compromises and concessions from both sides, yet the cost of compromise may be less than that of the current trajectory of military buildups and proxy wars across the region

INTRODUCTION

The rise of military expenditures in the six G.C.C. member states in recent decades is a result of a number of interrelated factors. Among these factors are, of course, the real threats to their security, which need to be addressed, such as armed conflicts in the region, domestic unrest, and the rising military power of other countries in the Middle East. Often, however, state leaders, in their assessment of the security situation, are guided by their own perception of threats, which does not necessarily correspond to reality. This may lead to a misperception of legitimate threats, over- or under-securitization, securitization of doubtful threats, or even the deliberate manipulation of perceived threats to achieve other political goals. It should also be noted that in the Middle East, as in some other regions of the world, armed forces are more than a mere tool for a country's defense. Their size, equipment, and spending serve as a determinant of power and position, in turn raising the prestige and satisfying the ambitions of the rulers. Finally, available funds and oil wealth at the disposal of the rulers allow them to spend money judiciously in order to buy the most current military technology.

A significant increase in the military spending of the Arab Gulf states began during the mid-1980s, sparking an upward trend that, despite some periodic fluctuations, continues today. The invasion of Kuwait by Iraq in 1990 prompted not only Kuwait, but also Saudi Arabia and the U.A.E., to significantly increase their military spending. This trend,



Dr. Jarosław Jarzabek is an assistant professor in the Institute of International Studies at the University of Wrocław/Poland. He is an author and co-author of two monographs and numerous other publications. In 2016 he has been a Fulbright scholar at the University of Central Florida in

Orlando. He also held scholarships at the Jordan University in Amman and at the Otto-Suhr-Institut für Politikwissenschaft at the Free University in Berlin. His research interest focus on the politics of security and armed forces in the Middle Eastern states, political systems and international relations in the Middle East as well as Israeli-Palestinian conflict and development of the Palestinian national movement.

however, was short-lived, and after 1992, most of the Gulf countries slightly reduced their military spending. Undoubtedly, the defeat of the forces of Saddam Hussein and the constant presence of U.S. troops in the Gulf after 1991 significantly assuaged the monarchs' fears of their belligerent neighbor to the north.

The gradual increase in military spending within the region soon reemerged, beginning in 1997. Saudi Arabia increased its annual expenditure from \$26.5 billion in 1997 to more than \$32 billion in 2001, while the U.A.E. increased their spending from \$6 billion to almost \$10 billion in the same period. During the same timeframe, Bahrain roughly doubled its military spending, while the expenditures of Kuwait and Oman remained more or less on the same level. Meanwhile, Qatar's defense spending decreased.¹

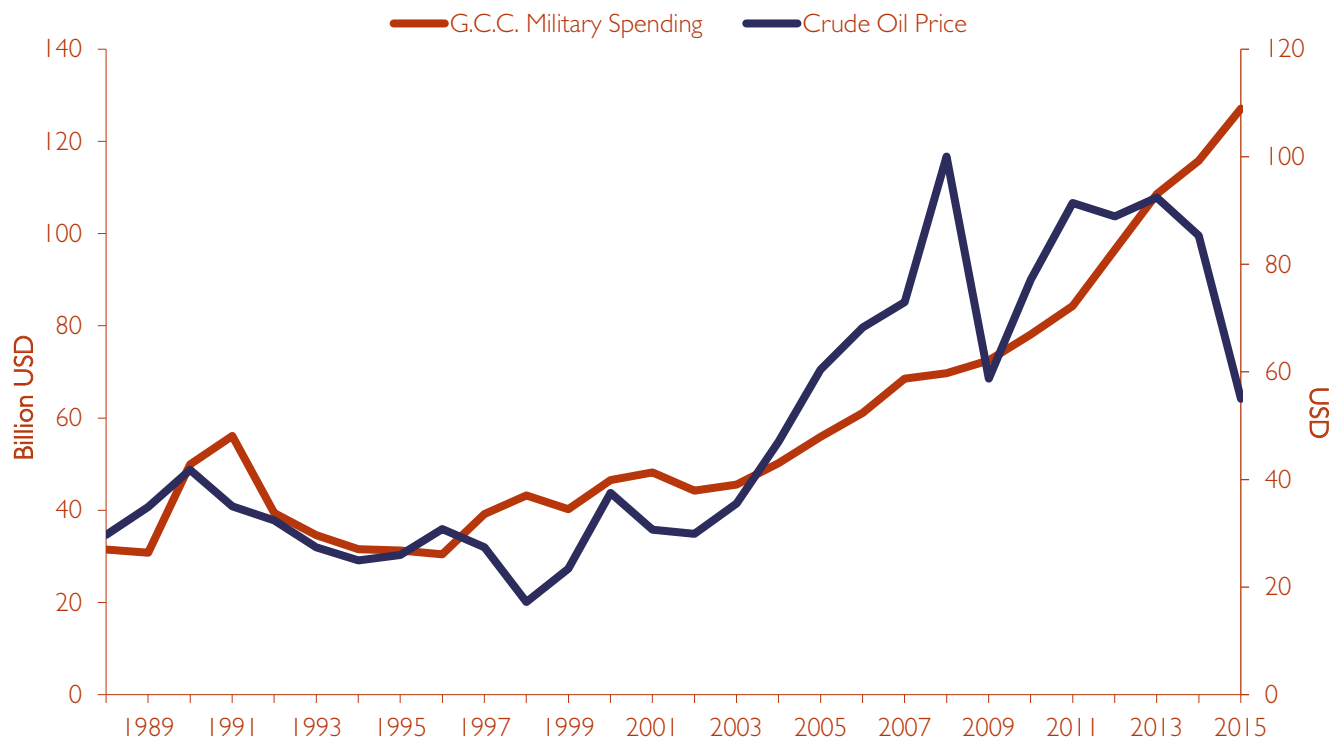
THE UPWARD TREND OF MILITARY SPENDING

The 9/11 attacks and the subsequent ‘War on Terror’ did not immediately produce a spike in arms sales, as Gulf military spending in the years 2001-2003 was somewhat reduced (Saudi Arabia, U.A.E.) or increased only slightly (other G.C.C. countries). In contrast, the invasion of Iraq by the U.S.-led international coalition and the overthrow of Hussein’s regime in 2003 triggered a rapid, unprecedented, upward trend in the military spending of the G.C.C. states. After the overthrow of Saddam Hussein’s regime, the military budget of Saudi Arabia increased from \$31 to \$52 billion between 2004 and 2010, U.A.E. from \$10.5 to 18.5

billion, Oman from \$4.3 to \$5.3 billion, Qatar from \$1.3 to \$2.1 billion, and Bahrain from \$677 to \$915 million. Only the military spending of Kuwait dropped - from approximately \$5.5 to \$5 billion.

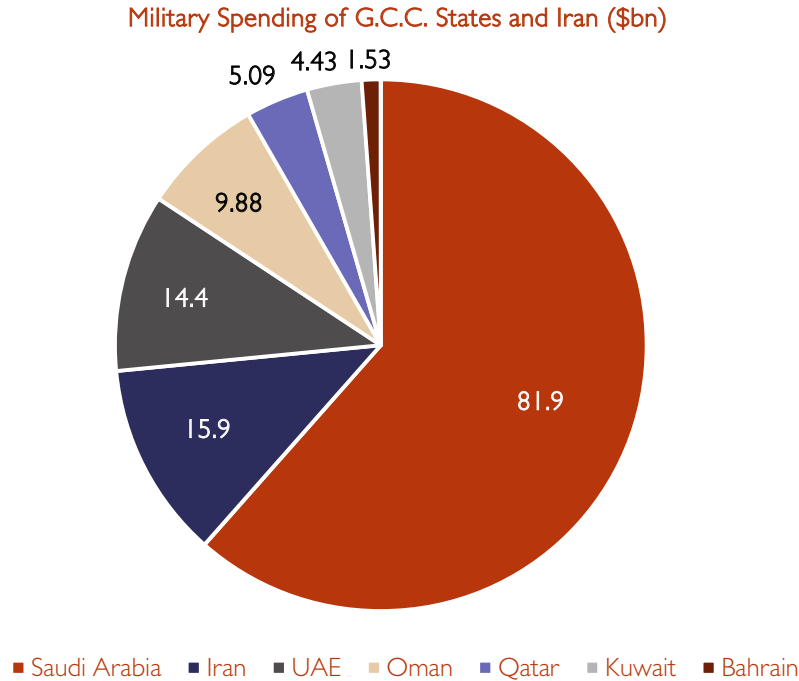
The events of the Arab Spring in 2011, and the destabilization of the situation in Iraq, Syria, Yemen, and Libya which followed, have only further accelerated the growth of spending. In the wake of the 2011 Arab uprisings, Saudi Arabia increased its military spending from \$53 billion in 2011 to \$85 billion in 2015, and the U.A.E. increased its spending from \$18.5 to \$23 billion. The increase in the military expenditures of other Gulf countries in this period is also significant: Bahrain increased its spending from \$1.1 to \$1.4 billion, Oman from \$7 to

FIGURE 1



SOURCE: SIPRI MILEX, INFLATIONDATA.COM*

FIGURE 2



SOURCE: MILITARY BALANCE 2016 (DATA FOR SAUDI ARABIA FROM 2015; DATA FOR IRAN, QATAR, AND U.A.E. FROM 2014)

\$10 billion (with a peak year in 2012 when Omani authorities spent over \$12 billion), and Qatar from \$3.5 to \$5 billion. In Kuwait, expenditures fluctuated around \$6 billion.

Domestic unrest and the threat of terrorism, however, do not appear to be the main causes of this spike in military spending, as the bulk of arms purchases have, as shown in Figure 3, largely been conventional heavy weaponry, such as combat aircraft, armored vehicles, and missile systems. Their usefulness in the fight against terrorist or rebel groups is questionable. The major threat seen by Gulf states, particularly Saudi Arabia, as justification for the rapid buildup of their conventional forces is the growing political ambitions and military power of Iran.

The comparison of military spending of G.C.C. states and Iran, as illustrated in Figure 2, shows that Saudi Arabia is an undisputed leader in this category. The U.A.E. spends only a little less than Iran, despite the significant difference in size and population. The U.A.E. has a population of 6 million people and its armed forces number 62,000 soldiers on active duty, while the Iranian population exceeds 80 million and the number of troops reaches 523,000. Similarly Oman, with 3.2 million people and an army of 42,000 soldiers spends \$10 billion on its armed forces.

Figure 3 shows total numbers of weapon platforms and systems delivered, and those still on order by the six G.C.C. between 2011 and 2015. Worth noting is the large number of fighter aircrafts and air defense systems purchased and/or ordered by all

FIGURE 3 - TYPE OF WEAPONS PURCHASED BY G.C.C. STATES 2011 -2015

	AIRCRAFT	AIR DEFENSE SYSTEMS	ARTILLERY	ARMORED VEHICLES	ENGINES	RADARS & SENSORS	NAVAL WEAPONS	SHIPS	SATELLITES	MISSILES & BOMBS	OTHER
DELIVERED	559	124	478	2,820	2,241	381	9	39	-	39,720	489
ORDERED	472	56	33	408	335	393	4	68	2	34,440	-

SOURCE: OWN CALCULATIONS BASED ON SIPRI TRADE REGISTER, [HTTP://ARMSTRADE.SIPRI.ORG/ARMSTRADE/PAGE/TRADE_REGISTER.PHP](http://armstrade.sipri.org/armstrade/page/trade_register.php)

states, which illustrates the level of concern of Iran’s nuclear and missile programs. Purchases of ammunition, bombs and missiles have been remarkably high since the beginning of the decade, and have accelerated since the launch of Saudi-led military action in Yemen in 2015. Impressive are also plans to strengthen the fleets, especially the U.A.E, which purchased and plans to buy a dozen large surface ships (frigates and corvettes). It should be noted that almost all acquired weapons are new and are among the most modern in its class available on the market, giving the G.C.C. militaries a qualitative edge over Iran.

CORRELATION BETWEEN MILITARY SPENDING AND OIL PRICES

The military spending of most G.C.C. countries constitutes a higher percentage of their G.D.P. than the world average (2.3 percent in 2014). Bahrain spent 4.4 percent of its G.D.P. on military expenditures, Oman 13.9 percent, Kuwait 3.4 percent, Qatar 2.5 percent, U.A.E. 5.7 percent and Saudi Ara-

bia 10.7 percent. However, despite the fact that their military expenditures grew substantially in absolute terms, their levels as a percentage of G.D.P. have remained more or less constant.²

This is because the G.D.P. of the Gulf states, driven by oil and gas exports, grew at a very rapid pace during this period. Thus, the growing military spending was financed from budget surpluses and did not require any additional financial effort or sacrifices. On the other hand, any changes in the demand, supply, or price of oil significantly impact their economies. In the 1990s through to the early 2000s, crude oil prices (inflation adjusted) ranged between \$20 to \$40 per barrel. They started to rise sharply in 2003, reaching more than \$100 per barrel in 2008, before plummeting due to the financial crisis that same year. These prices rose again between 2009 and 2013, only to fall dramatically in mid-2014 and have since remained at a low level. According to estimates by the International Energy Agency, the current drop in oil prices is long-term and will not stabilize at a level close to \$80 per barrel until at least 2020.³

“The Islamic Republic has the advantage of greater manpower, [and] an experienced officer corps...”

There is a clear correlation between oil prices and the military expenditures of the G.C.C. states. Utilizing soaring oil prices, countries such as Saudi Arabia, the U.A.E., Oman, and, since 2011, Qatar abruptly increased their military spending, even though their real security needs did not necessarily justify such large expenses. Interestingly, Bahrain increases its military spending each year, but does so gradually and consistently, without significant changes, whereas Kuwait maintains its military spending at a constant level of \$4-6 billion a year.

RESTRICTING GOVERNMENT SPENDING TO MAINTAIN MILITARY BUDGET

These military expenditures, increased during years of prosperity, are a large burden for G.C.C. budgets when times are lean. This raises the question of whether these countries will be willing to sacrifice other budgetary expenditures to maintain their level of military spending or become forced to limit it significantly in coming years. The first solution—raising taxes, cutting subsidies, and reducing capital investments and other government programs—risks inflaming social grievances and disrupting internal stability. Societies accustomed to receiving goods and services for free or at very favorable prices may not take kindly to the

authorities when these prices change. The first such attempts have met with pushback in Bahrain⁵ and Kuwait⁶ and have raised serious concerns among the Omani private sector.⁷

Despite these warnings, Gulf governments seem willing to continue with their plans to diversify their economies, with no clear sign thus far that cuts in military spending will be part of a general reduction in government spending.⁸ First of all, the ongoing conflicts in Iraq, Libya, Syria, and Yemen, as well as the seeming lack of interest in the United States to take a lead on regional security, pose security challenges for G.C.C. states that require them to increase their military capabilities. Secondly, especially in Saudi Arabia, there is a significant, publically declared, genuine or not, fear of Iran. Even if this threat is over-securitized or misperceived, it is treated as an existential threat and triggers military spending at a very high level. In addition, military budgets are planned on a long-term perspective, which makes it difficult to hastily revise them. Furthermore, the contracts for the purchases of military equipment and services for the armed forces are also long-term deals. Attempts to renegotiate or break them would require the consent of the counterparty and would likely impose huge contractual penalties.

The correlation between the G.C.C. states' military spending and the oil price is significant, but appears to be a risky one-way street. Although military expenditures increase when oil prices rise, they do not seem to fall significantly when oil prices do. Thus, in the near future, the military expenditures of the Gulf countries are expected to remain at current levels, yet perhaps with a slower growth rate.

INCREASING CAPABILITIES OR DECREASING TENSIONS?

Maintaining defense spending at current levels may prove to be a challenge for the G.C.C. states, particularly as they simultaneously attempt to shift their economies away from a reliance on oil. It is worth noting that defense spending not only consumes a large share of governmental spending—e.g. 26 percent in Saudi Arabia and 17 percent in the U.A.E.⁹—but that the G.C.C. states devote a disproportionately large portion of their budget to the purchase of arms and military services. Between 2011 and 2015, Saudi Arabia was the second largest arms importer in the world, with a 7 percent share of total international arms imports, while the U.A.E. was fourth with a 4.6 percent share.¹⁰ Purchases of such large quantities of modern military equipment are understandable in the context of achieving a military balance between the G.C.C. and Iran and in light of the U.S. pivot away from the region. The Is-

lamic Republic has the advantage of greater manpower, an experienced officer corps, and a highly trained and disciplined infantry force. While the G.C.C. boasts superiority over the quality of its weapons, Iran's possession of ballistic missiles exposes nearby Arab Gulf cities to great risk in the event of a direct confrontation. As long as Iran remains their main security concern, Arab Gulf states cannot afford to lose their qualitative edge in weaponry. This will require further high expenditure to acquire state-of-the-art armaments. The lifting of international sanctions may add urgency to this arms race, as Iran may obtain access to modern military technology and begin closing the gap, as Russia's recent delivery to Iran of the advanced S-300 air defense system demonstrates.

The alternative to pursuing an arms race with Iran that will continue to cut deep into G.C.C. budgets is to launch a dialogue to ease tensions with Tehran. This is, of course, easier said than done. However, as the United States and Europe begin to develop relations with Iran, the great powers of the world—including Russia and China—are in a position to serve as facilitators of dialogue and guarantors of security to assuage the respective concerns of all parties. A reduction of tensions between Iran and the G.C.C. would require compromise and concessions from both sides, yet the cost of compromise may be less than that of the current trajectory of expensive military buildups and proxy wars across the region.

ENDNOTES

1. All the military expenditure data is drawn from SIPRI Milex 1988-2015, in USD in constant prices for 2014, as well as from IISS Military Balance 2016 and World Military Expenditures and Arms Transfers 2015, where SIPRI data is missing.
2. “SIPRI Military Expenditure Database 1988-2015,” Stockholm International Peace Research Institute, accessed June 17, 2016, <https://www.sipri.org/databases/milex>.
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9. “SIPRI Military Expenditure Database 1988-2015.”
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Middle East Institute
1761 N Street NW
Washington, DC 20036

(202)785-1141, www.mei.edu