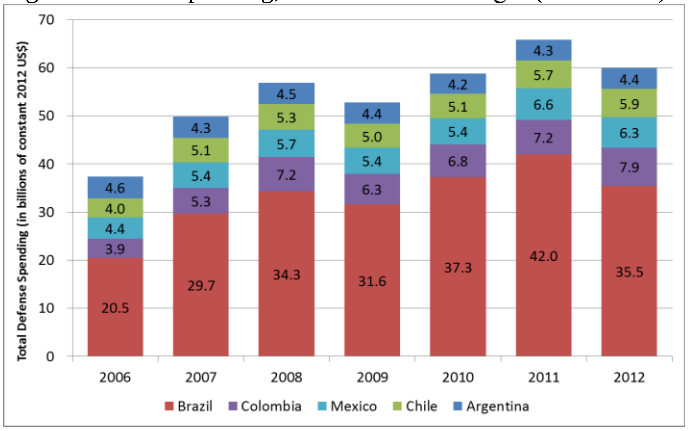
No. 31: Latin American Defense Spending Trends (02/11/2013)

While U.S. and European defense budgets have decreased in recent years, those in Latin America have enjoyed significant growth. This paper presents defense budget trends for the Latin America's five biggest defense spenders and analyzes them in the context of broader defense policy developments.

Key Budget Trends

In 2012, aggregate total defense spending in Latin America reached almost $60 billion.[1] The region's five largest defense spenders, Argentina, Brazil, Chile, Colombia and Mexico, accounted for approximately 84% of all Latin American defense spending.

Fig. 1: Defense Spending, Latin America's Big 5 (2006-2012)



Source: RESDAL, CSIS analysis

The big five increased their aggregate defense spending by $22.5 billion between 2006 and 2012 (See Figure 1). Brazil grew by the largest absolute amount, $15 billion. Colombia grew at the fastest pace with a compound annual growth rate (CAGR) of 12.6% – approximately $4 billion. Mexico and Chile increased by $1.8 and $1.9 billion, respectively. Argentina remained relatively steady at around $4.4 billion. However, in 2012, the five countries combined experienced a 9% decline in defense spending compared to 2011, primarily as the result of a $6.5 billion cut in Brazil's defense budget.

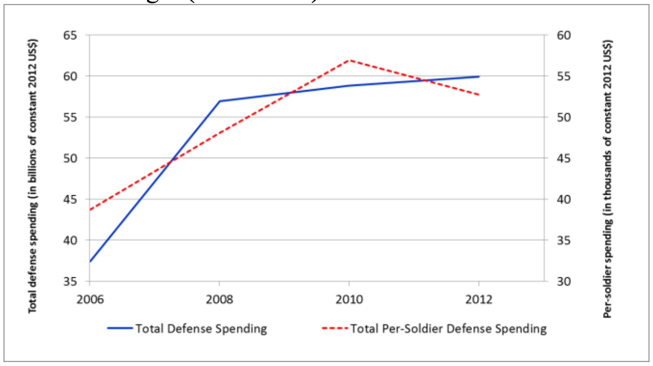
Bigger and Better Militaries

The increase in total defense spending by the big five was accompanied by a rise in per-soldier spending of $14,010 from 2006 to 2012 (see Figure 2). Per-soldier spending is a proxy indicator of force quality, as it indicates the resources spent to recruit, train, compensate, equip and sustain each soldier. Colombian per-soldier spending was the lowest in 2006, but grew at the fastest rate (10.7% CAGR); Mexico, with a 4.9% CAGR, grew at the slowest pace. Chile and Brazil experienced strong growth rates (9.5% CAGR each) and had the highest per-soldier spending levels in 2012 ($115,400 and $104,600 respectively).[2] Defense spending in Brazil, Colombia and Mexico increased at a faster pace than the growth in troop levels, resulting in a rise in per-soldier spending. This indicates a trend in these countries towards bigger, better quality military forces. In Argentina, the slight deductions in force size and a slight decrease in total defense spending from 2006 to 2012 resulted in a small dip in per-soldier spending (-0.6% CAGR). Chile's high per-soldier spending was a result of a decrease in force size and a concurrent increase in total defense spending (from $4 billion in 2006 to just under $6 billion in 2012).

[1] All data are from the Atlas Comparativo de la Defensa en América Latina y Caribe – Edición 2012, published by the Security and Defense Network of Latin America (RESDAL). All values in this article are in constant 2012 U.S. dollars, converted using indicators from the 2012 IMF World Economic Outlook.

2 For comparative values for major European and Asian defense spenders, see CSIS reports European Defense Trends 2012 and Asian Defense Spending 2000-2011.

Fig. 2: Total Defense and Per-Soldier Spending, Latin America's Big 5 (2006-2012)



Source: RESDAL, CSIS analysis

Drivers for Growth

Spending on personnel accounted for between 49% and 70% of defense spending in the big five countries in 2012, while investment spending stood at between 4% and 22%.[3] However, by 2012, total investment spending in the five countries increased by almost $4.7 billion at a 17.1% CAGR. In Mexico and Brazil, investment was the key driver of growth in defense spending, with CAGRs of 42.8% and 25.1%, respectively (see Chart 1), exceeding the growth rate of defense budgets. In Argentina, investment spending grew at a 7.6% CAGR, despite a decrease in the defense budget. In Chile and Colombia investment spending grew at a slower pace than defense spending.

Table 1: CAGRs by defense spending category, Latin America's Big 5 (2006-2012)

	Argentina	Brazil	Chile	Colombia	Mexico
Total Defense Spending	-0.8	9.5	6.7	12.6	5.9
Investment	7.6	25.1	3.8	10.5	42.8
Personnel	-0.9	8.3	8.0	12.8	4.8

Source: RESDAL, CSIS analysis

Diverse Industrial Base

Brazil is the only Latin American country with the ambition and resources to develop a diverse defense industrial base, though Chile and Argentina maintain technical support, retrofitting, and repair capabilities for some of their high-tech defense platforms.[4] Brazil's 2008 National Strategy of Defense (NSD), called for a robust domestic defense industry with the "technological capacity…to gradually rule out the need to purchase imported services and products."[5] The construction of a Eurocopter plant and involvement of Brazilian firms in the construction of its *Scorpene* class submarines are indicative of recent efforts to implement this strategy. In addition, Brazil's insistence on offsets and technology transfer as part of an upcoming fighter jet deal suggests that further expansions to its defense industry are forthcoming.

The Road Ahead

Although total defense spending in Latin America's big five grew from 2006-2011, the 9% decrease from 2011 to 2012 stands out as the largest year-over-year decline during this period. It is too early to tell whether this is an anomaly or a sign of longer-term reductions in Latin American defense spending. In Brazil, this may reflect the temporary prioritization of non-defense areas and measures to reduce inflation. In Colombia and Mexico, the region's other major defense spenders, maintaining large standing armies for counter-narcotics and internal security operations will continue to drive budgetary decisions. However, these countries use a significant share of their defense spending to fund day to day operations by national security entities, raise military pay to decrease corruption, and to acquire light weapons and ammunition rather than to import foreign systems and develop their domestic defense industrial base.[6]

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[3] The investment account includes procurement and maintenance of defense equipment and facilities as well as spending on research and development.

[4] Brazilian aerospace company Embraer was the only Latin American company to be represented in the Defense News Top 100 list for 2011, in 74th place.

5 Government of Brazil, Ministry of Defense, National Strategy of Defense, December 18, 2008, pg.18.

[6] SIPRI Yearbook 2012, Global developments in military expenditure, pg. 144-145.