

The Impact of Cyprus on military spending in Greece and Turkey

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Abstract

The Greek-Turkish animosity and the potential arms-race has been well documented in the relevant literature for many years now. The main thorn in the two countries relationships appears to be disputes over Cyprus and the territorial waters in the Aegean sea. A variety of models and econometric techniques have been applied in order to investigate the existence of an arms race or the determinants of military spending in the two countries. Some studies have found an arms race while others have either found nothing or, most commonly, found that Greek high defence spending is influenced by Turkish military expenditure but not the other way around. This finding could have important implications for public spending in Greece, especially given the present fiscal crisis that the country faces. This paper aims to reconsider the debate by updating the data series used and by take a more comprehensive approach than has been used in the past, investigating the possibility of an arms race between the two neighbouring countries, but also introducing the impact of Cypriot and other potential enemies' military spending.

Keywords: Greece, Turkey, Cyprus, Military spending, Arms-race