THE ECONOMIC FACTOR AND ITS ROLE IN THE GLOBAL SHIFT IN DEFENCE STRATEGY AND POWER

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DOI: 10.55535/GMR.2022.2.07

When defence decision-makers tend to look to the future and set objectives for short, medium and long term, they face uncertainties and try to work around multiple scenarios that differ in relation to various fields. One such field is that of economy. And economy has changed as global economic power has shifted. If global economy has shifted so has defence power.

The purpose of this paper is to analyse what economic factors influence long-term defence planning and what decision-makers should try to consider when deciding upon different scenarios. Without rushing to conclusions, we can assume that we live in a highly volatile world, where there is a shift in terms of main global actors. With the evolution of technology, with the impact of the Covid-19 pandemic, with geopolitical shifts, like the situation in Afghanistan, all of these factors can be monitored under the umbrella of the economic impact that they have. The effects are there for us to study and to conclude on how the world that we will live in tomorrow shapes up and what decision-makers should focus on when it comes to thinking strategically about developing own countries' defence power.

Keywords: defence power; decision-makers; defence expenditures; defence resources; global power;

INTRODUCTION

Defence expenditures and resource allocation represent two concepts that, even though interconnected, are different. Defence expenditures represent the specific part of the national budget meant for defence planning, achieving the objectives set up in the military documents and ensuring national and regional security for the states.

Resource allocation represents the means by which defence expenditures will be distributed in order to achieve the objectives mentioned above, in terms of procuring military equipment, developing military capabilities, managing human resources, using financial resources, completing missions and targets etc. Throughout history, the global context has changed the distribution of defence expenditures and their portion in the national budget (as part of the national GDP).

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The Cold War meant a record percentage allocated for defence expenditures by NATO states, especially the United States of America and the former Soviet Union, while the end of this conflict represented a drastic reduction in defence budget allocations. It all changed after 9/11. Following the terrorist attacks, defence expenditures increased once again, because of the wars conducted by NATO in Afghanistan and Iraq.

Overall, defence expenditures dropped again in the time frame between 2010-2020, even though following the Wales NATO summit in 2014, an agreement was made by NATO member states to increase their defence expenditures up to 2% of the GDP, following the Crimean crisis. Not all the states committed to the agreement, but the eastern flank states did, and they set up a 10-year framework in which the increase should happen.

At the halfway point, our aim is to study what the options for defence allocation were in the period 2020-2021, knowing that there is a difference between the budget planning and the budget execution. Therefore, we have analysed the current international context on multiple levels, taking into consideration the Covid-19 pandemic, the technological development and two geopolitical events, the Afghan crisis following the US troops withdrawal as well as the new alliance between Australia, the UK and the USA (AUKUS), which led to a series of controversies, including or especially in the area of defence resources allocations.

One of the purposes of this paper is to analyse if there still exists a correlation between defence expenditures and defence resources allocation, if the objectives set up at a strategic level changed with the mentioned events and if international agreements and alliances between states regarding security and defence were affected in the time frame in question.

DEFENCE EXPENDITURES DURING THE COVID-19 PANDEMIC

The first factor we will analyse in this paper is represented by the most important event of the past decade, the Covid-19 pandemic. The impact that the pandemic has had on the society has been a major one, with social, economic, cultural and political components unprecedented in the past century. To better understand how the pandemic has affected the level of defence expenditures, we must track a larger time frame in order to observe the evolution of defence expenditures in the context of other major events and impact factors *(figure no. 1).*

As *figure no. 1* shows, defence expenditures have always evolved according to the global context of a specific period of time and its impact on security policy. (Clements, Gupta, Khamidova, 2021). Therefore, the Cold War brought a significant increase in defence expenditures. Those expenditures then dropped for the 1990-2000 decade and once again increased after 9/11 and later following the Crimean crisis. The graph in *figure no. 1* shows that if in the case of 9/11 defence expenditures increased simultaneously for both developed and developing states, the Crimean crisis meant a different story. Following 2014, developed states increased their defence expenditures partially. That can be seen in the V shaped graph signalling other factors that influenced the evolution of defence expenditures in that period of time. For developing states, the increase was constant but it started later than 2014, in 2018. The reason for the delay is that, for most developing states, to allocate 2% of the GDP on defence

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was a complex process that happened for the first time and therefore they had to understand what it would actually mean, once the defence budget was allocated, to realistically execute the financial resources that were budgeted.

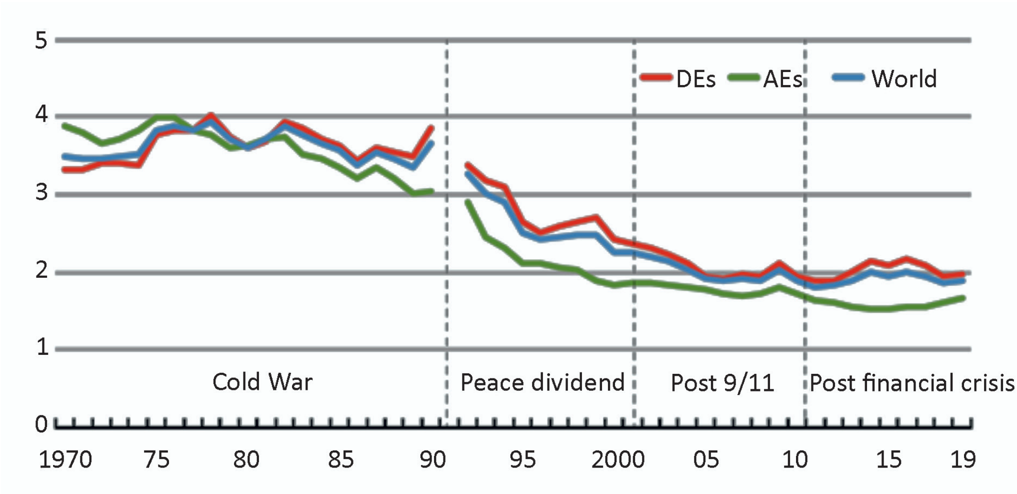

Figure no. 1: Evolution of defence expenditures at global level (1970-2019)
(Stockholm International Peace Research Institute)[1]

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To conclude, by having a look at the overall graph, it can be said that defence expenditures mostly dropped following the Cold War, but recent events have triggered several groups of states, like the ones in the eastern flank, to consolidate their defence budget. Thus, the time interval 2019-2020, before the pandemic, shows a slowly increasing indicator when it comes to defence expenditures, be it a reduced indicator when compared to the time frame 1970-1990.

The question that needs to be asked next is *how the major event of the Covid-19 pandemic has influenced defence expenditures*. According to the Stockholm International Peace Research Institute, in the year 2020, there was an increase of 2.6% in such expenditures, regardless of the pandemic and its negative effects on public spending. According to the same study, even though the global GDP has fallen during the pandemic, the global percentage allocated to defence

[1] Note: Defence expenditures are analysed in two groups: AE – advanced economies, DE – developing economies. There are no data for certain states in 1991 when the USSR was in the process of dissolution.

expenditures has increased from 2.2% of the GDP to 2.4% of the GDP. An observation should be mentioned when it comes to this increase, namely that certain states like Romania or Portugal have used their military capabilities in fighting the pandemic in the areas of medical assistance, transportation, vaccination campaign and thus a part of the increase in resource allocation for defence can be attributed to this factor.

The risks and threats that have led to increased defence spending for a large number of states since the 2014 reference year have not decreased during the pandemic and as a consequence the states will try to continue to allocate at least the same percentage or defence budget.

Overall, we can say that the influence of the pandemic on defence expenditures places us in a paradoxical scenario (Ahlander, 2020). On the one hand, we find that the need to reduce non-COVID spending can adversely affect defence spending, as fiscal consolidation and the maintenance of social support measures during the pandemic are a priority. The health system is theoretically the beneficiary of public spending in the period 2020-2021, while the education system is also reformed, with investments especially in IT support that can enable an online education system. On the other hand, the risks and threats that have led to increased defence spending for a large number of states since the 2014 reference year have not decreased during the pandemic and as a consequence the states will try to continue to allocate at least the same percentage or defence budget. If we add the military assistance in the fight against the pandemic mentioned before, we will be able to argue that in the end, there is no impact of the pandemic on defence spending, which remains constant. However, a certain pressure will be put on the budgets of the states, which will be forced to manage the pandemic, and therefore put in the situation of rethinking what the major priority objectives are and whether the defence and security issues are among them. The statistical data studied so far confirm that defence spending remains a top priority even in the existing pandemic context. As in the case of the major events mentioned above, the geopolitical context is the one that influences the allocation of defence spending. Another important factor is that of technological evolution, which will be addressed in the following chapter.

DEFENCE EXPENDITURES IN THE CONTEXT OF TECHNOLOGICAL DEVELOPMENT

Technological development has had an accelerated pace over time following the Second World War. If during the Cold War we witnessed the emergence of the third technological revolution with the development of the personal computer and the Internet, specialised literature predicts that starting with this decade we could witness the development of a potential fourth technological revolution. The strategic field of defence has always been a hub for technological innovation and over time defence spending has financed this area in depth. It is easier to see the impact of technological development and spending on this factor in the purchase of major defence equipment (Bellais, 2013, pp. 59-78).

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When we analyse the concept of purchasing major defence equipment, we find that this process means much more than a simple purchase cost. We thus talk about the entire management of the introduction of a type of equipment, namely the analysis of the cost during its life cycle. The cost of the life cycle therefore includes, for the defence area, the research and development phase, the acquisition of the respective equipment, its operation and maintenance and as a final phase the removal from the inventory, the so-called disposal phase.

Referring to the importance of technological development in defence spending, we will further analyse the increasing importance of the research and development phase in the defence spending process.

Research and Development (R&D) or the research and development phase has played a central role for most NATO member states, whether we are talking about the USA or other partner states. Most defence ministries have within their own structure a research and development agency to assist the defence industry in the development of equipment needed to serve strategic objectives that come from military defence planning documents. R&D create the premises for the development of new and advanced technologies that can support a multitude of applications. These applications include modern weapons, intelligence systems, medical treatments, equipment to support combatants etc. As technology advances, we see that the proportion of R&D in total defence spending increases, which gives us a new dimension and a new impact factor on the allocation of defence resources in the current economic system.

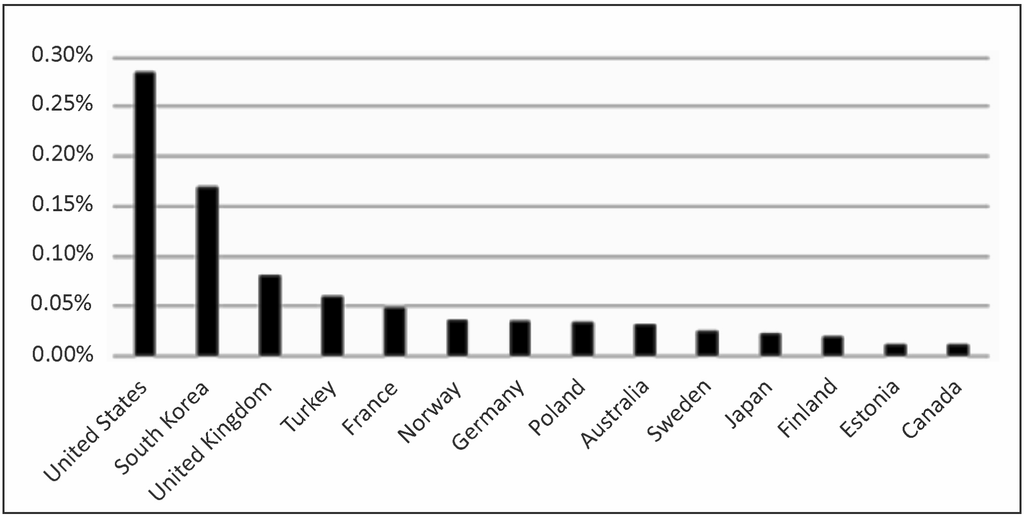

Figure no. 2: The Organisation for Economic Cooperation and Development (OECD) member countries with the highest levels of government defence R&D funding as a share of the GDP
(CRS Analysis, 2020)

Although global defence spending remains significant, every industry needs to consider the impact of Covid-19, including the defence industry.

The figure above shows the significant increase in research and development and the relevance of the technological factor as part of defence spending. Putting this factor into balance with the one from the previous chapter, namely the impact of Covid-19 on the defence expenditures, we can observe the following: although global defence spending remains significant, every industry needs to consider the impact of Covid-19, including the defence industry. The major impact of this health crisis has not yet been understood and known, but entities investing in defence must consider various potential disruptions that may occur in distribution channels, therefore try to prevent logistical problems, ensure cooperation and collaboration with other international actors. Despite the mentioned potential problems, data show that Western countries continue to strengthen and modernise their defence apparatuses, to preserve the research and development processes and to launch acquisitions in the area of major equipment that include: ships, submarines, fighter jets, nuclear capabilities etc. Even the closure of the theatres of war in the Middle East has not reduced the number of risks and threats, therefore to maintain and achieve security and defence objectives remain a priority. That is the reason why defence spending has increased over the past 2 years and there has been an increase in modern defence platforms, which include artificial intelligence, state-of-the-art technology and other innovative means to gain a technological advantage.

Taking the example of several states into consideration, we can see that the United States of America, in the fiscal year 2020, had a budget of $ 738 billion for defence, a $ 20 billion increase over the previous year, including new equipment with technological input, such as the space force or other equipment that ended in costing around $ 146 billion. The Australian Ministry of Defence has also increased spending on the purchase of ships, submarines and other platforms. States such as India and South Korea had already increased defence spending by 8% in 2019 before the pandemic and kept those expenditures at the same level and even beyond during the pandemic. European defence spending, which had increased by 5% compared to 2018, either increased or stagnated during the pandemic. Middle Eastern states also purchased modern military equipment in the 2019-2021 period, with a real technological advance. Therefore, the impact of technological development has led to an increase in defence spending, with states trying to respond to current risks and threats with modern and innovative equipment.

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DEFENCE EXPENDITURES IN THE CURRENT GLOBAL CONTEXT

Defence Expenditures in the Context of the Afghan War Closure

We have mentioned in previous chapters the various risks and threats that determine states to invest in defence resources. It is for such reasons that defence expenditures become a larger part of the overall budget. One question that needs to be answered is whether the withdrawal of the United States of America from Afghanistan changed the dynamics of such expenditures, whether it would reduce or increase them.

For the states in NATO eastern flank, it will lead to a strategic change and allocation of resources, which began in 2014 because of the Crimean crisis. Western European countries also have their own achievable targets for which they allocate different percentages from the defence budget, and these allocations have not changed in any shape due to the pandemic and therefore will not change because of the withdrawal from Afghanistan, which does not affect overall defence policy and planning for this group of states too much.

It remains to be analysed what is the situation of the USA in terms of its own resources allocated to defence, following the withdrawal from a theatre of war, in which for 20 years the US government allocated record resources, for both consolidation and development of Afghanistan, being an actor with a role in both *hard power*[2] and *soft power*[3].

Most available data show that the impact of the withdrawal from Afghanistan will not have a negative effect on US defence spending, on the contrary (Clevenger, 2021). Current estimates indicate that the withdrawal from Afghanistan will lead to the release of between $ 20 billion and $ 50 billion from the defence budget. However, for the next fiscal year, the US Department of Defense has called for a 1.7% increase in the defence budget, which is about $ 13 billion more. With a focus on the South China Sea, the eastern flank, the development of the space force, the USA will continue to increase defence spending for the third consecutive year. According to the Stockholm International Peace Research Institute, in 2020 the USA spent 39% of its total global defence budget, more than the next 11 states.

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With the shift of focus from the Middle East to East Asia, to better understand the risks and threats facing the allocation of US resources in the next period of time, we have also analysed the AUKUS agreement between Australia, the United Kingdom and the United States of America.

Defence Expenditures in the Context of the Development of AUKUS

The de facto AUKUS agreement that emerged in 2021 is the result of finding common interests between Australia, the United Kingdom and the United States of America, which generated a desire for collaboration between the three states at an unprecedented level since the end of the Second World War (Negropont, 2021). In order to achieve it, it was developed an interconnection between the three partners in terms of strategic objectives, development of common defence capabilities, mutual support in the field of defence industry to increase the level

[2] Hard power describes the political ability of a nation to make use of military or economic assets in order to influence the behavior of actors at international level.

[3] Soft power describes the ability to attract and cooperate rather than to force. In other words, soft power represents a concept that entails the choices that some states make based on models and attraction, not based on force.

of security in the South China Sea and to strengthen a potential response in the face of the risks and threats posed by China. We mentioned in the previous chapter the role of technology and its evolution in the allocation of defence resources. The AUKUS agreement is one such example, with the USA sharing its new submarine's nuclear propulsion technology with the other two partners, which led Australia to abandon the purchase of submarines from France, with which it had signed a previous agreement. That act had political consequences, with France withdrawing its ambassadors from the three AUKUS member states. The consequences of those events are difficult to quantify, but within NATO two distinct groups seem to have been created, that of the EU states, which have invested for the past 5 years, starting in 2016, in defence, through the PESCO (Permanent Structured Cooperation) programme, and the group of AUKUS states, whose cooperation will also mean an increase in defence spending. In the case of Australia, for example, this increase will mean a defence budget projected over the next few years, rising from 2% to 4% of the GDP (Jennings, 2021).

Returning to the current geopolitics and the actors that make it up, we can therefore see, from the distribution of defence spending, that starting in 2021 there are actually three groups within NATO, which strengthen their security strategy in terms of regional risks and threats, so that the issue of NATO unity can be raised, under the conditions of such a scenario.

The first group, already mentioned in this chapter, is part of the recent AUKUS agreement created between the US, the UK and Australia, a group that achieves common capabilities and therefore allocates a significant part of its own budgets to strengthen the South China Sea area, as well as to counter the risks and threats posed by China's actions.

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The second group is represented by NATO's eastern flank and includes states such as Romania, Poland, Lithuania, Estonia, Latvia that consolidate their defence spending in the context of the actions of the Russian Federation in the area.

The third group is made up of Western European countries such as France, the Netherlands or Germany, which continue to allocate constant resources for defence, do not face immediate risks and threats to their own security, and focus on their short-term efforts to combat the pandemic. However, those countries consolidate at the EU level the EU's Security and Defence Policy, which sets the Union's objectives to develop funds for its own defence capabilities, hence the funds allocated under the above-mentioned PESCO programme. Thus, for the first time, the European Union changes its strategy of being strictly a player involved in *soft power* concepts, into that of becoming a *hard power* actor together with NATO. The collaboration with NATO should be mentioned, because at least at a written level, the EU's actions in the defence area will be conducted strictly as a NATO partner, the two institutions complementing each other.

CONCLUSIONS

The purpose of this paper is to observe what are the topical factors that influence defence spending as well as the allocation of resources for defence. If the Covid-19 pandemic did not affect in its entirety the allocation portion compared to the amounts allocated for the fight against the virus, we can instead see the impact on the way of prioritising the objectives related to the development of an efficient medical system, control measures of pandemics or technological innovations needed to continue growing economic processes. Classical factors such as geopolitical impact or technological development remain the major catalysts for changing perspectives on defence resource allocation, as this allocation changes the international paradigm for the states concerned with defence and security issues faster and more intensely than the pandemic has done so far. Of course, the effects of Covid-19 will have to be studied for a longer period of time, as the data from the 2020-2021-time frame are insufficient to correctly measure the potentially negative effects in the financial, social and political fields, which might be felt over a longer period of time.

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Following the directions and trends in which global actors manifested and acted in the 2020-2021 period, we can say that for the decision-makers in the field of planning and defence spending there is a real paradox. Although the pandemic, technological development, global context, the Afghan problem have led to a uniform increase in defence spending, for the first time in many years the allocation of defence resources is no longer uniform, with various NATO member groups having different objectives and thus allocating resources for their own regional needs.

The legitimate question may thus be whether there is still a direct connection between joint defence planning and resource allocation at the level of major international alliances or whether we are witnessing a fragmentation of interests if not at the level of individual states at least at the level of smaller homogeneous groups within larger organisations, in which communication and coordination of joint efforts have reached a minimum in the past two decades.

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