

ECONOMICS OF ARMS AND DEVELOPMENT

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Contents

1. Introduction
 2. Military Dimensions of North-South and North-North Trade
 3. Arms Industry and the Globalization Process
 4. Arms Expenditures, Conflict and Development
 5. Military Activities and the Natural Environment
 6. Concluding Comments
- Biographical Sketch

1. Introduction

During the Cold War, the Soviet Union and the United States sold and gave weapons to governments and insurgent groups in countries throughout Asia, Africa and Latin America in order to enhance the power of their respective world-views. The basic motivation in both cases was not the search for “treasure” for themselves, but to save the nations to which they shipped their arms from the fate of enslavement. The Soviet Union sought to break the chains of capitalism, and the United States to prevent the enslavement of communism. There was always an economic sacrifice required to expand their respective political spheres of influence. But this fact was generally hidden behind the more immediate reality of apparent economic gain. Arms markets were often profitable, at least to the state enterprises and state-subsidized corporations that sold the armaments.

Later, during the 1990s, arms exports from Russia declined enough to create a worldwide reduction in arms transfers even though exports from the United Kingdom and the United States continued at Cold War levels. In an article within the topic on the economics of arms and development, David Kiefer reviews data from the U.S. Arms Control and Disarmament Agency, which he concludes shows that the western half of the international arms trade that began as part of the Cold War, afterwards became “a well-established and profitable industry.”

Throughout the half century occupied by this process of weaponization, about half of the population of the developing world lived on less than \$2 a day, which according to the World Bank was some 2.8 billion people in 1998. The arms received in less developed countries increased the costs of conflicts, delayed or aborted efforts to resolve conflicts and undermined progress toward economic and social development.

In most countries the economic and social degradation resulting from militarization comes from land mines and from small weapons and light arms and not from the large-ticket items that account for most of the economic burden of the arms trade. Weapons such as the AK-47 assault rifle are so plentiful in parts of Africa that they cost about the same as a family meal. Such weapons are a menace to civilians. Their ease of use encourages the recruitment of children into military units and their ready availability leads to extensive use by bandits, especially in post-conflict situations where it is difficult for former combatants to earn a productive living. Thus degradation is spread widely, as are the small arms, even though most countries spend only some one percent to three percent of their GNP on the military and less than one tenth of that on imported weapons.

In value terms, most of the arms trade goes to fewer than 15 militarized states that import arms equipment at a rate that is higher than five percent of their GNP. This indicates the degree of concentration on the demand side for larger high priced weapons systems. The arms trade is even more concentrated on the supply side. But what affects the largest number of people in a large number of countries is the internal trade and re-export of small arms.

2. Military Dimensions of North-South and North-North Trade

During the 1990s, North-South military equipment exchanges constituted about half the international trade in arms and military material while trade and exchanges in these products among industrial countries of the North accounted for another 40%, and the remaining 10% was South-South trade. Although there were some reductions in arms imports by the South from the North at the end of the Cold War, this trend reversed in the late 1990s. 1997 saw several large increases, most notably by Saudi Arabia and Taiwan, which were the first and second ranked importers of such equipment. Saudi Arabia was the number one importer of armaments worldwide throughout the 1990s with imports far exceeding those of other regional powers such as Israel, Egypt or Iran.

It is important to note that countries that were barred from large arms imports during the nineties were nonetheless able to engage in very violent conflicts as in the Former Yugoslavia and in several parts of Africa and the Middle East. Thus reducing the scale and value of the arms trade in the nineties did not in itself reduce conflict. David Kiefer states that this fact calls into question the function of international sanctions against militarized states such as Serbia and Iraq.

Following the breakup of the Soviet Union in 1992, there was a virtual halt to military imports by a number of countries such as Angola where the government had previously used Soviet weapons. Only slowly did countries that had been locked into the military technology of the Soviet Union and Eastern Europe switch to U.S. and British suppliers. Nonetheless, with the dramatic decline in shipments from Russia, the U.S. was able to increase its market share to some 50% of the total during the decade, and the U.K. became second with about 25% of the market for military produce going to less developed countries.

There is a great concentration of production with a few countries providing a very large

share of the whole, and with a few companies accounting for most production within countries. Specialization is important so that particular lines of weapons systems can be produced with the greatest possible economies of scale. This fact provides an important explanation for the trade in arms among the industrial nations of the North. By specializing in a few weapons systems, a country can obtain low unit costs if the volume of output is boosted enough by devoting some of the product to export. Then exchange earnings can be used to finance the import of military equipment produced in other industrial countries, which have themselves benefited from the economies of scale made possible by long production runs. The countries and the firms that can achieve such economies of scale are protected from competition by the barriers to entry that other firms would face if they attempted to enter such specialized markets.

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Biographical sketch

Lucy Law Webster is Senior Fellow of the Institute for Global Policy and the UN NGO representative of Economists Allied for Arms Reduction (ECAAR) where she is also a member of the Board of Directors. From 1981 to 1995 she worked in various parts of the United Nations secretariat. She was an information consultant in UNICEF, UNDP and UNEP and then Special Assistant to the Secretary General of the Second World Conference to Combat Racism. From 1988 until her UN retirement she was a Political Affairs Officer serving as Assistant Secretary of the First Committee of the General Assembly, as Secretary of the UN Disarmament Commission Working Group on Science and Technology for Disarmament and Development, as Editor of two UN publications concerning disarmament, and as the press and NGO liaison officer for the 1990 and the 1995 NPT Review Conferences. After leaving the UN Secretariat she worked as a staff director of ECAAR. Prior to joining the UN secretariat she worked in international opinion and marketing research based in London England and as an honorary officer of the World Federalist Movement. She has a BA degree in Political Science from Wellesley College, an MSc in International Relations from Long Island University and is currently a student in the Economics Department of the Graduate Faculty of the New School University in New York City.