

## INTRODUCTION: SYMPOSIUM ON DEFENCE ECONOMICS

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With the end of Cold War and East–West armaments race, military expenditures have shown a decreasing trend across many countries, thereby opening up the prospects of allocating scarce resources to welfare spending, such as education and health expenditures with potential economic spin-offs. However, Greece, Turkey, India and Pakistan are exceptions to the worldwide decreasing military expenditure trend for different as well as interrelated reasons. With the end of Cold War, contrary to what happened in the rest of the Europe where conflicts and hostilities among countries are resolved, the Balkans where Greece and Turkey are the main antagonistic players entered a period of high tension. Greece is both a member of NATO and the EU and Turkey is a member of NATO and has started accession negotiations for the EU. In this respect, the future of defence in these two countries depends on European defence policy as well. This special issue deals with European defence policy, Greece and Turkey's defence concerns, as well as the India–Pakistan arms races which is not only important for the region but also for world security. Globalisation and technological improvement of military capabilities makes security concerns for all over the world.

This special issue of a symposium on defence economics focuses on the economic impacts of defence expenditures and arms races and defence policy. All of the papers in this issue were presented at the ERC/METU V. International Conference on Economics of September 2001 held in Ankara, Turkey. The first paper by Keith Hartley deals with the future of European defence policy from an economic perspective. The EU aims to develop a Common European Security and Defence Policy (CESDP), which will create a rapid reaction force by 2003. This force will perform the tasks of conflict prevention, crisis management, peace-making and peace-keeping. The creation of this force is likely to lead to harmonisation and standardisation of equipment requirements affecting the demand side of the defence market. Moreover, on the supply side agreements have been reached aiming

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to restructure the European defence industry, so maintaining or improving European industry's relative competitiveness. Hartley's paper argues that European defence policy has been dominated by politics and identifies major economic inefficiencies in the EU's defence market. The study claims that the success of EU defence policy depends on improving the economic efficiency of its defence markets.

In the second paper, Kollias and Maniatis examine the effects of military expenditures on the profitability of the Greek economy. Greece has been the most militarised country in the NATO and the EU as its defence burden is double the NATO and EU averages. A number of studies, examining the impact of military expenditure on economic growth in Greece, report that defence spending has a negative impact on economic growth through the crowding-out of investment. Kollias and Maniatis paper examines empirically the role of military expenditure from a Marxist and radical political perspective for the period 1962–1994. They report that military expenditures stimulate demand and profitability in the short run, but it has a negative impact on economic growth in the long run, thus supporting previous studies. In the defence literature, Greece–Turkey and India–Pakistan always go together when arms race is the issue, under the belief that there have been arms races between those countries. The third paper by Nadir Öcal contributes to the arms race literature of India and Pakistan, taking the possibility of asymmetric effects between the military expenditure of India and Pakistan on each other. In this paper, a smooth transition class of non-linear models is employed as in Öcal (2002) who found non-linearity of defence expenditure for Turkey and Greece. Öcal reports that the effect of Indian military expenditure has large and deeper effects when the past military expenditure of Pakistan is high. The results are consistent in these two studies suggesting that future research should consider non-linearities.

Empirical studies focusing on the military expenditure-economic growth relationship give conflicting results. However, Yildirim and Sezgin (2002) report that defence spending enhances economic growth, by raising aggregate demand or its spin-out effects, in Turkey. Given the imperfect relationship between economic growth and job creation, Yildirim and Sezgin analyse the effects of military expenditure on employment. The empirical findings suggest that military expenditures negatively affect employment both in the short run and in the long run.

This special issue is comprised of the papers presented at the defence economics session of the International Economics Conference V held in 2001 at the Middle East Technical University (METU). All papers underwent a review and a revision process. We thank the authors for their contributions and thank METU for its hospitality.

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