Global Defense Spending

Annual Snapshot 2023

FORECAST INTERNATIONAL

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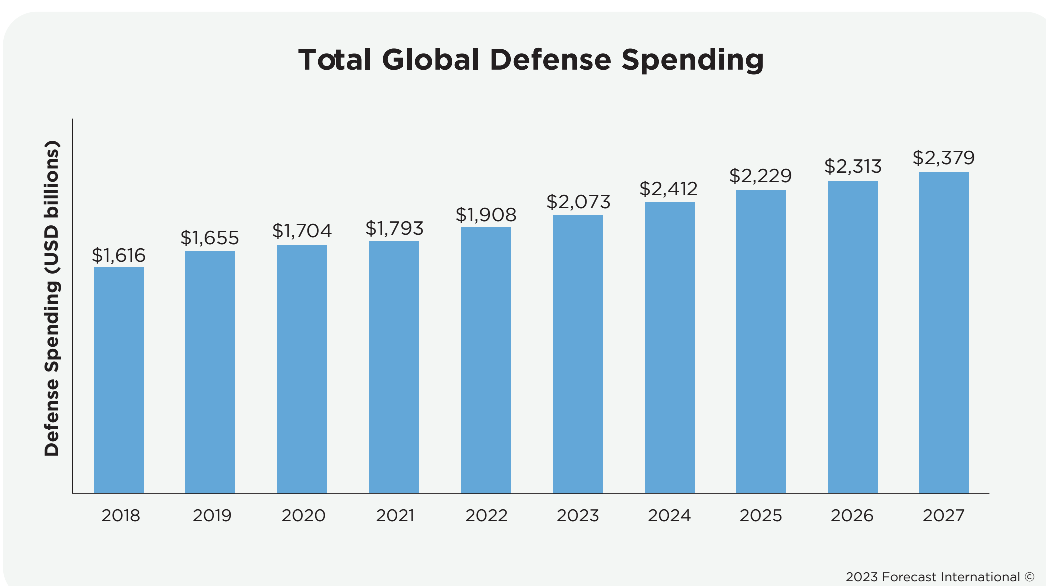
Global defense spending continues its steady rise, bolstered by a 6.4 percent nominal spike in 2022. The biggest boost to overall global defense growth came from NATO member states (and aspiring member states) revising budgetary plans and accelerating spending and modernization efforts in the wake of Russia launching its invasion on February 24, 2022.

While facing extremely high levels of inflation, energy pressures and slower economic growth, many governments worldwide began reassessing military investment and security approaches as the Russia-Ukraine War intensified. This resulted in a higher-than-normal uptick in year-on-year military investment than normally would occur in a year in which the larger economic picture presented headwinds.

Perhaps most surprising about the high level of global defense growth for 2022 is that it has occurred during a rare downward cycle in military budgeting in Saudi Arabia, traditionally one of the world's largest security spenders, ranking ninth among Forecast International's list of Top 20 defense spending nations.

Other declines in USD-based expenditures for 2022 reflected depreciation in local currencies versus the U.S. dollar, as in the cases of France, Japan, and the United Kingdom. Despite the variation in market exchange rates, however, actual defense investment for all three countries grew nominally in local currency value during the year.



In Europe, the reality that high-intensity, industrial-scale warfare had returned to the continent brought intense reflection and rethink of past approaches toward defense, national security, and even diplomacy and trade. This was reflected most prominently in Germany, which has publicly committed to a EUR100 billion ($106 billion) "Special Fund," or Sondvermögen, outside of the core defense budget that is being used to restock depleted inventories of munitions, rockets, and bullets, while funding major defense programs like the Future Combat Air System (FCAS) and procurement of the F-35 Lightning II combat aircraft.

As the world begins to experience a bifurcation in trade, diplomacy, energy, and security unseen since the latter stages of the Cold War, a new dawn in security approach and military spending is emerging across Australia, the European continent, Japan, Southeast Asia, and Taiwan.

The result will be a period of intense defense investment and procurement from 2023 through 2025 – and possibly out to 2030. Countries ranging from Canada to the Netherlands to Poland are looking to recapitalize and improve their capabilities, while Sweden, Finland and the Baltics are revisiting, refining, and improving their whole-of-government security approaches.

As 2023 unfolds, Russia will continue concentrating its attention and efforts on the war in Ukraine. China, meanwhile, will continue to focus on advancing its military capacity and capabilities in the air, sea, land, and space domains and investing in advanced technological research (artificial intelligence, quantum computing, cyber, nanotechnology, robotics, etc.) in the hope of keeping pace with or leapfrogging traditional U.S. dominance in advanced military technologies.

Elsewhere, Iran and North Korea remain security challenges in their respective neighborhoods, thereby generating a downstream effect in which regional neighbors seek to bolster their defenses across all domains and create an effective deterrent capability.

Other countries – including India, Turkey and Vietnam – are seeking to increase and improve their own domestic defense industrial capabilities to support their national military requirements and mitigate the strategic impact of their respective dependencies on foreign arms suppliers.

The bulk of global military investment remains in three regions: North America, Asia, and Europe. The sheer size of the U.S. defense budget assures the continuing dominance of the North America region (42 percent in 2022), while Asia-Pacific and Europe also represent significant market shares in the global pie at 25 and 16 percent, respectively. Altogether these three regions account for 83 percent of total worldwide spending.

While China will remain the primary focus of the U.S. defense strategy moving forward, Russia's invasion of Ukraine continues to have an impact on the U.S. budget outlook. In addition to spending on aid for Ukraine, a greater number of lawmakers are now calling for boosting the regular defense budget. For the time

being, these heightened national security issues are outweighing any national debt concerns, meaning defense dollars are expected to continue flowing.

The harder questions for first- and second-tier defense nations will emerge in the years beyond 2025, as growing debt and deficit loads begin to impact government spending plans.

Perhaps of greater consequence – particularly for European nations suddenly initiating an abrupt reversal in defense outlook – is what will happen if the war in Ukraine comes to some form of conclusion. Many countries are reinvesting in defense as a reaction to Russia's invasion, but a halt to hostilities coupled with a weakened Russian military might prompt a return to the practice of cutting defense spending to achieve financial efficiencies, a temptation sure to grow as governments face higher debt loads and fiscal deficits following 2020 recessions and COVID-related economic relief packages.

While our nominal spending forecasts trend upward, there may be a slight slowdown in annual growth by 2026 and 2027 as countries confront their public debt and budgetary imbalances and the impact of the war in Ukraine on defense mindsets across global capitals begins to retrench.

Forecast International envisions an upward five-year defense spending environment, with a compound annual growth average of 4.5 percent through 2027.

TOP TWENTY DEFENSE SPENDING NATIONS

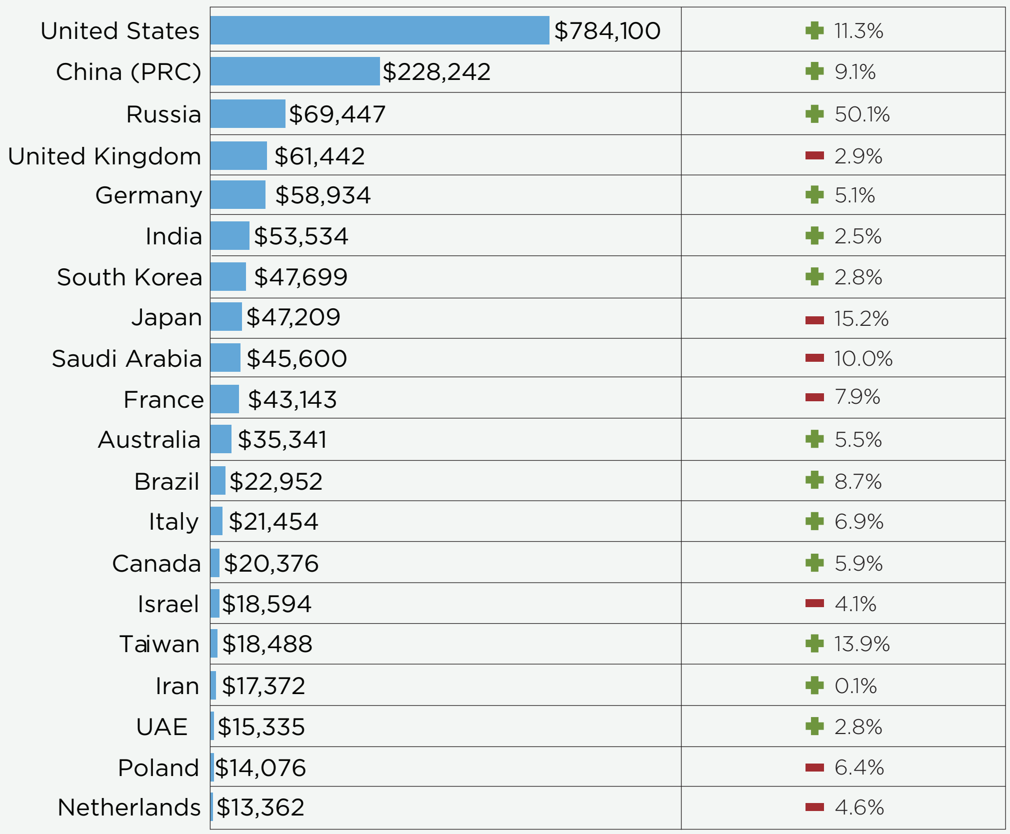
Defense Spending in Top 20 Countries 2022

United States $784,100	**Australia** $33,522
China (PRC) $228,242	**Brazil** $22,951
Russia $69,447	**Italy** $21,454
United Kingdom $61,441	**Canada** $20,375
Germany $58,934	**Israel** $18,593
India $53,534	**Taiwan** $18,488
South Korea $47,699	**Iran** $17,372
Japan $47,208	**United Arab Emirates** $15,334
Saudi Arabia $45,600	**Poland** $14,076
France $43,143	**Netherlands** $13,362

*Note: Figures are in USD millions

Defense Budget 2022

(Includes percent change from previous year)



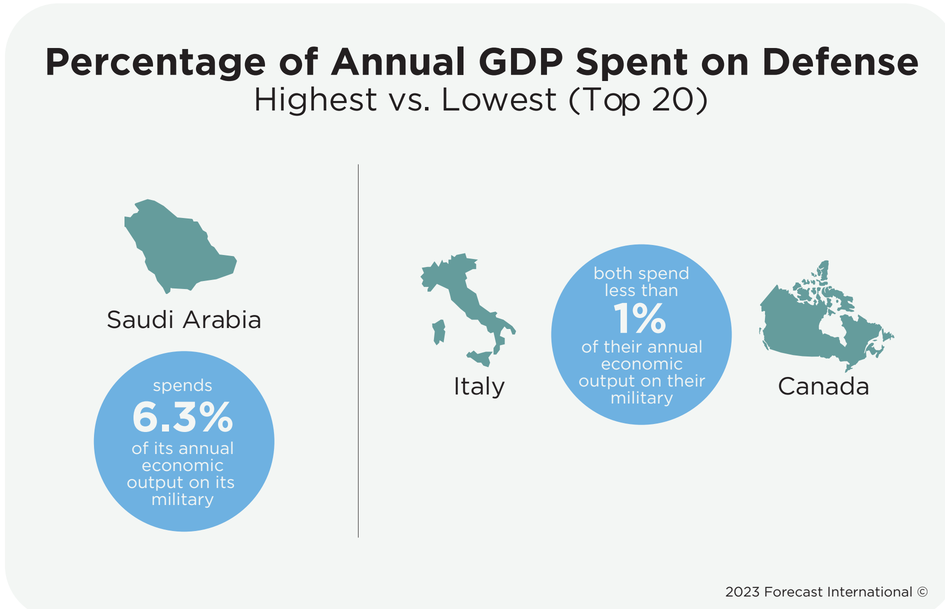
*Note: Figures are in USD millions

Defense spending growth among Top 20 countries slowed heading into 2022, as lingering macroeconomic headwinds associated with the COVID-19 pandemic began to put pressure on governments to rein in defense expenditures. Persistent disruption in global supply chains prompted a spike in commodity prices, adding broad-based inflationary pressure in the economies of the Top 20. Moreover, volatility in foreign exchange markets, particularly in response to a strengthening dollar, has impacted the dollar values of the defense outlays of the Top 20.

Even with the more muted context in 2022, over half of the countries in this category – 12, when not including Iran with its stagnant defense budget – increased the dollar value of their defense budgets over the outlays for 2021. Among these 12, the average year-over-year increase was 10.3 percent, greatly slowed from the previous year's figure of around 17 percent. Moreover, if Russia, whose budget grew in value 50 percent, is not included in the count, then the average rate of increase was only 6.1 percent from 2021 to 2022.

While budget growth slowed among the Top 20, there has not been any turnover from the list of the world's top defense spenders. Many have, however, changed places, with the notable return of Russia to the group of five largest defense budgets. The dollar value of Russia's defense budget grew around 50 percent in 2022 as Russia launched a military invasion of Ukraine, putting the country's budget at number 3 globally. Japan, previously in the Top 5, has fallen out of it in 2022, stemming from both exchange rate fluctuations and a government decision to pull forward some future spending in the preceding year, 2021, as part of an in-year budget amendment.

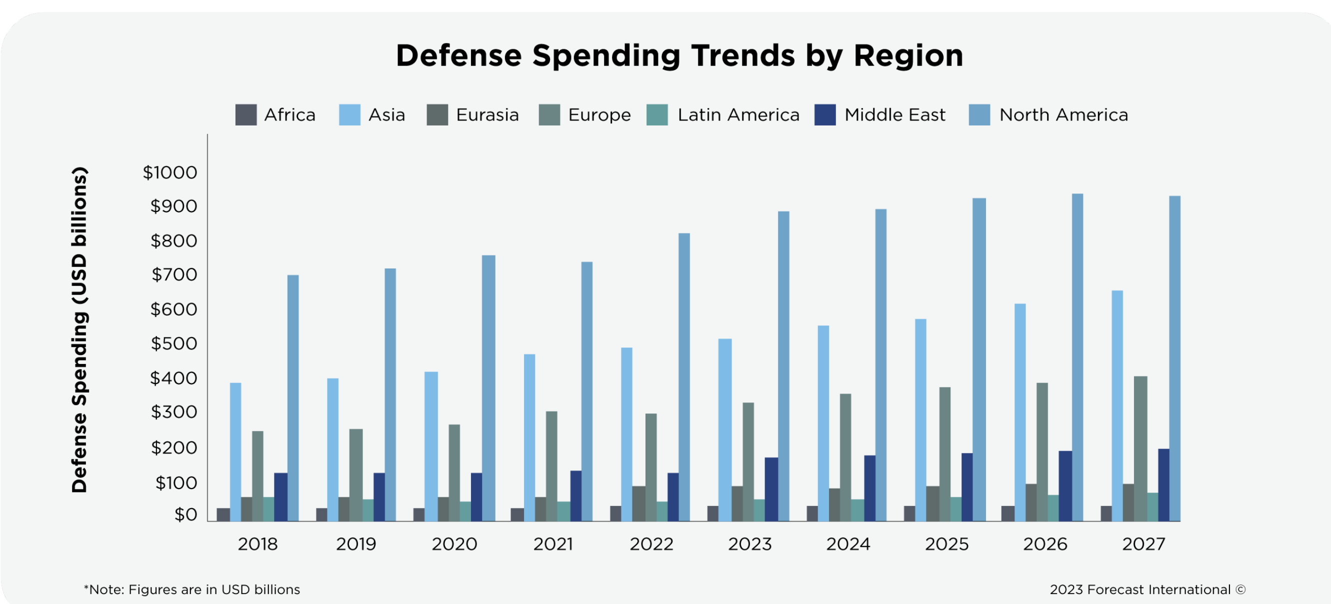
The "sticky" nature of the Top 20 countries demonstrates the extent of concentration of defense opportunities in a few particular markets. Combined, the Top 20 cover 85 percent of total global defense expenditures. On a regional basis, Asia-Pacific and Europe continue to be the leaders in terms of quantity of states in the Top 20. Six countries from each of those two regions are in the club of largest defense spenders. Four countries in the Middle East (which we break out separately from Asia) are in the Top 20. At present, no countries in Africa make our list. Algeria has the largest defense budget in Africa, but its spending growth tapered off in the mid-2010s as commodity prices fell.



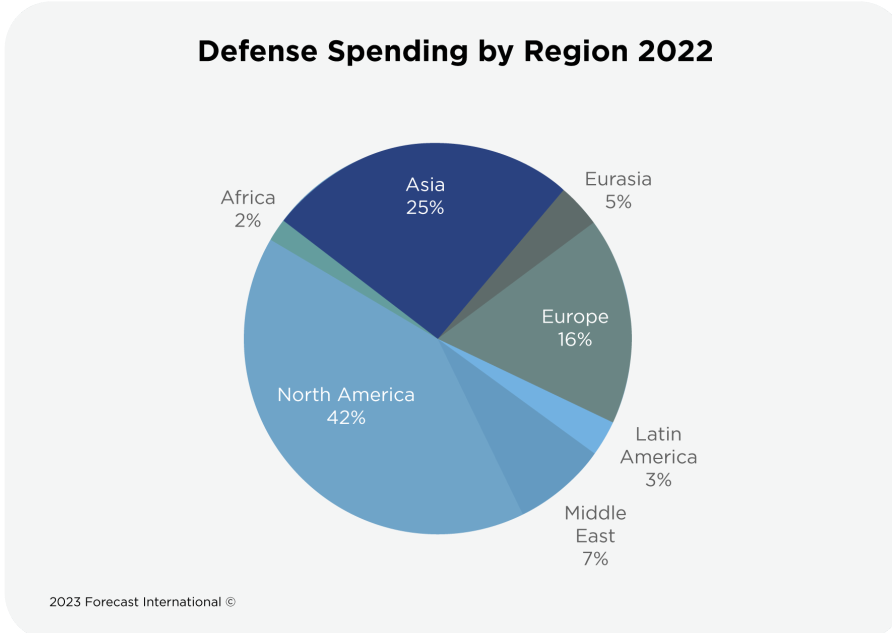
Countries in the Top 20 club spend, on average, 2.1 percent of GDP on defense. Saudi Arabia has the highest percentage in the category, devoting around 6.3 percent of annual economic output to its military. Italy and Canada, by contrast, have the lowest percentages of the category, with both spending under 1 percent of GDP on defense matters.

Given the linkage between the strength of the economy and defense spending, the story heading into 2022 was that slowing economies in the Top 20 countries could produce a multiyear trend of slowing defense budget growth across the developed world. War in Ukraine will, however, put military spending growth back on the upswing. Many European countries – including those like France and Poland, whose budgets decreased in dollar value from 2021 to 2022 – are now looking to boost their military budgets to respond to the war on their doorstep.

REGIONAL BREAKOUT



AFRICA



Africa's military market has a value of around $37.6 billion as of 2022, amounting to just under 2 percent of global defense expenditures. Though the continent is home to dozens of countries, only a few key markets drive the bulk of military procurement. Only nine countries in the region spend over $1 billion on defense, and the majority spend far below that threshold. The small defense spenders, moreover, are likely to devote very little of their defense budgets to procurement, compared to other priorities such as personnel upkeep.

Across Africa, spending rose 3.9 percent in 2022, a slight deceleration from the 4.6 percent growth logged from 2020 to 2021. On an individual country basis, however, the picture was very muddled, as only around a third of the countries in the region actually grew their budgets, with the rest seeing either stagnation or single-digit contractions in the dollar value of their outlays.

No African state has a defense budget large enough to be included in Forecast International's list of the Top 20 global defense spenders for 2022. Algeria, the region's largest defense spender, was previously ranked 20th in the late 2010s, but stagnation in expenditure growth, owing to volatility in commodity exports, has led to Algeria falling behind the others in that category, which now spend at least $3-4 billion more than Algeria on defense.

Though budget resources are limited, the African market does feature numerous procurement opportunities. Few countries in the region possess defense industrial bases, and even those that do will still need to import much of their militaries' needs. One of the most significant conventional state rivalries is between Algeria and Morocco, neighbors that have each embarked on major military recapitalization plans, adding new aircraft, warships, missile systems, and main battle tanks to their inventories. Moreover, many of the region's militaries are involved in counterinsurgency missions, either domestically or abroad, as part of peacekeeping operations, which require armored vehicles, unmanned aerial vehicles, and light attack aircraft. A rise in piracy along key economic conduits in the Gulf of Guinea has spurred new investments in patrol aircraft and naval vessels.

Forecast International anticipates that African defense spending will grow through the coming period to 2027, likely at a muted pace of under 3 percent per year on average. Macroeconomic conditions are the primary influence for the mid-2020s, but the diverse nature of the security challenges facing African governments will remain durable long-term drivers for defense spending growth.

ASIA/PACIFIC RIM

While much of the international focus turned to Europe and the Russia-Ukraine War in 2022, the world's most dynamic security environment remains the Asia-Pacific region.

From contested areas in the East and South China Seas, to India's borders with China and Pakistan, through the Strait of Malacca and into the Indian Ocean Region, the Asian picture presents multiple nations competing for influence and numerous ongoing insurgencies and territorial disputes.

The ongoing military buildup in China, plus the modernization cycles being undertaken across much of the region, results in the Asia-Pacific market being one of the most active in the world on both a per-nation and cumulative basis.

The Asia-Pacific region represents a full quarter of global defense spending, and with China, India, Japan, Australia, South Korea, and Taiwan, among others, continuing to bolster annual allocations, the region's share of worldwide military expenditure will only grow further over the coming decade.

Though the initial onset of the COVID-19 pandemic mildly inhibited year-on-year growth for the Asia-Pacific across mid-2020 and through much of 2021, the reopening of economies, return to stronger growth and, most crucially, the invasion of Ukraine by Russia in early 2022 refocused many nations on the need to continue bolstering defense capabilities to counter China.

Alarmed by the Russian invasion and ever watchful of China's growing military and North Korea's nuclear capabilities, Japan elected to overturn its traditional post-Second World War approach toward national defense and an informal cap on defense spending of 1 percent of GDP.

Prime Minister Fumio Kishida announced in December 2022 that his country would bring the level of annual Japanese defense allocations up to 2 percent of GDP by 2027, which would place the topline defense budget around $70-$75 billion. Japan's current topline figure – factoring in the rise of the U.S. dollar versus the Japanese yen – amounts to around $40 billion (JPY5.41 trillion). The aim is to benchmark spending over the 2023-2027 period at around JPY43 trillion, or $315 billion – or roughly $63 billion per year.

Creating a counter-strike capability by procuring new and greater quantities of missiles (including the U.S.-made Tomahawk cruise missile) sits atop Japan's near-term acquisition strategy.

When factoring in Japan's long-standing 1-percent-of-GDP informal cap on defense spending and its reluctance to acquire a long-range deterrent capability, the upcoming changes mark a titanic shift in Japan's traditional post-Second World War defense and security planning and posture.

Like Japan, Taiwan is moving forward with ambitious defense spending plans with a nearly 14 percent year-on-year nominal increase to its 2023 budget, which will bring the topline figure up to TWD586.3 billion, or around $19 billion.

A crucial consideration in the Asia-Pacific region in the wake of the Russia-Ukraine War is source of supply, as countries traditionally dependent upon Russian-sourced hardware – such as India and

and Vietnam – must increasingly diversify their arms importation.

But in most cases, including India's, nations throughout the Asia-Pacific region aim to wed weapons purchases to growing their respective indigenous defense sectors in a synchronized manner.

Therefore, more and more countries are putting ever-growing offset demands and joint-production requirements into their arms procurement conditions. Foreign vendors seeking to penetrate and firmly establish themselves in markets such as Australia, India, Indonesia, Singapore, Taiwan, and Vietnam will increasingly need to tie up with local companies in order to cement contracts.

Meanwhile, countries such as Japan and South Korea aim to cooperate more and more on joint research with foreign partners in hopes of expanding their own arms-exporting potential.

As 2022 fades into the rearview and a new year unfolds, the buildup of military capabilities across the Asia-Pacific region is once again on track, with the deficit and debt concerns of the early pandemic years slowly beginning to recede in some countries. For nations such as Australia, India, Japan, South Korea, and Taiwan, the perceived threat of China overrides worries about balancing fiscal ledgers.

Instead, modernization efforts are being amplified and budgets driven upward. The Russian invasion of Ukraine and China's alignment with Moscow have further served to push these countries toward ambitious spending and acquisition goals.

EURASIA

The Eurasia region includes many international flashpoints and abuts others, prompting a strong governmental emphasis on maintaining stability. As a combined figure, the dollar value of Eurasia's defense spending in 2022 was nearly $93 billion, translating to about 5 percent of global defense expenditures. In absolute value this figure is small, but should be compared to the region's contribution to global GDP, which stood at only 3.5 percent in 2022. This comparison demonstrates the strong emphasis that the region's governments put on their militaries.

Eurasian defense expenditure rose a whopping 39.8 percent from 2021 to 2022. While some of this dramatic increase is attributable to volatility in foreign exchange rates, much of it is genuine spending growth, driven by Russia and Ukraine. Only a few countries saw the dollar value of their budgets fall in 2022. Afghanistan, conquered by the Taliban in 2021, no longer provides reliable budget data, but the previous government's spending, augmented by foreign aid, is no longer sustainable. The dollar value of the Pakistani defense budget fell in 2022, but in terms of the rupee, the budget has not been cut.

Ukraine (80.7 percent) and Russia (50.1 percent) logged the greatest growth in defense expenditures. In late February 2022, Russia launched an invasion into its neighbor, resulting in a war that continues at time of writing. Though accurate defense budget figures for 2022 are not currently available, the wartime conditions prompted the two to hike spending dramatically. Georgia, which previously fought a war with Russia

in 2008, recorded the third-largest defense spending growth in 2022 at 26.7 percent, influenced by the conflict in its region.

The region's largest market, Russia, largely supplies itself, and was cut from Western defense industries well before its invasion of Ukraine, but other countries in the region have shown an increasing willingness to diversify their supplier base, including through contracts with Western firms. Recent conventional conflicts throughout Eurasia – the standoff between Kyrgyzstan and Tajikistan, the conflict in Nagorno-Karabakh, and now the war in Ukraine – have brought back a strong procurement focus on conventional warfighting platforms, such as artillery, counterbattery radar, missile defense systems, combat drones, and armored vehicles. Counterinsurgency remains an important consideration for regional militaries as well, particularly in the aftermath of the collapse of the government in Kabul.

Moving forward, defense expenditure in the region should lift as the 2020s proceed. As a combined figure, we expect an annual average rate of expansion of about 2.4 percent, though this figure is heavily influenced by trends in the Russian budget, which is expected to have pulled forward future growth to support the war effort. Individual countries in the region should thus see spending growth above the expected regional average as governments react to a deteriorating security environment throughout Eurasia.

EUROPE

After more than two decades of force structure reductions and spending cuts, the European defense environment began to experience limited growth following Russia's takeover of the Crimean Peninsula in early 2014. This growth emerged out of the NATO Wales Summit Declaration issued later that year in which members committed to reversing declining budgets and moving over the coming decade toward the Alliance's requirement that annual defense allocations equal at least 2 percent of GDP.

However, despite this collective pledge, many European-NATO partners failed to significantly increase their investment and improve their military readiness or capacity over the following half-decade. By 2020, as the COVID-19 pandemic unfolded, most European nations had only returned to topline defense budgetary levels previously reached over a decade earlier in 2008.

The collective slashing of budgets, personnel, capabilities, and support structures left countries across Europe with weakened military structures on the eve of Russia's invasion of Ukraine in February 2022. Though European nations had largely avoided the previous habit of using economic slowdowns or recessions as reason to shrink military-related costs following the outbreak of the pandemic, their efforts to improve defense capability remained slow and insufficient.

Alarmed by Russia's offensive into Ukraine and the return of peer-on-peer, high-intensity conflict to the continent, European governments spent much of 2022 taking stock of their militaries and defense preparedness and found it lacking.

As a result, across Europe a conviction to both aid an imperiled neighbor and rebuild depleted militaries took hold. Seemingly overnight, a shift in attitude toward matters of defense, national security, and foreign policy emerged.

In Germany, a Russia-friendly government had to confront its own misjudgments regarding energy, trade, diplomacy, and traditional avoidance of hard power. From this introspection emerged a declaration by Chancellor Olaf Scholz of a "Zeitenwende," or turning point, with a EUR100 billion Special Fund set up for military modernization and a vow to bring the defense budget up to 2 percent of GDP as quickly as possible.

In Poland, the government made a commitment to bring its defense budget up to 3 percent of GDP as soon as 2023.

Meanwhile, Finland and Sweden took formal steps toward moving away from their traditional militarily non-aligned paths and entering the NATO Alliance, while both pledged to increase defense spending up to the 2 percent of GDP standard.

Another knock-on effect of the Russian invasion of Ukraine was former Warsaw Pact countries emptying their Cold War-era, Soviet-designed military inventories by donating them en masse to the Ukrainian armed forces. The donated equipment included everything from small arms and anti-tank missiles to air defense systems, armored vehicles, and helicopters.

By clearing out aging inventories, NATO members such as the Czech Republic, Estonia, Latvia, Poland, and Slovakia removed equipment already slated for retirement in the near- to mid-term, thereby expediting their respective national military modernization plans.

This, in turn, also meant that the donor countries created capability voids in the process.

These gaps now require the backfilling of capabilities on a compressed timeline, further creating defense industrial pressures already strained by increased demand and a lean production/just-in-time delivery model no longer practical in the current environment. In some instances, such gaps are backfilled by NATO allies donating their own used equipment, but in others the pent-up demand has forced some countries to look beyond NATO-sourced equipment. This proved the case with Poland when it opted for South Korean K239 Chunmoo multiple launch rocket systems (MLRS) to meet an immediate requirement at high volume.

Heading into 2023, the impact of inflation on defense casts a cloud over the modernization processes of most European nations. With defense inflation normally higher than consumer inflation, the problem of modernizing armed forces on still-lean budgets weighted heavily in favor of personnel, maintenance, and operations over capitalization becomes tricky.

While many defense ministries are suddenly infused with cash on hand, the defense inflationary cycle – exacerbated by higher energy costs, brittle supply chains, and production bottlenecks – will drive unit prices further upward and hinder buying power.

LATIN AMERICA

Three years characterized by sustained global crises and region-spanning political upheaval have profoundly reordered the anticipated trajectory of Latin American defense expenditures heading into the coming decade. Although Latin American regional economies rebounded from the prolonged wake of the COVID-19 pandemic with unanticipated vitality over 2021 and 2022, the risks associated with the continent's long-standing financial vulnerabilities have only been rendered more acute by the sustained trials of the past several years, and newly elected governments across the region must likewise now contend with the demands of an increasingly vocal and expectant regional electorate.

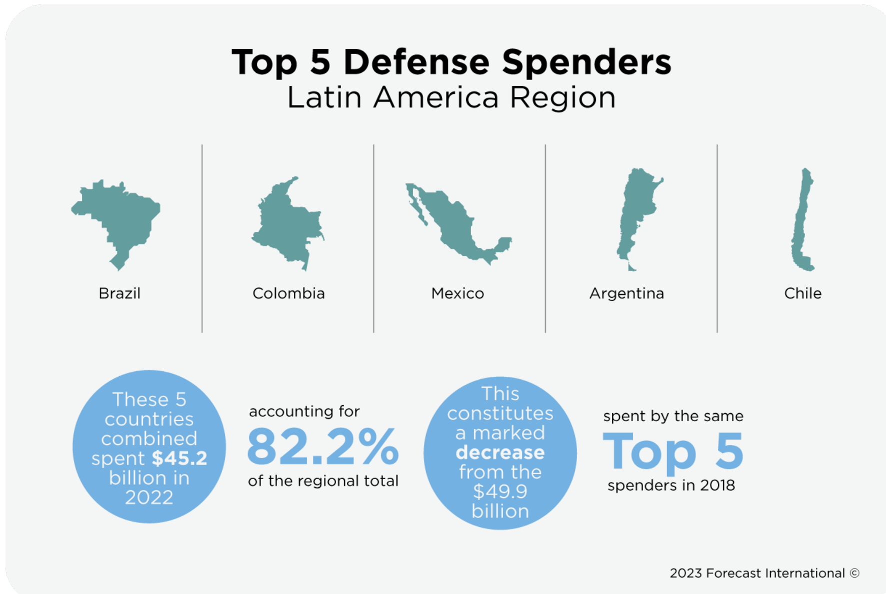
Latin American defense spending has traditionally constituted only a small percentage of the global total, and its proportional value has only shrunk further over the past decade.

Latin America's largely benign interstate security environment and its unpredictable economic climate neither allow nor demand annual defense expenditure outlays comparable to those of other regions with major concentrations of developing and middle-income countries, such as Asia or the Middle East and North Africa. Robust economic growth rates in 2022 could not prevent the deepening of this trend; Latin America's share of global defense spending now resides at only 3.0 percent, having steadily fallen from its near-term high of 4.9 percent in 2013.

Beginning in 2019, long-simmering public dissatisfaction with endemic income inequality, the shrinking availability of public services under national programs of fiscal austerity, and the then-glacial pace of economic recovery in the wake of the collapse of commodities prices in the 2010s dramatically erupted in the form of massive protests against governments all across the region. Over the course of 2021 and 2022, these frustrated electorates took to the ballot box and unseated incumbent governments and established parties in major regional defense markets such as Colombia and Chile, ushering in the most significant wave of left-leaning executive victories since the so-called pink tide of the early 2000s.

Although left-leaning executives are not universally synonymous with a restricted defense profile in the Latin American context, with the serving administrations of Alberto Fernandez in Argentina and Andres Manuel Lopez Obrador in Mexico representing two of the region's most vigorous patrons of national defense, the circumscribed financial realities resulting from the pandemic will weigh heavily upon the capacity of newly elected governments to sustain simultaneous investments across the breadth of their annual budgets. The uniquely explosive macroeconomic growth that characterized the "post-pandemic" reopening period and the energy price boom resulting from the Russian Federation's invasion of Ukraine helped to mitigate the impact of these pressures on state budgets through 2022, but it is an undeniable reality that most states across the region have accumulated significantly elevated debt obligations over the past three years. Indeed, even prior to the pandemic, many countries in Latin America were struggling to maintain annual defense expenditure growth at a level sufficient to both sustain their current force structures at a high level of operational readiness and ward off the corrosive impact of rising inflation on wages and military procurement capabilities.

Brazil remains the largest defense spender in Latin America by a significant margin, consistently making up nearly half of all annual defense spending in the region. Colombia follows as the next largest spender, typically constituting about 15 to 18 percent of the region's defense outlays. Rounding out the top five markets in Latin America are Mexico, Argentina and Chile. 2022 marked Argentina's return to the top five position, with the incumbent Fernandez administration working to reverse years of budgetary neglect and operational atrophy through its National Defense Fund (FONDEF) framework. Combined, these five countries spent some $45.2 billion on defense in 2022, accounting for 82.2 percent of the regional total. This still constitutes a marked decrease from the $49.9 billion spent by these same top five spenders in 2018.



Although the interstate security environment in Latin America is benign, transnational criminal networks, insurgent movements, and localized gang activity continue to pose an acute threat to human security and economic development in states such as Mexico, Brazil and El Salvador. The protracted nature of these conflicts and the financial largesse of criminal organizations have placed immense strains on state capacity and cohesion in countries across the region. Over the last two years, elevated levels of criminal violence have begun to seep into a number of countries that previously had been relatively insulated from these dynamics, such as Ecuador. The urgent need to deter and contain such organizations will remain among the most compelling drivers of defense expenditure growth through 2027.

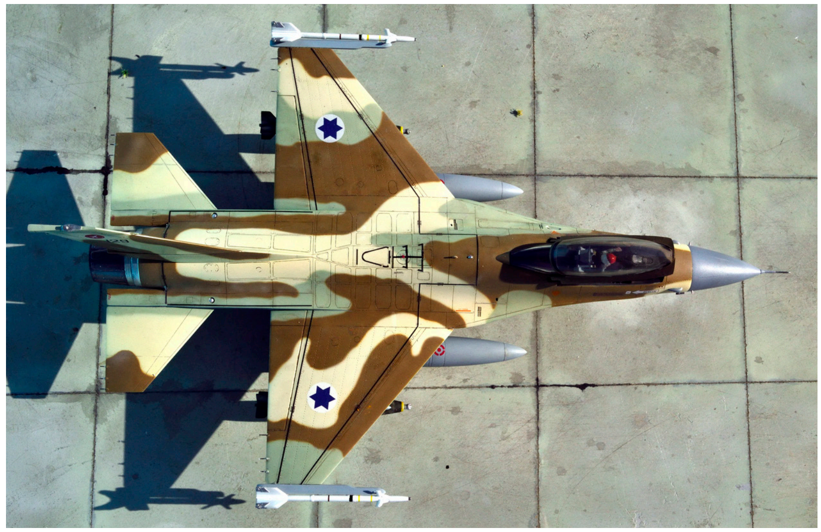
As a result, defense spending in Latin America is primarily oriented around the utilization of military resources to supplement law enforcement operations and combat domestic criminal activity. Although traditional military assets such as tanks, supersonic jets and submarines remain procurement priorities among a minority of regional defense powerhouses such as Brazil and Chile, the majority of defense equipment acquisitions across the region are focused on building counterinsurgency, surveillance and interdiction capacity. Equipment relevant to these tasks includes helicopters, patrol boats, wheeled armored vehicles, communications equipment, and small arms.

MIDDLE EAST

Middle Eastern states spent about $131.6 billion on defense in 2022, or around 7 percent of global defense spending. The region is one of the world's pre-eminent military markets, home to four of the world's largest 20 defense budgets. A strong focus on military matters stems from the region's complex and varied security threats, ranging from state rivalries to volatile local politics to insurgencies.

Besides Israel, the major defense budgets of the Middle East are underpinned by the sale of petroleum products, meaning that, as the energy market fell into a downswing after 2014, defense spending around the region stagnated. In recent years, cumulative defense spending throughout the region has contracted, weighed down by persistently weak oil prices that pinched government coffers. Expenditure fell 4.2 percent in 2022, driven in large part by further belt-tightening in Saudi Arabia, the region's biggest defense spender. In nominal dollar terms, the cumulative spending of the region in

2022 is at the same level as six years ago, when the value of the region's military market bottomed out at $130 billion.



Even with the leaner budget environment of the last few years, though, procurement opportunities abound, particularly as many of the region's wealthy states keep large reserve assets that can be leveraged for procurement as necessary. State rivalries throughout the Middle East and numerous active insurgencies spur the region's governments to procure new-build military systems across the various war domains, including land, sea, air, and, increasingly, cyber and space. Air forces in the region are acquiring new strike platforms and logistics aircraft, while land forces are adding tanks, infantry fighting vehicles, and protected patrol vehicles. The region's navies are procuring new frigates, and beginning to look seriously at the acquisition of amphibious assault ships that can project power abroad. In addition to "off-the-shelf" procurement, countries in the Middle East are working to develop their defense industries so as to provide for military needs locally.

The picture moving into the mid-2020s should improve from the recent sluggishness in defense spending growth. As economies reopened from the COVID-19 pandemic, demand for energy soared. Supply disruptions – especially the war in Ukraine, which upended the European energy market – caused the price of oil to rise dramatically, briefly breaking over $100 per barrel in 2022. Assuming continued strength in the energy market, Middle Eastern defense budgets can be expected to grow through 2027.

NORTH AMERICA

Defense expenditures are on the upswing in Asia and Europe, but North America remains the largest defense market in the world thanks to a U.S. defense budget that approached $800 billion in 2022 and surpassed that number heading into 2023.

When the Biden administration came into office, there were concerns in the defense industry that flat budgets would be a best-case scenario. To the contrary, spending levels have risen to record levels due to a combination of bipartisan support in Congress for additional military resources and an influx of supplemental funding to support Ukraine's ongoing defense against Russia's invasion.

Defense hawks in Congress have long called for the government to provide the Pentagon with sustained budget growth of 3-5 percent per year after adjusting for inflation, which they argue reflects the minimum growth needed to address China's ongoing military modernization efforts. That target has been met on occasion, but sustained and predictable growth as a tenet of administrative policy has been elusive.

President Joe Biden's fiscal year 2022 budget request sought $715 billion for the Pentagon, reflecting a marginal increase of 1.6 percent over 2021 levels. Republicans and centrists within the president's own party saw the request as insufficient to meet the pressing demands of great power competition. To that end, lawmakers stepped in to add some $30 billion to the final 2022 defense spending bill, the bulk of which was set aside for weapons development and procurement.

The 2022 defense topline was further bolstered by around $34 billion in supplemental security assistance for Ukraine, which materialized in multiple pieces of legislation throughout the year. U.S. military aid has been flowing through two primary channels. One is the drawdown of U.S. equipment, which involves the U.S. transferring equipment from its own inventory directly to Ukraine. That equipment is then backfilled using supplemental funding provided by Congress. The other channel is the Ukraine Security Assistance Initiative, whereby Kyiv receives financial aid to purchase new weapons from contractors.

These trends continued with the FY23 budget markup process, which took place during the 2022 calendar year. The Biden administration's $773 billion request for the Pentagon was again viewed as lacking by lawmakers on both sides of the aisle, and Russia's invasion of Ukraine only solidified support on the Hill for a higher defense topline. Congress ultimately injected an extra $44 billion into the final FY23 defense spending bill, which totaled $817 billion. As was the case in the FY22 budget, a significant portion of the added funding for FY23 will be used to buy new equipment. Compared to the president's request, the plus-up resulted in an 11.9 percent increase for weapons procurement and 7.4 percent growth for research and development. These figures don't account for an additional $27.9 billion in the FY23 budget for Ukraine military aid. That funding is intended to last through the remainder of the fiscal year, which ends September 30, 2023.

A lingering concern for the Pentagon is soaring inflation, which reduces buying power and puts a strain on the budget across the board. The FY23 defense spending bill added billions of dollars to address the impact of inflation, including $7 billion specifically for weapons programs. The Pentagon also continues to battle effects of the COVID-19 pandemic. While the economic impact of the pandemic did not result in defense budget cuts, military and defense contractors continue to struggle with lingering workforce and supply chain problems. Lawmakers have attempted to alleviate some of these issues by providing additional funding to support the defense industrial base, particularly for shipbuilding.

North of the border, Canada announced its own plans to increase defense spending in the wake Russia's invasion of Ukraine. Ottawa's 2022 budget outlined a plan to add CAD8.2 billion ($6.1 billion) to the defense budget over the span of five years, which would be on top of the existing defense policy that already called for increasing the military budget from around CAD18.6 billion ($13.9 billion) in 2016 to CAD32.7 billion ($24.4 billion) by 2026. The government has also launched a review of the current defense policy that will inform how any additional resources are spent. However, Canada regularly fails to utilize every dollar provided to the military each year, and most recently left around CAD1 billion ($750 million) on the table in 2021. The Canadian Forces also continue to struggle with an acquisition system that results in delay and capability gaps, and contributes to the problem of unspent funding. Even without these issues, Canada's planned budget growth would still put the country well short of NATO's 2 percent of GDP goal.

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