

A Theoretical Investigation into the Role of Military Spending on Economic Development in the Middle East

قراءة تحليلية لدور الإنفاق العسكري في التنمية الاقتصادية للشرق الأوسط

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Abstract:

Military spending is a key economic determinant that continues to generate debate regarding its implications for development, particularly in regions experiencing political and security volatility. In the Middle East, where persistent conflicts and geopolitical tensions prevail, military expenditures consume a substantial share of national budgets, shaping economic growth trajectories, investment trends, and public welfare. While such spending may support defense industries and generate employment in politically stable countries, it often diverts critical resources from essential sectors like education, health, and infrastructure especially in conflict-affected states.

This study provides a theoretical investigation into the nuanced relationship between military spending and economic development across the Middle East by analyzing macroeconomic indicators and political stability, the research offers a comprehensive understanding of the trade-offs involved. The findings underscore the need for context-specific policy approaches that align security imperatives with long-term developmental goals, enabling a more balanced and sustainable growth path for the region.

Keywords: Military Spending, Economic Development, Geopolitical Tensions, Middle East.

Jel Classification Codes: H79, O11.

الملخص:

يعتبر الإنفاق العسكري عاملاً اقتصادياً يظل يثير جدلاً بشأن تداعياته على التنمية، خصوصاً في المناطق التي تشهد تقلبات سياسية وأمنية ومنها الشرق الأوسط، حيث تسود التوترات المستمرة والتغيرات الجيوسياسية، ويستهلك الإنفاق العسكري حصة كبيرة من ميزانيات الدول، مما يؤثر على مسارات النمو الاقتصادي، واتجاهات الاستثمار، والرفاهية العامة، وغالباً ما يحول الموارد الحيوية عن القطاعات الأساسية مثل التعليم والصحة والبنية التحتية خصوصاً في الدول المتاثرة بالصراع، بينما يدعم هذا الإنفاق الصناعات الدفاعية ويولد فرص العمل في الدول المستقرة سياسياً.

تبحث هذه الدراسة في العلاقة الدقيقة بين الإنفاق العسكري والتنمية الاقتصادية في الشرق الأوسط من خلال تحليل المؤشرات الاقتصادية الكلية والاستقرار السياسي كمتغيرات وسليمة، وتوكيد النتائج المتوصل إليها على ضرورة تبني سياسات ملائمة للبيئة تتماشى مع المتطلبات الأمنية وتحقق الأهداف التنموية على المدى الطويل، مما يتبع مسار نمو أكثر توازناً واستدامة للمنطقة.

الكلمات المفتاحية: الإنفاق العسكري، التنمية الاقتصادية، التوترات الجيوسياسية، الشرق الأوسط.

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1. Introduction:

Military expenditure is considered one of the most controversial topics in academic and political circles, as opinions vary regarding its (positive and negative) impact on economic development. Given the geopolitical importance of the Middle East region and the prevalence of conflicts within it—whether internal, regional, or even international—and the continuous rise in military spending as a result, military expenditure constitutes a significant portion of these countries' budgets. The increasing figures of military spending raise profound questions about the economic and social implications of such fiscal policies (Elbargathi & Al-Assaf, 2023; Saeed, 2023). The importance of enhancing defense capabilities grows in order to ensure a balance of deterrence among multiple parties, thereby strengthening national security on the one hand, and working to meet the requirements of economic development on the other. Moreover, increased military expenditure may encourage and stimulate the defense industries and their related backward and forward linkages. At the same time, it may deprive other vital sectors of resources that could contribute to raising the rates of economic development in its various dimensions. However, the long-term effects of this type of expenditure may hinder economic growth by reducing production efficiency and depleting financial resources (Kentor et al., 2022; Seitz et al., 2014).

It is worth noting that the impact of military expenditure differs between politically stable countries and those suffering from conflicts and armed disputes. Studies show that countries enduring ongoing conflicts and disputes experience negative impacts on economic development, while politically stable countries can achieve positive effects if this spending is directed effectively (Seitz et al., 2014; Wang & Su, 2021). Based on the above, there is a clear need to study the role of military spending in both economic growth and development in the countries of the Middle East region, with a focus on the various dimensions of this role. This research aims to provide in-depth insights into how to achieve a balance between military expenditure and economic development.

Research Question:

Academic opinions differ regarding the effects of military expenditure; while some view it as a driver of economic growth through job creation and the stimulation of innovation and technology, others point to its role in depleting financial resources and harming productive sectors in a region that is in dire need of economic development in general, and investment in human capital in particular. Therefore, this study seeks to answer the central question: *How does military spending affect economic*

development in the Middle East? And what are the intermediary factors such as political tensions and stability that reshape this relationship?

2. Literature Review:

The impact of military spending on economic growth largely depends on the nature of the economy and the degree of political stability. An increase in military spending stimulates short-term economic growth by boosting the defense industries and creating job opportunities. However, this positive impact tends to decline in the long term due to the reduction of resources available for investment in productive and service sectors such as education and health (Saeed, 2023). Service sectors like health and education are considered the most affected due to the reallocation of resources to cover defense expenditures (Wang & Su, 2021).

There is also a disparity in the impact of military spending on development between economically advanced countries and developing countries, which rely heavily on expensive military imports—leading to resource depletion and worsening fiscal deficits (Seitz et al., 2014). Nonetheless, some studies have concluded that military spending positively affects economic growth in both the short and long term. Accordingly, it is recommended to maintain current levels of military expenditure due to its positive influence on growth (Anyanwu & Olu-Coris, 2011).

Regional and geopolitical tensions are among the most influential factors affecting military spending and development policies. The Middle East has historically suffered from the consequences of internal conflicts on one hand, and confrontations between global powers on the other. In this context, studies show that military expenditure is influenced by security threats from neighboring countries. Military spending by rival states tends to have less significance compared to broader regional military spending (security network). It is worth noting the considerable variation in the determinants of military spending across countries depending on their economic capabilities (J. P. Dunne et al., 2009).

Notably, countries with ongoing conflicts allocate a large portion of their resources to military spending without achieving real economic gains, leading to the erosion of political and economic stability (Kentor et al., 2022). Political stability plays a key role in strengthening or weakening the relationship between military expenditure and economic development. Politically stable countries can efficiently use military spending to support development, where integrated strategies contribute to aligning security with development (Elbargathi & Al-Assaf, 2023).

Data indicates that military spending has generally increased in the Middle East, driven by unresolved conflicts, foreign military aid, and the strategic importance of Caspian Sea oil fields. Oil wealth has a dual and contradictory effect—it is both a target of security threats and a potential factor for political and economic stability (Johansson, 2013). However, efforts at disarmament and arms reduction have been inconsistent, with significant challenges in maintaining regional stability due to internal conflicts and external pressures (Sam Perlo-Freeman, 2003).

Studies suggest that redirecting funds toward more productive sectors, such as renewable energy, public infrastructure, and conflict prevention, would yield greater benefits for national and international security—namely, political and economic stability and, in turn, the promotion of sustainable development factors (P. Dunne & Perlo-Freeman, 2003).

It is also important to note that international organizations and development aid can play a crucial role in promoting economic and social development by linking aid to reductions in military spending (McNamara, 1992).

Military spending in Middle Eastern countries exerts a dual effect on economic development. On the one hand, it may support the defense industries and create job opportunities. On the other, it may weaken resource allocation to service sectors such as education, health, and infrastructure resulting in long-term economic slowdown and, consequently, undermining sustainable economic development. Political stability emerges as a key mediating factor in this relationship, with the negative effects of military spending being more pronounced in politically unstable environments compared to more stable countries.

There are also other indicators worth considering when studying the impact of military expenditure on development. This research adds further dimensions to variables explored in previous studies, including macroeconomic indicators such as inflation, unemployment, levels of corruption, and the Human Development Index (HDI). It is also important to consider that in some oil-rich Middle Eastern countries, the effect of military expenditure may differ or appear less clearly due to high financial surpluses from oil revenues.

Based on the above, the research posits the following:

H1: The effects of military expenditure on economic development differ among Middle Eastern countries based on the nature of geopolitical challenges and levels of national income.

H2: Political stability serves as a mediating factor in the relationship between military expenditure and economic development, such that

political stability reduces negative impacts and enhances the efficiency of military spending in supporting economic growth.

3. Application of Theoretical Frameworks in the Middle East Context:

In the Middle East, geopolitical challenges intertwine with issues of political stability, making the impact of military spending more complex. It has been shown that relatively stable countries such as the United Arab Emirates are able to benefit from their military spending by strengthening defense industries and achieving relative economic growth. On the other hand, in countries suffering from armed conflicts and political instability such as Syria and Yemen, military spending becomes a drain on resources rather than a support for the economy. The literature indicates that conflicts increase the need for military expenditure, which weakens countries' ability to balance security and development.

By referring to indicators of military spending, political stability (as an intermediary variable), and economic development (including the Human Development Index), the following can be observed:

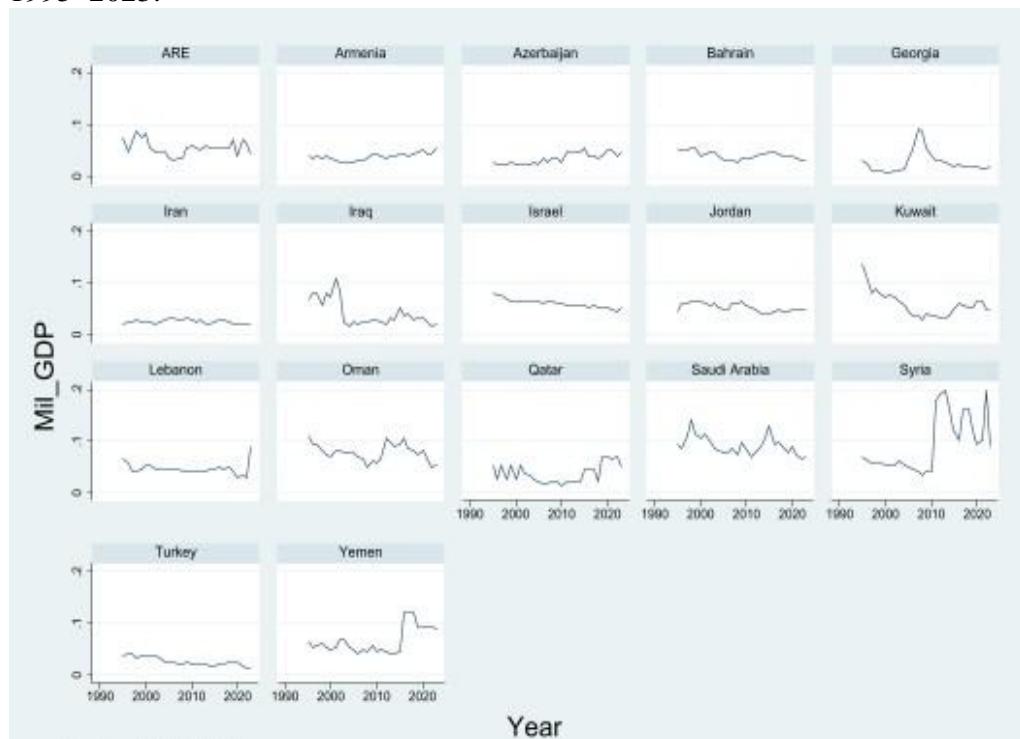
3.1. Military Expenditure:

From Figure (1) below, which shows military expenditure as a percentage of GDP, the following observations can be made:

Countries affected by conflicts such as Armenia, Azerbaijan, Georgia, Iran, Iraq, Yemen, Syria, Lebanon, and Jordan recorded high percentages ranging from (4–20%), where the primary objective was to address armed conflicts and secure regime stability in the face of internal and external threats. In contrast, Gulf countries such as the UAE, Saudi Arabia, Qatar, Kuwait, Oman, and Bahrain, in addition to Israel, recorded percentages ranging between (5–14%), where the spending was directed toward strengthening regional defense capabilities and developing local defense industries.

The above supports the first hypothesis, as high military spending in conflict-ridden countries is driven by urgent security priorities, with resources allocated to confront threats at the expense of other vital sectors. In Syria and Yemen, this has led to the deterioration of economic infrastructure, as these countries lack strong economies capable of bearing the financial burden of military expenditure. Conversely, stable countries such as the UAE and Saudi Arabia possess strong economic foundations based on oil revenues, which have enabled them to sustainably finance military spending without significantly impacting other sectors. Moreover, these countries' investment in developing their defense industries has created new job opportunities and fostered technological innovation.

Fig 1. Military expenditure as a percentage of GDP during the period 1995–2023.



Data source: Stockholm International Peace Research Institute.

3.2 Political Stability¹ and Corruption Levels²:

Most countries recorded low levels of political stability (ranging between -1 and -3) due to prolonged conflicts and internal tensions. In contrast, stable countries such as the UAE, Kuwait, and Qatar showed higher levels of stability (around 0.8), reflecting a safer and more stable political environment. Regarding corruption levels, conflict-affected countries displayed high levels of corruption, as indicated by the control of corruption index most countries in the region recorded values below one, pointing to the misuse of both military and economic resources.

The decline in political stability in conflict-affected countries is due to several factors, including weak governing institutions, the spread of armed conflicts, and the disintegration of social cohesion. These conditions compel governments to increase military spending to maintain

¹- Political stability index: (-2.5 weak; 2.5 strong).

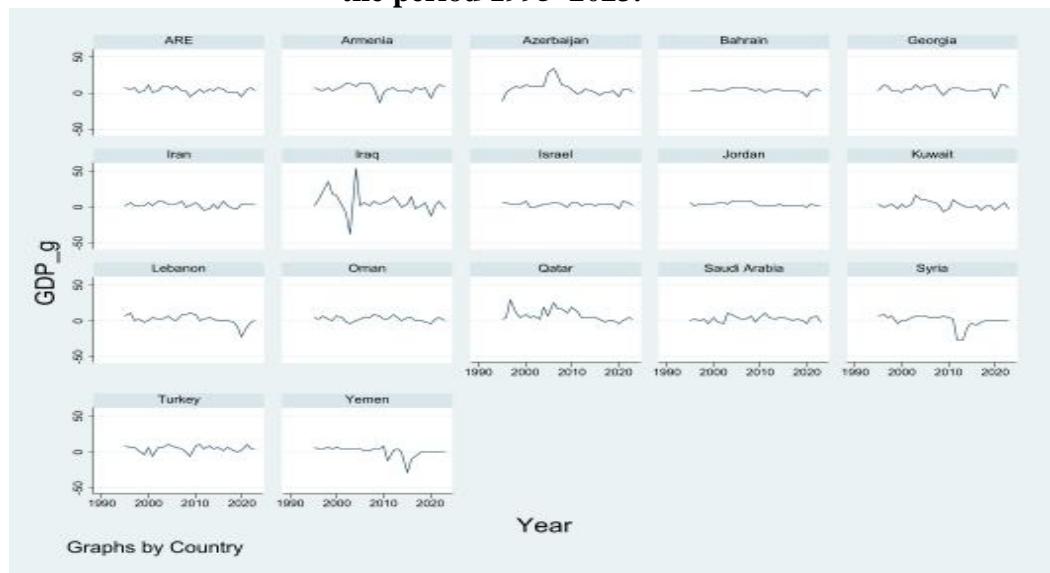
²- Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

their authority, creating a vicious cycle of instability and corruption. At the same time, politically stable countries benefit from stronger institutions capable of managing resources efficiently. Lower levels of corruption in these countries enhance the effectiveness of military spending, with a significant portion allocated to developing advanced military capabilities rather than being wasted. This supports the second hypothesis.

3.3 Economic Development:

To examine economic development and, by extension, economic stability, the study reviewed indicators such as economic growth, inflation, unemployment, investment, and the Human Development Index (HDI). Regarding economic growth as shown in Figure 2 conflict-affected countries recorded negative growth rates, with some countries experiencing economic contraction exceeding (-60%) due to widespread destruction and the halting of economic activity. In contrast, politically stable countries such as the Gulf States achieved positive growth between (2%) and (6%), largely due to their reliance on oil revenues.

Fig. 2. GDP growth for a group of Middle Eastern countries during the period 1995–2023.

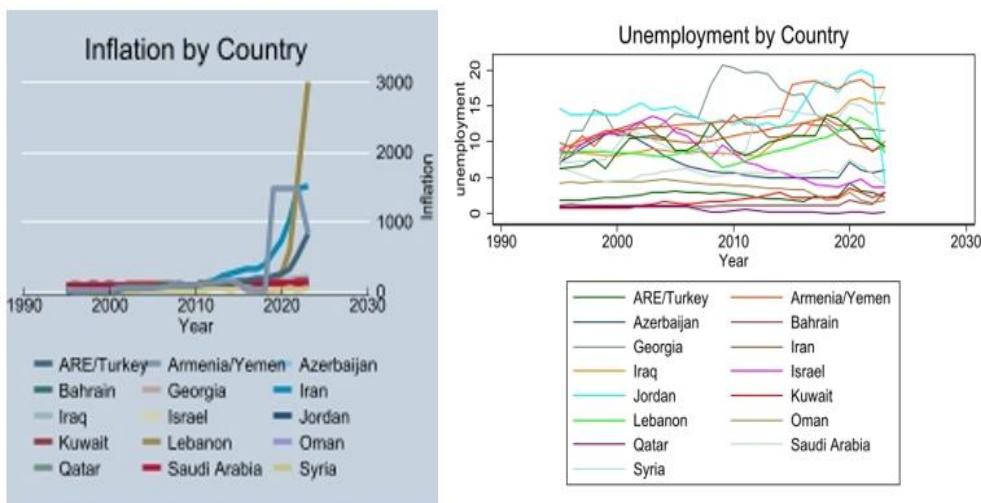


Data source: World Bank data.

Figure 3 illustrates that inflation rates in unstable countries soared to extreme levels (500%–3000%), while unemployment rates also climbed above (20%) in some cases due to halted production and capital flight. In

stable countries like the UAE and Saudi Arabia, inflation and unemployment rates remained relatively low.

Fig. 3. Inflation Rates and Unemployment Ratios in a Group of Middle Eastern Countries during the Period 1995-2023

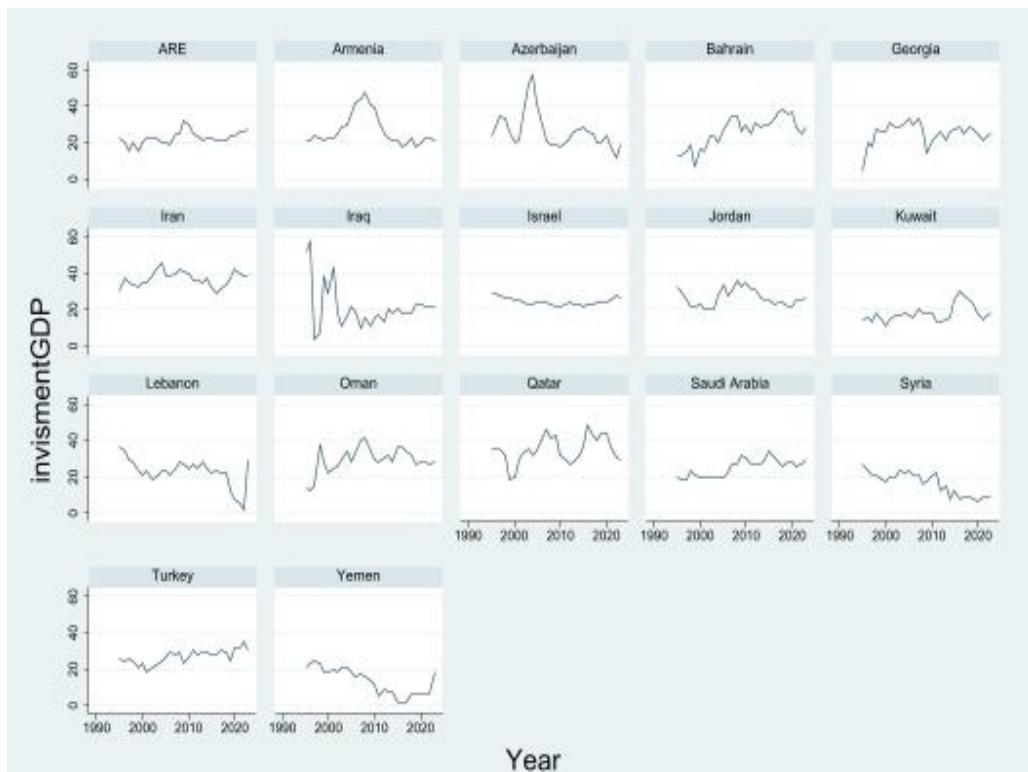


Data source: World Bank data.

Investment data, as shown in Figure 4, reveal that politically stable Middle Eastern countries such as the Gulf States maintain a steady upward trend in investment, supporting economic development. Meanwhile, countries suffering from internal or regional conflicts, such as Syria and Yemen, experienced a decline in investment levels, which in turn hindered their economic development. As for the Human Development Index (HDI)¹, Gulf countries maintained high HDI values (around 0.85), while countries experiencing armed conflict such as Syria and Yemen saw their HDI values decline to low levels (0.4–0.5) due to the ongoing conflicts. Economic stability in politically stable countries enhances their capacity to face economic challenges. In the UAE and Saudi Arabia, for instance, natural resource wealth and strong domestic economies provide a solid financial foundation that enables governments to allocate a portion of spending toward development and infrastructure. Investments in defense industries also help create jobs and stimulate innovation, thereby boosting economic growth rates.

¹ - The HDI is a summary measure of key dimensions of human development: a long and healthy life, a good education, and a decent standard of living: Low (< 0.550), Medium (0.550-0.699), High (0.700-0.799), Very high (≥ 0.800).

Fig. 4. Investment as a Percentage of GDP in a Group of Middle Eastern Countries during the Period 1995-2023



Data source: World Bank data.

In conflict-affected countries, however, economies suffer from deterioration in most economic indicators due to infrastructure destruction, reduced production, and capital flight. High inflation is driven by the depreciation of local currencies and by political and economic instability, all of which contribute to higher living costs, lower quality of life, and, consequently, a decline in development. All of the above confirms the validity of both the first and second hypotheses.

4. Conclusion:

The analysis of the relationship between military expenditure and economic development shows that the impact of this expenditure varies depending on the degree of political and economic stability and the level of corruption in the country. In stable countries, where political stability prevails and corruption levels are low, military spending can be sustainable and supported by a strong economy and sound policies, making it an effective tool for promoting development. In contrast, in countries suffering from conflicts and instability, military expenditure often becomes an economic burden that drains resources and hinders development opportunities, especially in the presence of widespread corruption that obstructs the effective use of defense resources. Economic stability is a crucial factor in a country's ability to bear this spending and deploy it positively; its absence leads to economic imbalances that disrupt growth paths and reduce the effectiveness of any developmental efforts. Investment data for a group of Middle Eastern countries clearly highlight this disparity: politically stable countries such as the Gulf States witness a steady upward trend in investment levels, enhancing their economic development potential, while countries suffering from internal or regional conflicts, such as Syria and Yemen, face a sharp decline in investment, negatively impacting their development levels.

Based on the previous conclusions and the evident disparity in the impact of military expenditure on economic development according to the level of political stability, a set of policies can be proposed that consider the specificities of different contexts, with an emphasis on the regional dimension in supporting sustainable development. In stable countries, it is recommended to increase transparency in military spending through monitoring mechanisms that ensure efficient use of resources and direct them towards developmental goals. Additionally, strengthening public-private partnerships to develop local defense industries would contribute to stimulating the national economy.

In unstable countries, rebuilding state institutions on democratic and social justice foundations and reducing corruption is an essential first step to regain control over public resources. There should also be a need to reduce excessive military expenditure and redirect resources towards productive sectors and social services, which are the cornerstone of rebuilding the economy and achieving stability. Regionally, enhancing peace initiatives among Arab countries gains strategic importance, as it helps reduce the need for military expenditure and provides a conducive environment for redirecting resources toward joint developmental projects that support regional integration and economic progress.

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