

International Military Market

Middle East

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The Military Market for the Middle East



The Middle East military market is characterized by the myriad threats that pose existential risks for many of the region's governments, prompting an emphasis among these governments on security. Middle Eastern leaders often suspect that their rivals are involved in supporting armed non-state actors that destabilize the region, fueling mistrust and undercutting efforts to reduce tensions. A number of insurgencies emerged in the 2010s that continued in some form into the start of the 2020s. These conflicts have frequently dragged in regional and even global powers, often with conflicting objectives.

THE MILITARY MARKET FOR THE MIDDLE EAST

Warfare in Syria and Yemen remains stalemated. Rounds of dialogue between combatant parties and involved stakeholders have failed to produce political resolutions, resulting in frozen conflicts leaving those countries in perennial dysfunction. Syria's government appears to have staved off the existential threat posed by militant groups, but is in no shape to recover the remaining territory outside of its control, particularly with core benefactor Russia's attention being elsewhere. In Yemen, neither primary combatant can achieve a military victory, but there has been little progress in resolving the civil war through dialogue.

Terror attacks and sabotages have also occurred in isolated instances in the Bab al-Mandeb Strait and Strait of Hormuz, highlighting the potential threats to global commerce through these key waterways. Discovery of natural gas deposits in the eastern Mediterranean Sea has raised the stakes for territorial control over the body of water. Various maritime incidents in the Persian Gulf region have led to escalating tensions between the United States, Saudi Arabia, Israel and Iran. These tensions have led to merchant ships being targeted and attacked, and the capture of a tanker in the region. Iran has been blamed for these transgressions, but denies the allegations.

Enduring state rivalries inhibit the formation of effective multilateral institutions that could otherwise help promote security. Few multilateral institutions exist in the region, and those that do, such as the League of Arab States, have mostly been ineffective in steering the course of political and military events. The Gulf Cooperation Council has achieved tangible results for its purposes, but particularly of late has been mired in in-fighting amid disputes between some members and Qatar over the latter's foreign policies.

Though not true for all of the region, many of the Middle East's largest economies are closely linked to the state of the global energy market, adding a further vector of uncertainty to the region's outlook. While these petroleum-based economies typically fare well when energy prices are high, they struggled to cope with the collapse of energy prices that began in 2014. The strong growth of the first half of the 2010s, buoyed by strong oil and gas demand, quickly gave way to stagnation and in some cases contraction in annual economic output as supply became excessive. A further wrinkle emerged in 2020 when governments faced the COVID-19 pandemic, enacting business shutdowns to stem the spread of the virus. The pandemic further weighed on energy prices, and has induced recessions throughout

the region. Slowdowns have prompted an interest in economic reforms, but entrenched interests and concern about social upheaval have impeded reform projects. As a result, many governments in the Middle East will for some time remain dependent on the export of energy to help achieve their development goals and maintain stability.

The complex drivers of conflict and a lack of regional coordination on issues ensure that turmoil will continue for the foreseeable future. Middle Eastern states will respond to their security concerns with a strong emphasis on defense spending and procurement to ensure that their militaries are able to respond to various security contingencies. However, despite the erosion of spending power, the region's governments continue to invest heavily in defense in expectation that instability will remain an enduring feature in their neighborhood.

CURRENT ENVIRONMENT

The Middle East represents a sizable chunk of the world defense market, though its share of spending has declined somewhat over the last few years. Whereas the region accounted for around 7.5 percent of global expenditure in 2021, its share in 2022 fell to around 6.7 percent, as regional defense spending slumped from \$137 billion to \$127 billion. At its peak from 2014-2015, the Middle Eastern military market accounted for a 10th of global defense spending. Though the region's share has receded, Middle Eastern defense spending remains impressive, given that the region accounts for only around 5 percent of cumulative global gross domestic product.

Middle East Defense Budgets vs. Rest of the World 2022



Middle East
6.7%

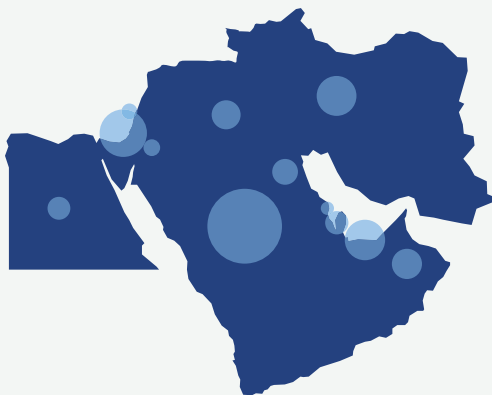


Rest of World
93.3%

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The high levels of expenditure in the Middle East stem from several features of the region that set it apart from other regions of the world. The Middle East serves as a crucial transit point for commercial shipping and exports much of the world's energy. Regional militaries are large and well-armed, serving to reinforce the desire of each country to boost spending to account for increases in the capabilities of neighbors. Security threats are numerous and diverse.

Defense Spending by Country 2022



Within the Middle East region, the countries can be divided into four rough tiers by spending level. The top tier is occupied by Saudi Arabia, which spends well above average on defense. At its peak in the mid-2010s, Saudi Arabia accounted for around half of the region's total defense spending. The Saudi defense budget for 2022 stands at about \$45.6 billion, which is 10 percent less than in 2021. Even so, Saudi Arabia still spends more than double the amount spent by the next-highest defense spender in the region, Israel.

At least three countries can be considered above-average spenders, though not to the same extent as Saudi Arabia. Israel, Iran and the United Arab Emirates spend well above the regional average. We estimate their expenditures to be close to or over \$15 billion, though it is plausible that the true spending of the UAE and Iran is much higher. Estimates of Iranian spending are volatile, given that the government only discloses so much information, and the UAE does not provide any defense spending data.

We estimate the region's average spending to be \$10.9 billion on the high end, when Saudi Arabia is included in the calculations. If the Saudi budget is kept out of the calculations, the average is closer to \$7 billion. Using this range, Oman and Iraq spend around the regional average, and Kuwait is soon to join them. Exchange rate depreciation in Egypt has significantly impacted the official budget, resulting in a dollar value far below what the military normally spends; normal spending would typically be close to the regional average, putting Egypt in the mid-level tier, especially when off-budget sources of revenue for the military are considered.

Middle East countries in the "lower" tier include Qatar, Bahrain, Yemen, Jordan, Lebanon, and Syria. These countries generally spend well below the regional average, though the two GCC members included in this tier are unique in that they have sizable reserve assets that are often called upon to finance military acquisitions, meaning that the actual size of their markets is much larger than suggested by defense budget data alone. The size of the militaries in these GCC countries should also be considered, as their small force structures and personnel numbers allow them to spend more on procurement.

For Syria and Yemen, the defense picture is muddled due to ongoing fighting. Accounting for defense spending in those countries is an imprecise science, as there is a lack of clear data on what funding pro-government forces receive, and from whom – both the Assad government in Syria and the exiled Hadi government of Yemen rely heavily on foreign backers. As a result, our figures for Syria after 2011 have been stripped, as have our figures for Yemen after 2015. The two each spent around \$2 billion on defense prior to the outbreak of internal warfare.

Defense Budget 2022

(Includes percent change from previous year)

Saudi Arabia	\$45,600	10.0%
Israel	\$18,594	4.1%
United Arab Emirates	\$15,335	2.8%
Iran	\$13,139	24.3%
Oman	\$7,701	14.1%
Iraq	\$6,440	0.0%
Kuwait	\$5,789	5.1%
Egypt	\$5,426	7.8%
Qatar	\$4,355	2.9%
Jordan	\$1,932	7.3%
Lebanon	\$1,857	3.0%
Bahrain	\$1,263	0.0%
Syria		0.0%
Yemen		0.0%

*Note: Figures are in USD millions

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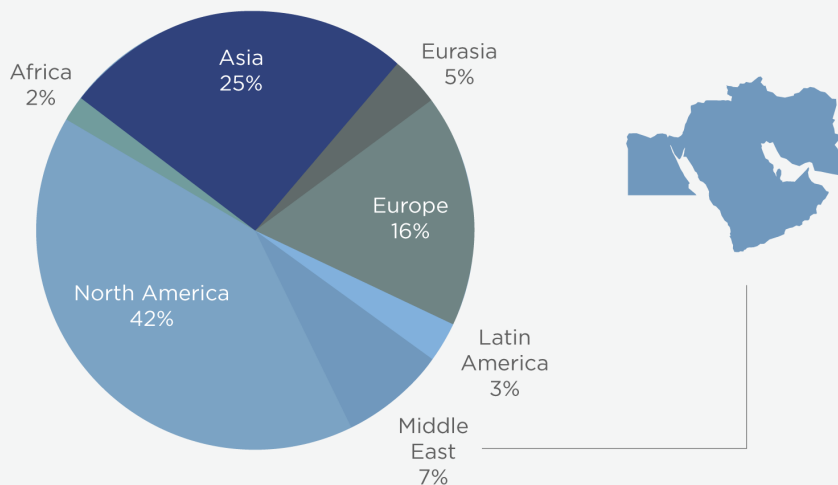
TOP FIVE REGIONAL DEFENSE SPENDING NATIONS

The top five spenders in the region are Saudi Arabia, Israel, the UAE, Iran, and Oman. Of these, Iran has been the most volatile, as its budget has been buffeted by economic challenges that sap spending power. The government has dipped into “rainy-day” funds to support security forces, stabilizing the level of spending somewhat. The top five defense spenders in the Middle East together currently make up about 80 percent of the entire region’s spending.

These top five have remained the same, but in some years the UAE, Iran, and Israel may trade places in ranking, as their defense budgets are estimated to be roughly similar.

At the end of the forecast period (2027), these five countries are expected to remain the largest spenders. The five together will account for 77.2 percent of the Middle East market in 2027, demonstrating the continued concentration of a few key players.

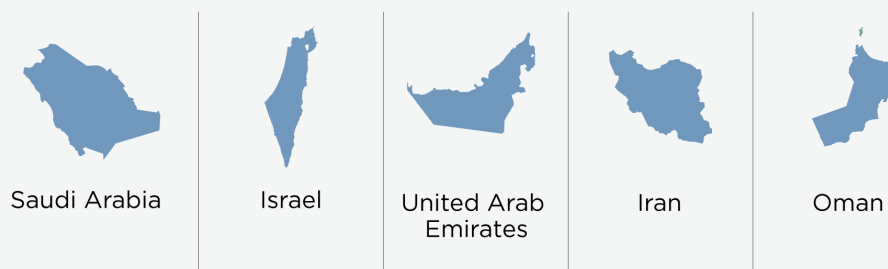
Global Defense Spending by Region 2022



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Top Five Defense Spending Regions

Middle East



These five countries combined

account for about
80%
of entire region's spending

At the end of the forecast period (2027), these five countries are expected to remain the largest spenders

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Number 1: Saudi Arabia



	2021	2022	2023	Total/Average
Defense Budget	\$50,666.67	\$45,600.00	\$49,707.51	\$145,974.17
Year-on-Year % Change	-6.86%	-10.00%	9.01%	-2.96%*
GDP	\$804,920.80	\$827,133.33	\$854,717.07	\$2,486,771.20
Defense Budget as % of GDP	6.29%	5.51%	5.82%	5.87%
Defense Budget % of Region	36.86%	35.78%	36.01%	36.23%

*Reflects compound annual growth rate (CAGR) between 2020 and 2023.

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Saudi Arabia continues to be the top defense spender in the Middle East – accounting for nearly 36 percent of the region’s total spending in 2022. The Kingdom of Saudi Arabia also remains one of the largest defense spenders in the world. Successive years of cuts have, however, reduced the defense budget to about 5.5 percent of GDP, from around 7 percent. We project slight growth moving forward to 2027, but the kingdom will not match its previous defense budget levels of over \$80 billion during the forecast period. Over the forecast period, Saudi Arabia will spend a total of nearly \$254.6 billion on defense.



Number 2: Israel



	2021	2022	2023	Total/Average
Defense Budget	\$19,380.40	\$18,593.56	\$19,487.83	\$57,461.78
Year-on-Year % Change	14.88%	-4.06%	4.81%	4.92%*
GDP	\$473,009.97	\$503,177.26	\$530,948.29	\$1,507,135.51
Defense Budget as % of GDP	4.10%	3.70%	3.67%	3.81%
Defense Budget % of Region	14.10%	14.59%	14.12%	14.26%

*Reflects compound annual growth rate (CAGR) between 2020 and 2023.

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Israel remains the second largest defense spender in the Middle East region, accountable for 14.6 percent of the region's overall defense spending in 2022. If American military assistance is included (above figures do not reflect these totals), Israeli spending is around twice the regional average. We project growth in Israeli defense spending moving forward to 2027, with annual spending to reach around \$22.8 billion by that year. Israel's total defense spending over the forecast period amounts to about \$103.7 billion.



Number 3: United Arab Emirates



	2021	2022	2023	Total/Average
Defense Budget	\$14,921.85	\$15,334.70	\$15,671.45	\$45,928.00
Year-on-Year % Change	2.39%	2.77%	2.20%	2.45%*
GDP	\$410,102.10	\$427,871.49	\$443,191.12	\$1,281,164.72
Defense Budget as % of GDP	3.64%	3.58%	3.54%	3.58%
Defense Budget % of Region	10.85%	12.03%	11.35%	11.40%

*Reflects compound annual growth rate (CAGR) between 2020 and 2023.

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The United Arab Emirates does not officially release a defense budget, but its annual budget is believed to be well over \$10 billion, if not as high as \$20 billion. Forecast International provides conservative estimates of the country's spending, at around 3.5 to 3.6 percent of GDP annually. In other words, Emirati spending could well exceed Forecast International data, particularly given that the Emirati military has a rapidly expanding profile in the region, necessitating large investment and new platforms. Through 2027, Forecast International conservatively estimates that the UAE will spend a total of \$81.8 billion on defense.



Number 4: Iran



	2021	2022	2023	Total/Average
Defense Budget	\$17,347.48	\$13,138.93	\$14,874.37	\$45,360.77
Year-on-Year % Change	63.50%	-24.26%	13.21%	11.92%*
GDP	\$1,424,130.53	\$1,488,971.17	\$1,389,003.11	\$4,302,104.80
Defense Budget as % of GDP	1.22%	0.88%	1.07%	1.05%
Defense Budget % of Region	12.62%	10.31%	10.78%	11.26%

*Reflects compound annual growth rate (CAGR) between 2020 and 2023.

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Fluctuations in the valuation of the Iranian currency against the dollar, as well as local inflation, have resulted in volatile estimates of the value of Iranian defense spending. Iran has at times dipped into reserve assets to support its military forces, adding supplementary funding beyond the listed figures in the budget. We estimate that Iran accounts for about 10.3 percent of regional defense spending, and that it will spend \$92.4 billion on defense during the forecast period.



Number 5: Oman



	2021	2022	2023	Total/Average
Defense Budget	\$8,961.04	\$7,701.30	\$8,055.56	\$24,717.90
Year-on-Year % Change	10.40%	-14.06%	4.60%	-0.25%*
GDP	\$65,218.18	\$79,179.22	\$81,158.44	\$225,555.84
Defense Budget as % of GDP	13.74%	9.73%	9.93%	10.96%
Defense Budget % of Region	6.52%	6.04%	5.84%	6.13%

*Reflects compound annual growth rate (CAGR) between 2020 and 2023.

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Oman preserves a degree of neutrality in its foreign relations, maintaining relations with Iran despite being a member of the Gulf Cooperation Council. Though with a comparatively quiet defense outlook, Oman maintains one of the highest levels of defense spending in the Middle East, with spending as a share of GDP being around 10 percent. At present, defense spending appears broadly stagnant; we do not currently believe Oman is likely to top \$10 billion in annual defense spending by the end of the forecast period. For the upcoming forecast period, we forecast that the Omani government will allocate a total of \$42.4 billion to defense.

This report is excerpted from Forecast International's International Military Markets – Middle East & Africa service, authored by Derek Bisaccio and Nicholas Rakoncza, that provides a country-by-country examination of the region's military capabilities, equipment requirements, and inventories. The individual country reports are structured to condense a vast range of information into concise segments. Governmental and political structures, political and economic trends, national and defense budgets, force structures, military planning requirements, recent and future procurements, the security environment, threat assessments, and military postures – all are detailed in this volume.

An annual subscription features coverage of 34 countries. The Service also includes two Market Segment Analyses that present a broad overview of each region's five-year military market.

Completing the service are two appendices providing complementary data, and an Excel spreadsheet identifying Weapon Systems by Country, Region and Category.

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For 50 Years, Forecast International has been the Premier Provider of Market Intelligence to the Worldwide Aerospace, Defense, Military Electronics, and Power Systems Industries.

Our complete International Military Markets library features individual products on the six major geopolitical regions of the world that together cover over 120 countries. Each product provides a broad overview of the military markets of the countries covered, as well as an expanded picture of the region and how its consolidated expenditures factor into the larger global defense environment. The International Military Markets product line continues to be enhanced and upgraded, moving in lockstep with industry needs.

Each product includes the following:

- Analysis of historical defense spending trends and five-year forecasts by country, and consolidated regional totals
- A detailed overview of ongoing major defense procurement programs by nation, plus examinations of future equipment priorities
- Charts, tables and graphs detailing each country's economic, budgetary, defense trade, and security spending data
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