

MILITARY EXPENDITURE IN CYPRUS: DETERMINANTS AND ECONOMIC IMPLICATIONS

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Abstract

In recent years, considerable research effort has been put into attempting to understand the factors that determine the level of military expenditure or military burden in countries as well as the economic implications of such expenditure. The findings have led to suggestions that the dynamics of the determinants and economic effects of military spending are best understood by case studies of individual countries and studies of groups of relatively homogeneous countries. This paper contributes to the literature by providing empirical evidence on the determinants and economic implications of military expenditure for Cyprus, a country that has recently been the focus of attention given its accession to the EU. A simple model based on a general theory of the demand for military spending, provides the basis for an investigation of the relative importance of strategic and other social and economic factors. This is followed by an investigation of the economic impact of defence spending. The study concludes that Cyprus's high military burden is mainly due to important strategic reasons (the perceived Turkish threat) but it fails to give a clear-cut answer on the economic implications which seem to be insignificant when both the short and long-run effects are taken into consideration.

Keywords: Military expenditure; demand; economic impact; time series

JEL Code: H56, D74