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Divergent military expenditure adjustments in Cambodia and Thailand following the border conflict: an analysis of their causes

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Abstract. Following the Cambodia–Thailand border conflict in July 2025, the two countries did not expand military expenditure in tandem; their adjustments diverged. This paper develops an analytical framework of "security shocks–supply-side constraints–adjustment pathways" to compare the two countries' military expenditure adjustments and to explain their causes. The findings show that Thailand modestly increased budgetary appropriations and equipment procurement, following a capital-intensive pathway, whereas Cambodia kept defence expenditure broadly stable as a share of GDP and strengthened its capabilities mainly by reinstating military conscription and relying on external assistance, following a manpower- and aid-intensive pathway. This divergence did not stem from differences in threat perceptions; it was determined by supply-side conditions, namely fiscal capacity, the defence industrial base, the structure of external assistance, and institutional decision-making procedures. Because fiscal resources, manpower and external assistance are partly substitutable, states exposed to a common security shock choose different combinations under different constraints. The paper contributes to understanding how small and medium-sized states manage trade-offs between security and development.

Keywords: Cambodia–Thailand border conflict, divergent military expenditure adjustments, supply-side constraints, adjustment pathways, defence economics

1. Introduction

In July 2025, armed clashes occurred between Cambodian and Thai forces along their disputed border, including areas adjoining Preah Vihear Temple; a ceasefire was agreed on 28 July 2025 and was followed by further diplomatic steps, including the *Kuala Lumpur Peace Accord* of 26 October 2025, while incidents along the border have continued to be reported.

The underlying territorial dispute is long-standing and has previously been addressed through bilateral mechanisms and international legal procedures [1]. Sudden changes in the security environment usually prompt the states concerned to review defence policy and military expenditure. In the standard models of military expenditure, the security environment is treated as a principal determinant of defence budgets, alongside economic capacity and political factors [2]. On this conventional expectation, both countries would

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have expanded defence spending after the conflict. An examination of their post-conflict budgetary arrangements indicates that they did not: military expenditure in the two countries did not follow a pattern of synchronized growth, and the adjustments diverged.

Thailand's defence appropriations rose from approximately THB 199.7 billion in fiscal year 2025 to approximately THB 204.2 billion in fiscal year 2026, and equipment procurement advanced in parallel, most visibly in the phased acquisition of Gripen fighter aircraft approved in August 2025.

Cambodia, by contrast, kept its defence allocation broadly unchanged: under the 2026 financial management law its defence allocation was set at 2,999,597 million riel, approximately US$750 million, about 1.18% above the 2025 level. It moved instead to strengthen capabilities through personnel measures and external assistance, announcing in July 2025 that compulsory military service would be reinstated from 2026.

For Cambodia, the practical issue was how to maintain border security and force levels under tight fiscal constraints. For Thailand, defence planning was linked to the longer-standing agenda of equipment modernization. The divergence between the two countries is therefore, at bottom, a matter of the defence development pathway selected under different resource endowments. Empirical work on East Asian cases has long shown that economic and fiscal conditions shape military expenditure alongside security considerations [3]. This study takes that supply-side perspective as its point of departure.

2. Problem statement and conceptual definition

2.1. General patterns of post-conflict military expenditure growth and deviations from these patterns

Historical experience indicates that security shocks are usually followed by substantial increases in military expenditure among the states concerned. After the full-scale outbreak of the Russia–Ukraine conflict in 2022, European countries raised defence spending for several consecutive years; in 2023, defence spending by European NATO members and Canada rose by approximately 11% in real terms, the ninth consecutive annual increase.

Defence spending by European Union member states rose from approximately €218 billion in 2021 to approximately €326 billion in 2024, equivalent to roughly 1.9% of EU GDP in that year.

After the outbreak of hostilities in October 2023, expenditure related to the war incurred from the outbreak to the end of 2024 reached approximately NIS 142 billion, of which approximately NIS 95 billion was direct defence expenditure.

Research on developing economies likewise treats security pressure and military expenditure as closely connected, while emphasizing the fiscal and development costs that such expenditure carries [4]. Together, these cases suggest that raising military expenditure in response to a security shock is a general pattern.

The arrangements adopted by Cambodia and Thailand after their border conflict did not conform to this pattern. Analyses of Asian defence spending indicate that, despite the 2025 border clashes, neither country significantly increased its defence budget for 2025 or 2026: Thailand's increase was modest and Cambodia's was broadly flat.

Although the aggregate figures of both countries remained relatively stable, the instruments through which adjustments were made diverged. Thailand relied mainly on budgetary increases and procurement, whereas Cambodia concentrated on reinstating conscription and obtaining equipment through external assistance. This raises the question of why the two countries, facing the conflict, did not follow the conventional trajectory of conflict followed by higher spending, and instead adopted different adjustment pathways; and of what

conditions determine such choices, such that some states raise spending while others substitute manpower and external assistance for spending.

2.2. Defining divergent military expenditure adjustments

Existing studies have largely examined the relationship between conflict and the overall scale of military expenditure [2], or the economic consequences of military spending [5]. Comparatively little attention has been paid to why the same security shock leads different states to adopt different adjustment pathways. To characterize this phenomenon, this study introduces the concept of divergent military expenditure adjustments.

Divergent military expenditure adjustments refer to a situation in which, in response to a common security shock, countries develop broadly similar threat perceptions and broadly similar pressures to raise military spending, yet the transmission of that pressure into actual expenditure varies because of differences in supply-side conditions, such as fiscal capacity, the defence industrial base and the structure of external assistance. Consequently, some countries rely primarily on larger budgetary allocations and equipment procurement, whereas others substitute manpower mobilization and external assistance for increased spending, resulting in different military expenditure adjustment pathways.

This concept encompasses three dimensions. First, the security shock is common to the countries concerned, implying convergence on the demand side: the pressure to increase military expenditure arising from the conflict is broadly similar across countries. Second, the transmission outcome depends on supply-side conditions. Fiscal, industrial and external assistance constraints determine whether that pressure can be translated into actual expenditure. Third, the resulting differences manifest themselves in adjustment pathways rather than merely in the scale of spending. Changes in military expenditure must therefore be understood in terms of how financial resources, manpower and external assistance are combined.

Divergent military expenditure adjustments differ from arms races. An arms race emphasizes the reciprocal competition and successive expansion of military capabilities by opposing parties under conditions of a security dilemma. By contrast, divergent military expenditure adjustments focus on how countries exposed to the same security shock adopt different adjustment pathways because of their differing supply-side conditions. Such adjustments do not necessarily entail an expansion in the overall scale of military expenditure. This concept provides a unified analytical basis for the framework development and causal analysis in the following sections.

3. Analytical framework for divergent military expenditure adjustments

3.1. From security shocks to adjustment pathways

As a security shock, the conflict first heightened threat perceptions in both countries, generating a shared demand for additional defence investment. The translation of this demand into actual military expenditure is subject to three types of supply-side constraints. The first is fiscal capacity, which refers to the fiscal resources and budgetary flexibility available to the government. The second is the defence industrial base, which encompasses the capacity to produce, absorb and maintain military equipment. The third is the structure of external assistance and partnerships, which determines the availability of external aid, equipment supplies and security cooperation. Work on Southeast Asia has shown that fiscal conditions and competing expenditure obligations constrain defence budgets independently of threat levels [6]. Together, these three constraints determine the pathways available for military expenditure adjustments.

The three constraints are interrelated and mutually reinforcing. Fiscal capacity determines whether a country can afford procurement expenditures, the defence industrial base determines whether procurement

plans can be implemented, and the structure of external assistance provides alternatives when domestic financial resources are insufficient. Together, these factors define the supply-side boundaries of military expenditure adjustments.

The central implication of this framework is that, although the security needs generated by the conflict were broadly similar in the two countries, whether these needs could be translated into actual expenditure depended on supply-side resource constraints. Military expenditure adjustments are therefore not determined by threats alone but result from the combined effects of threats and available resources. When domestic fiscal and industrial capacities are insufficient to support increased spending, countries often turn to manpower mobilization and external assistance as alternatives to direct fiscal expenditure.

3.2. Two adjustment pathways

Under supply-side constraints, military expenditure adjustments can broadly be divided into two pathways. The first is a capital-intensive pathway. Countries with relatively strong fiscal capacity and a comparatively well-developed defence industrial base can respond directly to security threats by increasing defence budgets and expanding equipment procurement. The second is a manpower- and aid-intensive pathway. Countries with limited fiscal capacity and a weak defence industrial base find it difficult to raise military expenditure substantially using domestic resources alone; they therefore mobilize manpower through measures such as conscription and strengthen their defence capabilities by relying on external assistance. The partial substitutability of personnel and equipment inputs is a standard result of defence manpower economics: where fiscal resources are constrained, states can expand force levels through compulsory service rather than through higher equipment outlays [7]. A country's defence industrial base further conditions whether additional appropriations can be translated into usable capability [8].

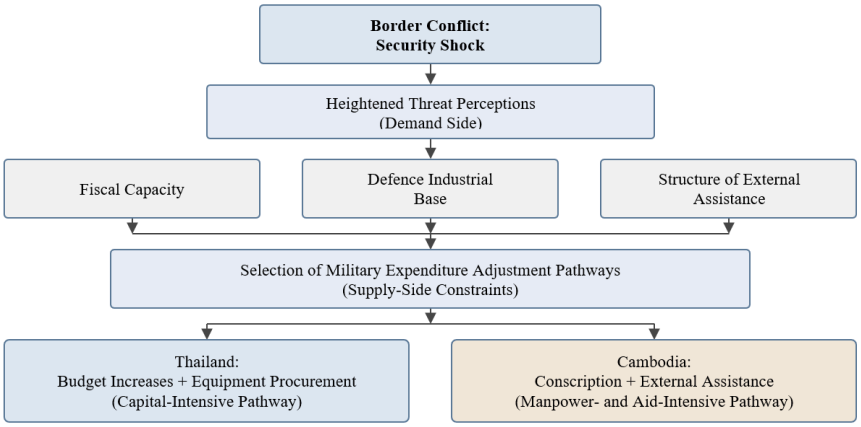


Figure 1. Analytical framework for divergent military expenditure adjustments in Cambodia and Thailand

Note: Arrows indicate the transmission sequence.

When overall resources are limited, fiscal expenditure, manpower mobilization and external assistance are to some extent interchangeable. Expanding the standing military and procuring additional equipment involves substituting financial resources for manpower, whereas conscription and external assistance allow countries to substitute manpower and external resources for domestic funding. The combination of these three instruments reflects, in essence, how different countries balance costs and risks under their respective constraints. This framework is illustrated in Figure 1.

4. Manifestations of divergent military expenditure adjustments

4.1. Thailand: parallel increases in appropriations and equipment procurement

Thailand's military expenditure adjustments clearly favour a capital-intensive pathway. In terms of appropriations, defence expenditure stood at approximately THB 199.7 billion in fiscal year 2025 and approximately THB 204.2 billion in fiscal year 2026, an increase of approximately 2.3%. SIPRI-based estimates put its military expenditure at approximately 1.0%–1.1% of GDP in both years, around US$5.6 billion in 2025 and an estimated US$5.8 billion in 2026 in constant 2024 US dollars.

Following the conflict, the main focus of Thailand's adjustments was equipment procurement. In August 2025, the cabinet approved the first phase of the Gripen programme, comprising four JAS 39 E/F aircraft at approximately THB 19.5 billion, within a planned twelve-aircraft programme over ten years. These developments indicate that Thailand's response has primarily involved increasing the budget and modernizing military equipment, underscoring the fiscal dimension of its defence investment.

From a broader perspective, military modernization had already been an established policy direction in Thailand for many years, and the conflict provided an occasion to accelerate its implementation. Some analyses suggest that the increases in Thailand's defence budget and equipment procurement in 2026 reflected not only the border situation and changes in the regional security environment but also domestic political considerations.

4.2. Cambodia: broadly stable military expenditure, with a shift toward conscription and external assistance

Cambodia's military expenditure adjustments followed a different pattern. Under the 2026 financial management law, its defence allocation was set at 2,999,597 million riel, approximately US$750 million, about 1.18% above the 2025 level and roughly 7.8% of planned total state expenditure. SIPRI-based estimates put military expenditure at approximately 1.45% of GDP in 2025 and 1.5% in 2026, broadly unchanged from the pre-conflict level, indicating that defence spending did not rise significantly in response to the changing security situation.

Without a substantial budgetary increase, Cambodia sought to strengthen its defence capabilities through two approaches. The first was manpower mobilization. Having announced in July 2025 that compulsory service would be reinstated, the National Assembly adopted a draft law on military conscription on 12 May 2026; the draft provides for 24 months of service for male citizens aged 18–25, voluntary service for women, registration from age 17 and implementation from 2026, and requires review by the Senate and promulgation by the King before entering into force. The second approach was to obtain equipment and infrastructure support through external assistance. Cambodia has no significant domestic defence manufacturing capacity and imports most major equipment [8].

Cambodia's response thus centred on expanding its manpower and relying on external assistance rather than increasing defence spending through domestic fiscal resources. This choice broadly aligns with Cambodia's approach to defence reform. Given its limited overall resources, the country has tended to improve military effectiveness by enhancing personnel quality and optimizing institutional structure and force organization rather than by expanding fiscal investment. For Cambodia, compulsory military service serves not only as a means of replenishing personnel but also, to some extent, as an alternative to the expenditure required to maintain a large standing force.

4.3. Comparison of the two adjustment pathways

A comparison of military expenditure adjustments in the two countries is presented in Table 1. Although neither country registered a substantial increase in defence expenditure as a share of GDP, their approaches diverged clearly: Thailand relied on budgetary increases and procurement, whereas Cambodia sought to compensate through manpower mobilization and external assistance.

Table 1. Comparison of military expenditure adjustments in Cambodia and Thailand (2025–2026)

Indicator	Thailand	Cambodia
Defence appropriations, FY2025	THB 199.7 billion	Approx. US$741 million
Defence appropriations, FY2026	THB 204.2 billion	2,999,597 million riel(approx. US$750 million)
Year-on-year change in appropriations	Approx. +2.3%	Approx. +1.18%
Military expenditure as a share of GDP (2025–2026)	Approx. 1.0%–1.1%	Approx. 1.45%–1.5%
Main post-conflict adjustments	Budget increases and fighteraircraft procurement	Reinstatement of conscription andreliance on externally supplied equipment
Adjustment pathway	Capital-intensive	Manpower- and aid-intensive

Note: Figures are drawn from the two countries' budget documents and from SIPRI-based estimates. All figures are approximate, and dollar amounts are given as reported by the respective compilers because reporting methodologies and price bases differ across institutions.

A comparison of the two countries' military expenditure adjustments reveals that their differences first and foremost concern the resources on which their adjustments rely. Thailand's spending increases and procurement are primarily financed through domestic fiscal resources: the scale and pace of equipment procurement are determined by the defence budget, with funding drawn from national revenues. Cambodia, by contrast, relies primarily on personnel and external assistance. Compulsory military service supplies manpower, while external assistance provides equipment. Neither of these instruments directly requires an increase in domestic fiscal expenditure.

Second, the two countries differ in the relative importance of changes in expenditure scale and changes in expenditure structure. Thailand's nominal increase in military spending has been limited, but the structural adjustment has been more pronounced: additional resources have been concentrated on equipment modernization, thereby supporting the continuation of its existing military modernization agenda. Cambodia's defence expenditure has remained almost unchanged in both absolute terms and as a share of GDP. Its efforts to strengthen defence capabilities have instead focused on expanding manpower and obtaining additional equipment through external assistance, concentrating adjustments on these two sources of resources.

Third, the two pathways differ in terms of autonomy and sustainability. Thailand relies on domestic fiscal resources and on an established domestic capacity to absorb and support equipment, making its adjustments less susceptible to external constraints and relatively easier to control. However, lengthy equipment procurement cycles and high maintenance costs mean that long-term expenditure pressures are likely to emerge gradually. Cambodia's reliance on conscription and external assistance enables it to strengthen its capabilities at relatively low fiscal cost in the short term. Nevertheless, this approach is affected by external partners' willingness to provide assistance and by the stability of bilateral cooperation, and personnel training and equipment maintenance are also constrained by Cambodia's own industrial capacity, making this pathway relatively less stable and sustainable.

These findings demonstrate that the divergence in military expenditure adjustments between Cambodia and Thailand is not simply a matter of one country increasing spending while the other does not. Rather, it reflects the allocation of resources under each country's particular fiscal, industrial, external assistance and manpower constraints. Thailand has chosen to use domestic financial resources to acquire equipment and technology, whereas Cambodia has opted to substitute manpower and external resources for domestic funding. Each pathway entails distinct trade-offs in terms of cost, risk and sustainability.

5. Causes of divergent military expenditure adjustments

Although the divergence in military expenditure adjustments became apparent after the conflict, its underlying causes predated the conflict itself. As indicated by the supply-side conditions discussed above, differences between the two countries in fiscal capacity, the defence industrial base, the structure of external assistance and institutional decision-making procedures jointly determined their choice of adjustment pathways.

5.1. Differences in fiscal capacity

Fiscal capacity is the most direct constraint on military expenditure adjustments [3, 6]. In terms of economic size, Thailand's gross domestic product is more than ten times that of Cambodia. Its fiscal revenues and tax base are also substantially larger, enabling it to finance increased military spending and equipment procurement without significantly crowding out other public expenditure. Cambodia, by contrast, has a much smaller economy and more limited fiscal revenues, leaving it little room for substantial tax increases or additional borrowing and constraining its capacity for fiscal expansion.

This disparity determines the actual fiscal costs of increasing military expenditure. The budgetary pressures resulting from higher defence spending are relatively manageable for Thailand. For Cambodia, a substantial increase in military expenditure would directly compete with spending on infrastructure, education, healthcare and other public services, making it more cautious in adjusting its defence budget.

5.2. Differences in the defence industrial base

The defence industrial base determines whether military expenditure can be translated into actual military capabilities [8]. Thailand has an incipient defence industrial system and an established defence technology institute; it can manufacture small arms and infantry vehicles and undertake licensed production and maintenance of armoured vehicles and artillery. Its equipment procurement therefore benefits from domestic capacity to absorb, support and maintain the acquired systems. Cambodia, by contrast, has no significant domestic defence manufacturing capacity and relies primarily on imports for major military equipment and ammunition; even if it increased its budget, it would be difficult to develop independent production and maintenance capabilities in the short term.

Differences in industrial capacity further reinforce the choice of adjustment pathways. Thailand can translate procurement into combat capabilities more directly, whereas large-scale procurement by Cambodia would be constrained both by insufficient fiscal resources and by a lack of supporting industrial capacity, limiting its marginal returns.

5.3. Differences in external assistance and partnership structures

The structure of external assistance and partnerships alters the opportunity costs of military expenditure adjustments. The classic economic theory of alliances treats externally provided security as a good that partners may partly substitute for their own contribution [9]. Empirical work on alliance burdens distinguishes

cases in which partners' efforts are complements from cases in which they are substitutes [10]. Through cooperation with external partners, Cambodia can obtain support for base infrastructure, naval vessels and other equipment; much of this support is provided free of charge or at low cost, enabling the country to strengthen its defence capabilities without increasing its domestic budget and thereby reducing the urgency of raising military expenditure. Thailand also maintains diverse external partnerships. However, its security strategy places greater emphasis on national defence autonomy and military modernization, and it seeks to maintain a balance among different equipment suppliers; it therefore tends to advance its defence agenda through domestic fiscal resources.

External assistance structures consequently create different incentives for the two countries. For Cambodia, external assistance partly substitutes for increased domestic defence spending. For Thailand, external cooperation serves primarily as a supplement rather than a substitute, with domestic defence financing remaining the principal source of support.

5.4. Differences in institutional and decision-making procedures

Institutional arrangements and decision-making procedures determine the feasibility of different adjustment approaches. In Thailand, military expenditure and procurement require coordination among the parliament, the government and the military; appropriations are enacted through the annual budget act, and procurement projects of significant value require cabinet approval. In Cambodia, the adoption of the conscription law followed the ordinary legislative procedure, including adoption by the National Assembly, review by the Senate and promulgation by the Head of State. Studies of civil–military relations in Southeast Asia note that such institutional configurations shape which policy instruments are available to governments [11].

These institutional differences give the two countries distinct advantages in their choice of policy instruments. Thailand has well-established procedures for budgetary allocation and equipment procurement, whereas Cambodia can implement personnel measures through the legislative and administrative process without a comparable budgetary expansion. Their respective adjustment pathways therefore reflect the characteristics of their institutional arrangements.

5.5. Decision-making timelines and boundary conditions

In terms of decision-making timelines, both countries had already taken preparatory measures before the conflict. Cambodia announced the reinstatement of conscription in July 2025, and Thailand had already been advancing its fighter aircraft procurement plans, which received cabinet approval in August 2025. This indicates that the conflict accelerated the implementation of existing policies without fundamentally altering the resource constraints facing either country.

Analyses of Asian defence spending note that neither Cambodia nor Thailand significantly increased its defence expenditure in 2025 or 2026. This suggests that the divergence lay primarily in the methods of adjustment and in the pathways through which resources were allocated, rather than in a simple contrast between increased and decreased spending. This pattern presupposes that the conflict remained limited in scale and that both sides sought to contain the situation. If security pressures were to escalate persistently beyond the capacity of the two countries' existing resources and external assistance, Cambodia's approach of maintaining relatively low reported military expenditure would come under greater pressure.

Against the backdrop of fiscal constraints common to ASEAN member states [6], this divergence also has broader implications for regional order [12]. Security shocks do not necessarily lead to a general expansion of military expenditure. Instead, countries' adjustments depend more heavily on their respective fiscal conditions, industrial capabilities and relationships with external partners.

6. Conclusion

Following the Cambodia–Thailand border conflict, the two countries adopted divergent military expenditure adjustment pathways, characterized by Thailand's increased appropriations and equipment procurement and Cambodia's reliance on conscription and external assistance. This divergence did not arise from differences in threat perceptions but was determined by supply-side conditions, including fiscal capacity, the defence industrial base, the structure of external assistance and institutional decision-making procedures.

A security shock generates similar defence requirements, but whether and how countries can meet those requirements depends on their resource endowments and institutional conditions. For small and medium-sized states with limited fiscal resources, compulsory military service, cooperation with external partners and defence expenditure can serve as partial substitutes for one another. Nevertheless, external assistance and manpower mobilization cannot fully replace stable defence financing and an autonomous defence industrial base.

In terms of policy implications, military expenditure should be aligned with a country's fiscal capacity and security needs. At the same time, resilience in responding to security shocks can be enhanced through the development of reserve forces, the cultivation of a domestic defence industrial base and the diversification of external assistance partnerships. Excessive reliance on any single channel—whether fiscal resources, manpower or external assistance—makes it difficult to sustain a stable defence posture amid long-term security competition.

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