Kaunas University of Technology

Faculty of Social Sciences, Arts and Humanities

The Impact of Geopolitical Events on Defence Spending and Imports of Defence Products in Small Countries

Master's Final Degree Project

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Summary

The thesis focuses on analysing the relationship between geopolitical events and the sensitivity level of small countries through the perspective of defence spending and imports. In light of changing political climate and the return of conventional warfare to the neighbourhood of Europe, countries around the world reshape their security priorities. The existing literature in the field of study has a focus on the major players, leaving small countries underlooked. This study aims to explore the difference in behaviour between small and big CEE countries towards Russia's aggression in Western Eurasia. Various scholars argue that small countries are more exposed to external threats, however, there is a significant gap in literature that analyses the defence behaviour of small countries in response to external threats. Five hypotheses are being proposed to explore the relationship between the reactions of small and big CEE countries through defence spending and imports in relation to the militant behaviour of the Russian Federation. In order to test the hypothesis, the descriptive analysis of the data of ten CEE countries regarding military expenditure over a period of twenty two years is performed. An econometric analysis is performed to test the hypothesis regarding the relationship between import levels of defence products of small and big CEE countries. Countries with missing data were eliminated from the econometric testing. Findings of both analyses vary for different periods of times and therefore the hypothesis can neither be fully approved nor rejected. This indicates the changing nature in national priorities and threat perception, the importance of the severity and proximity of the conflict. Therefore, any findings should be interpreted with nuance. A general trend shows that small countries, in response to Russia's aggressive behaviour in the region, react by importing more defence products than large countries, with the exception of Slovakia which holds a strong domestic defence industry. Furthermore, regarding military spending, small countries showed overall greater increases in military burden than large countries. Moreover, countries which share a border with Russia showed a greater increase in military burden than the countries which do not. Thesis starts with the introduction, secondly a theoretical approach regarding concepts of small states, defence industry and military spending is provided, followed by an empirical method where hypotheses are proposed and tested. Lastly, conclusions, limitations and recommendations for further research are given.

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Santrauka

Disertacijoje daugiausia dėmesio skiriama geopolitinių įvykių ir mažų šalių jautrumo lygio santykio analizei per gynybos išlaidų ir importo perspektyvą. Keičiantis politiniam klimatui ir konvenciniam karui grįžtant į Europos kaimynystę, dauguma pasaulio šalių peržiūri ir pertvarko savo saugumo prioritetus. Akademinėje šios srities literatūroje daugiausia dėmesio skiriama didžiosioms valstybėms, tuo tarpu mažosios šalys lieka nepastebėtos. Šiuo tyrimu siekiama ištirti mažųjų ir didžiųjų VRE šalių elgesio skirtumus Rusijos agresijos Vakarų Eurazijoje atžvilgiu. Mokslininkai teigia, kad mažos šalys yra labiau pažeidžiamos išorės grėsmių, tačiau akademinė literatūra, kurioje analizuojama mažų šalių gynybinė elgsena reaguojant į išorės grėsmes, yra nepakankama. Disertacijoje siūlomos penkios hipotezės, kuriomis siekiama ištirti mažųjų ir didžiųjų VRE šalių reakcijos į Rusijos Federacijos kariniuss veiksmusį ryšį per gynybos išlaidas ir importą. Siekiant patikrinti hipotezes, atliekama aprašomoji dešimties VRE šalių gynybos išlaidų duomenų analizė, apimanti dvidešimt dvejų metų periodą. Ekonometrinė analizė atliekama siekiant patikrinti hipotezę apie mažų ir didelių VRE šalių gynybos produktų importo lygio ryšį. Šalys, kurioms duomenys nebuvo pasiekiami, buvo pašalintos iš ekonometrinio testavimo. Abiejų analizių rezultatai skirtingais laikotarpiais skiriasi, todėl hipotezės negalima nei visiškai patvirtinti, nei atmesti. Tai rodo, besikeičiančius valstybių prioritetus ir grėsmės suvokimą, konflikto sunkumo ir artumo svarbą. Todėl visų išvadų interpretacijos turi būti vertinamos kritiškai. Pastebima bendra mažų šalių tendencija rodo, kad šalys, reaguodamos į agresyvų Rusijos elgesį regione, yra linkusios importuoti daugiau gynybos produktų nei didelės šalys, išskyrus Slovakiją, kuri turi stiprią vidaus gynybos pramonę. Analizės metu pastebima, kad mažų šalių karinės išlaidos padidėjo labiau nei didelių šalių. Be to, šalių, turinčių bendrą sieną su Rusija, karinės išlaidos padidėjo labiau nei šalių, kurios neturi tokios sienos. Disertacija pradedama įvadu, po to pateikiama mažų valstybių, gynybos pramonės ir karinių išlaidų akademinės literatūros analizė, po kurios seka empirinė dalis, kurioje siūlomos ir tikrinamos hipotezės. Darbas baigiamas pateikiant išvadas, apribojimus ir rekomendacijas tolesniems tyrimams.

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Introduction

In recent years the world has experienced significant events that impacted global politics and societies. With these challenges the nature of international relations, war and conflicts changed as well. Ever since the end of the Second World War which reshaped the global society into a bipolar order, where the United States and the Soviet Union were striving to expand their influence and spread their ideological tenets, there has been no significant military conflict where two uniformed armies were meeting on the battlefield. Proxy wars, nuclear arms race, undemocratic regime changes, expensive competing space programs and the formation of opposing military alliances defined the period that lasted over 40 years known as the Cold War. The end of the Cold War in the early nineties meant the end of a bipolar world order and the shift towards a multipolar power balance. This shift has brought a never experienced relative 'peacefulness' with the new set of challenges and 'grey zones'/ modern hybrid warfare techniques. Although it is claimed we live in the most peaceful times humanity has known, the modern global society has been shocked by various fundamentalist religious terrorist attacks (i.e nine-eleven, various bombings of major European cities, etc.), a coronavirus pandemic, economic crisis and recessions, rising polarisation and finally, a comeback of conventional warfare which was not seen until the Russian invasion of Ukraine in 2022 and the never ending occurrence of proxy wars between major players on the world stage. The recently flared up conflict in the Middle East between the state of Israel, supported by western democracies, and Hamas, an islamic militant group recognised as a terrorist islamic movement by the western powers and allegedly supported by surrounding Arabic states, can be seen as a prime example of the continuation of proxy warfare. Moreover, it can be suggested that the emerging multipolarity is observed as a clash of worldviews, on one side the western world with liberal-democratic values, the rule of law and institutions versus a coalition of non democratic/ authoritarian nations that wish to pursue their own aggressive foreign policies and economic interests, outside a global framework. In this emerging multipolar world with a new set of challenges, one can question the role of small countries and their interaction in the global framework.

Being exposed to various threats, ranging from international terrorism and conventional military conflicts to pandemics, migration crisis, climate change or conspiracy theories and others, small countries show diverse ways of coping, among which deeper international integration and cooperation, as well as increased national security measures.

In this paper I **aim** to explore the reactions of small countries towards geopolitical events associated with the militant actions of direct adversary states. More specifically, this study will examine the relationship between Central and Eastern European countries and their respective defence spending and imports, in response to the recent aggressive military actions of the Russian Federation in the region.

Novelty and relevance: In light of changing geopolitical climate and the revival of conventional warfare, the role of national defence spending and industrial capabilities grew. Academic focus and study towards the subject traditionally is oriented on bigger countries, leaving small states and some geographical regions underlooked. In scientific discourse the ability of small countries to influence and respond to global events remains ambiguous. Nevertheless, the numerousness of small states and their involvement in ongoing political and military conflicts, suggest that the small countries should be considered as an important unit of analysis.

Research problem: Well performing national defence is considered as a political and economic power projection that defines the prestige of a country as well as its power and status on a global scale. The underlying vulnerabilities of small countries such as dependency on bigger players and susceptibility to various shocks, pose significant challenges to their survival. The lack of academic agreement and literature on small countries hampers the understanding of the behaviour and response mechanisms of small states.

Research questions: How do geopolitical events impact the development of defence spending in small countries? How do the reactions between small and large countries differ in terms of defence spending and imports as a response to Russia's aggression?

1. Small Countries

In this part, litterature concerning the small countries will be reviewed and analysed. Exploring the phenomena of small countries through different International Relations and economic theories.

1.1. Definition

Looking through the historical perspective of events, conflicts and significant developments of human civilization, there has been a considerable emphasis on the role of the major powers. The dominance of these major powers often overshadowed the interests and roles of smaller entities that it interacted with. Alongside the emergence of domesticated agriculture and the necessity of organised administration, the first great political, economic and social entities were created, with the first notable examples of the river valley civilisations such as in modern Egypt by the river Nile and Babylon by the river of Euphrates. These cradles of civilisations can be observed as the primary examples of 'great powers' that exerted influence outside its borders. In the following centuries the understanding of what constitutes a great power diversified. During the antiquity empires like the Roman Empire expanded through military means and exported the Roman social, judicial and religious norms to conquered territories. In the mediaeval times the role of trade and religion were main drives for empire building (Morin, 2003). The expansion of Christianity by the crusades (e.g Teutonic and Livonian orders to the east, Reconquista by Iberian kingdoms) and the search for trade routes by western European kingdoms such as Portugal and Spain laid the ground for territorial expansion and the increase of influence and power. In the early nineteenth century, with the birth of nation states and the consequent rise in national identity, major powers and influence were marked by its colonial possessions, economic extraction and the spread of its values and cultural superiority (e.g imperialism in the scramble for Africa). In the twentieth century major powers were strong sovereign states with well developed industries capable of forming political alliances that competed with each other for political, economic and cultural dominance. In light of the catastrophes of the world wars and in order to limit the threat of conflicts between major countries and the annexation of smaller neighbouring countries, various multilateral institutions and organisations were established. The North Atlantic Treaty Organisation (NATO), European Steel and Coal Community, later the European Union (EU) and the United Nations (UN) can serve as examples of such institutions that proved to balance and curb major conflicts. Furthermore, co-operational blocs like NATO and the EU have evolved into strong political and economic entities that can be recognised as major powers themselves (Larsen, 2022). These blocks themselves consist of a collection of small to major countries. Even though the focus in history and geopolitics lies primarily on the major powers, the role of smaller states and entities cannot be underlooked. The influence of small countries can mainly be understood by its ability to exert 'soft power' in the form of academic advancements, the creation of culture for innovations, diplomacy and trade (Súilleabháin, 2014).

Over the years small countries in the international geopolitical arena not only increased in numbers due to the decolonization waves, the collapse of the Soviet Union, etc., they increasingly gained more influence. The creation of international organisations and institutions and the establishment of an open market economy empowered and boosted the leverage of small countries on the international stage (Hey, 2003). Even though contemporary great powers cannot be defined as big and strong countries-economies alone, but also the unions and alliances of all size nations, there is a lack of scientific definition regarding the small states. About what criterias define a small country, there is a substantial disagreement among authors. As a result, there is no agreement about a clear definition of

what constitutes a small state (Maass, 2009; Henrikson, 2001; Rothstein, 1968). Even though there is an absence of an agreed definition, two perspectives on how different authors define small states can be found: a qualitative and quantifiable approach. Proponents of a qualitative approach measure the size and power of a state based on its ability to impact international relations and other specifications of behaviour. In the study of small states Thorhallsson and Steinsson (2018) characterise small countries as the states with the shortage of resources and capabilities. On the other hand, proponents of a quantitative approach focus rather on quantifiable measurements such as population, size of territory and military, economic output and others (Commonwealth Consultative Group, 1985). Out of these measurements total population size is the most widely used criterion due to its reliable and ready to use data as well as its correlation with other measurements (Maass, 2009). Olafsson (1998) however, opposes this claim arguing there is no significant correlation between the measurements. To conclude, the importance of small states changed over the years, and in contrast to major powers the definition of small states remains vague. The view of how small states are perceived changed as well. Around the mid twentieth century, there has been a shift from the view of small states as 'weak' and having no significant influence in global affairs to valuable political and economic players with their own tendencies of multilateral cooperation, which in turn leads to an obscuration of a clear definition. Neumann and Gstöhl (2006, p. 3) argue that in contemporary international relations "small states are simply too numerous and – sometimes individually, but certainly collectively – too important to ignore".

For the purposes of this study, I will define a small state with only one criteria, namely the population size.

1.2. Theories of International Relations

The academic interest for the study of small states developed in the twentieth century due to the wave of decolonisation and the consequent increase of small states and creation of co-operational organisations such as the United Nations. Scholars of International Relations (IR) studies emphasised the importance of small countries in the studies of wartime diplomacy (Fox, 1959) and a large part of small state literature can be divided into three streams (Knudsen, 2002). One concerns the basic foreign policy options of small states (Ørvik, 1953; Fox, 1959; Höll, 1984), another handles comparative literature on politics and policy formation in small states (Katzenstein, 1984, 1985; Alapuro, 1985; Jackson, 1990) and a third kind of literature concerns issues of recognition, self-determination, minorities, secession and irredentism and the justification of the small states' existence as well as their rights in relation with great powers (Chazan, 1991; Lehning, 1998; Bartkus, 1999). As shown in the table below, following the decades after the second World Wars and the various global events and processes, the dominant theories on how small state studies are conducted shifted

from a predominant realist perspective towards a neo- liberal institutionalist and constructivist perspective, as well as a change in topics, stemming from the diverse theories of IR.

Table 1. Synopsis of small state studies, Neumann & Gstöhl (2006)

TABLE 1.1 Synopsis of small state studies

Historical events	1950s–1970s: heyday Cold War conflict; proliferation of small states through decolonization	1980s: standstill decline of the U.S. hegemon and rise of global inter-dependence	1990s: revival end of Cold War, globalization and regional integration; proliferation of small states through disintegration
Dominant IR theory	realism/neorealism	neorealism vs. neo-liberal institutionalism	rationalism vs. social constructivism
Small state topics	definition of small states, size and foreign policy, security issues, small and micro-states in international organizations	small states and economic interdependence and development issues	small states in European integration in globalization processes, ethno-political conflicts

Furthermore, a distinction between countries on their behaviour can be made. An important factor is the geographic location. Small states located in Europe are often examined through their economic and political integration and alliance in the international organisations' perspective while small states of the Global South face internal breakdowns and possibility to collapse (Jackson, 1990), thus are examined in different ways.

According to the proponents of realist international relations theory, the international arena belongs to great powers (Elman, 1985; Layne, 1993; Mearsheimer, 2001) due to their ability to influence international events and behaviour of small states. Small states, according to realists, are much more vulnerable to external shocks and are of no threat to great powers (Simpson, 2018). On the contrary, because of the inability to impose their will onto other and bigger states, smaller states focus on their own survival and have in general a more defensive mindset, by tailoring their foreign policy to withstand pressure from greater powers and to secure their independence and territorial integrity (Raeymaeker, 1974). Globalisation and economic interdependence laid the groundwork for relative co-operation between the states, with small states and their development in particular niches being one of key elements for the strategic importance of great powers to cooperate. In addition, small countries rely on large ones for security and commodities resulting in deeper dependency of small states to great powers. As the leeway of small states is limited and they are likely to lack military muscle, power and leverage to influence political agenda, it makes them more susceptible to intimidations and conquest (Vital, 1967). Economic and political interdependency between the states according to Mearsheimer (2010) result in security competition and instability. Therefore, small countries for their survival rely ominously on bigger powers through tight cooperation via alliance formation (Waltz, 1979). According to scholars (Walt, 1987; Levy, 1989; Labs, 1992) the foreign policy of smaller nations depends on the geopolitical realities when small states either follow the lead

of dominating powers or balance and co-operate against them. Some realist authors (Handel, 1981; Fox, 1959; Sveics, 1969) claim that small states can be conceived as weak states or powers, based on the assumption that larger states can impose their policies on small ones and that they are unable to exert any power on others, and, as a consequence, smaller states tend to have a more defensive mindset focussed on survival. In line with the realist view there is the 'weak state theory' which states that the independence and statehood of a state must be questioned in case its military is dominated by another state (Olafsson, 1998). In addition and as mentioned above, out of the weakness of small states streams a lack of power to secure themselves against external threats of a bigger power, as such that Sveics claims that "the definition of a 'small nation' is that of a state which has its security threatened by a militarily more powerful great(er) power" (Maass, 2009, p.73). Another realist argument lies in historic events, when small states were unable to influence geopolitical agenda to be regarded as equal. During the 1815 Congress of Vienna or at the Paris Peace conference in 1919, great powers strived for a balance of power, even though small states were present, they were regarded as 'weak powers'. Thus, due to the minimised role of small states, the theory of the weak states in terms of power and the balance of power fits well in the realist theory of international relations. In short, according to realists the limited power dimension of small states make them less relevant in the international arena.

In contrast to realism regarding the small states' role in international relations, Liberalism argues that other than power and influence, relations between states no matter their size can be based on economic and institutional cooperation. Such cooperation results in restraint-based institutional and interstate relations (Keohane & Nye, 2011), that prevent dominance of great powers and alight foreign policies (Keohane, 1969). Ideological affinity and possible benefits versus the costs and threats of free riding are among the significant factors driving countries to cooperate (Keohane & Nye, 2011). Another contrasting view of small states' role in international relations is constructivism. Constructivists argue that each state has its own way to interact and respond according to their identities and ideas they have about themselves, when the identity or ideas switch, their agency switches as well.

Recent theoretical IR studies propose status-seeking and shelter theories to explain the behaviour and importance of small states in international relations. The former theory suggests that small states focus on their status rather than benefits brought through cooperation such as economic or security (de Carvalho & Neumann, 2015), which entails that they actively seek to achieve status among other small states and great powers, for example the Netherlands that are hosting the International Court of Justice or Switzerland that engage in mediator and arbitrator roles in international politics or even North Korea, that seeks status and prestige with its nuclear weapon programme. As such, small countries, unable to compete with the bigger players, attempt to stand out by taking up notable tasks. The latter theory argues that small states, regardless of the limitations due to vulnerabilities, aim to benefit from culture-based advantages in addition to other benefits of cooperation such as previously described economical or military ones. Cultural benefits are believed to be crucial elements for a well-functioning society (Thorhallsson, 2010, 2011). The shelter theory holds multiple dimensions. A first is the political shelter theory, where small states would reduce their vulnerabilities and secure the basic needs for survival, since they do not wield large armies or have smaller economic influence. Another aspect is the economic dimension. Small states are greatly dependent on trade and their economies have an inclination to be less diverse, meaning they have select export options. Given these conditions, it makes small states more vulnerable for shocks, fluctuations and economic disruptions. To minimise these threats, shelter theory states that small states will seek shelter in bigger

international systems or by aligning themselves with larger states, ensuring stable trade relations and relatively better economic protection. Shelter theory has a social dimension as well. According to the recent study of Thorhallsson, Steinsson and Kristinsson (forthcoming), a society progresses due to constant interaction with other cultures, ideas and ideologies. In order to avoid isolation and social stagnation, small states actively seek to connect with networks where innovations and academic practices are shared, some of which are not available in the small state.

The strategic approach to International Relations offers yet another way to look at small countries and International Relations. According to Bueno de Mesquita (2003) studies of IR and the ways of studying conflict and peace are transforming due to new geopolitical realities. The author argues that it is individual political leaders, not nations, that take decisions and influence global geopolitical nature. Being rational actors these leaders develop strategies on how to reach maximal individual welfare that is often associated with being re-elected. Therefore, proponents of a strategic approach take into consideration not only the foreign affairs but the domestic affairs and type of political regime as well when studying international politics rather than the size of the country. Mesquita emphasises that the democratic peace, when democracies tend not to fight the wars with each other, occurs not because of more civic minded- values driven democratic leaders, but rather the willingness of them to stay in office. Which in fact is directly affected by the large constituency. According to the strategic view, dependency on a large part of the population limits the power of democratic leaders in escalating conflict, choosing violence or pursuing harsh foreign policies, therefore democrats would only engage into conflicts when negotiations are failing, there is a certainty about winning the conflict and getting public support. This leads to the conclusion that the role of small and large countries in IR depends mostly on the type of the political regime and domestic policies of individual leaders that are rational actors seeking to maximise their utility.

The strategic perspective has been regarded by scholars to share many ideas with the realist perspective on IR, yet the relation between the two is ambiguous. The first difference that can be noticed concerns the central role of the state in the realist theoretical frame. Realists focus on the behaviour of the state while the strategic view considers all actors, whether it is a state or not. Where realists focus on the sole role of states in international politics, strategic scholars view other entities as actors. Another major difference is the driving force behind the behaviour, realists highlight the importance of power while the strategic perspective states that actors are driven by a distinctive mix of structural factors. The last main difference can be found in the unpredictable nature of executing military strategy, meaning strategists pay more attention to the unpredictability of war created by interaction, chance and friction (Doeser & Frantzen, 2022).

1.3. Political Economy Approach

Cooper and Shaw (2009) argue that small countries empower their diplomatic strengths to effectively forge niches in International Political Economy (IPE). Due to the ability of small states to exploit specific niches, it enables them to be in relative terms influential actors. European countries significantly influenced IMF policies (Broome & Seabrooke, 2008) regarding trade liberalisation (Heron, 2008). According to Godfrey Baldacchino and Geoffrey Bertram (2010) this happened due to underlying strengths of small societies including strategic flexibility and creativeness. Socio-economic interaction and flexibility empower small societies to successfully adapt to IPE in micro and macro-levels (Baldacchino & Bertram, 2010). In contrast to relative political and economic success of small countries in the international arena, the existing conceptual vulnerabilities and

limitations pose significant challenges to small nations that can not always be addressed by creativeness or flexibility (Bishop, 2012). The vulnerability–resilience nexus provides an in-depth composition of vulnerabilities and the existing means to cope with political, economic, social, and institutional challenges, that as well defines the (potential) strengths of small nations (Heron, 2008). Dependency on liberal ideology tenets and the economy according to Katzenstein (1985) help small countries to respond to vulnerabilities they face using democratic corporatism. In such a way the tight cooperation between the major local stakeholders (i.e. the government, labour unions, businessmen, etc.) often result in an ability of small nations to respond quickly and in a flexible manner to changing global economic situations. Bueno de Mesquita (2003) in his work presents ideas about the behaviour of countries regardless of their size through the perspective of political regime type and domestic politics. In order to understand the behaviour of multiple actors Neumann and Morgenstern (1944) introduced systematic analysis of interactions that lead the ground for analysis of international relations through game theory. Strange (1991) argues that both the game theory and international relations emphasise the importance of economic power and security. As described in the previous section, realists argue that states are driven by their own interests and would consider other countries' interests only if the other country is powerful enough to enforce its agenda. According to Correa (2001) countries are rational actors that focus on their own interests and act in favour of their interests whether it is in the political, economic or security domain, and would only take other countries interests if that country is powerful enough to impose them. De Mesquita (2003) emphasises that countries that are not willing to cooperate and choose forceful and conflictual actions due to the pursuit of their self interest face the shadow of the future, meaning cooperation is likely to be more beneficial when the situation is likely to reoccur in the future. Moreover, De Mesquita argues that in order to understand the role of big and small countries in IPE as well as in IR, the selectorate theory could be applied. The theory argues that the primary goal of a political leader is to stay in power. The size of selectorate and the winning coalition is a key element in understanding the possible behaviour of a leader and thus, the state. According to the theory, a country can be considered a democracy when both the winning coalition and the selectorate are large, thus the leader is expected to distribute the private goods over a large portion of the population, because the political survival is dependent on a large group of people. Leaders of democracies tend to promote public welfare, stimulate economic growth, increase political freedoms and promote peace. On the other hand, when the selectorate is large and the winning collision is small- autocracy, the local leader is likely to distribute private goods in order to satisfy the selectorate, the key public that keep the autocrat in power. These leaders are often associated with political repression, bribery, theft and strong norms of loyalty. By employing these techniques the autocrats not only increases their chances of maintaining their power (e.g job creation to satisfy labour force workers to gain support), yet also they gain physical support (e.g support from head of police who is able to eliminate political opponents). Following the ideas of different authors, it can be observed that small countries, due to their ability to quickly react to changing economic realities, can significantly perform and influence the decision (policy) making in IPE, at the same time it can be noted that the economic policies a country pursues depends on the political regime type of this given country.

1.4. Specifications, Vulnerabilities and Adaptation

A significant share of existing literature on small states focuses on vulnerability and limited capacity to respond to geopolitical events (Thorhallsson, 2018). In other words, scholars argue that small states due to the limited resources face significant security threats namely physical and economic security

(Fox, 1959; Vital, 1967; Neumann & Gstöhl, 2004), thus, in order to survive, they need to join co-operational alliances (Keohane, 1969; Handel, 1981; Archer & Nugent, 2002). In response to changing geopolitical nature after the Cold War, the view on small states diversified, adding the prosperity for small states to be more attractive in global affairs (Schumacher, 1973). Being able to respond quicker and in a more flexible manner to geopolitical changes, promoting innovations and increasing the quality of life of citizens made small countries look more appealing (Katzenstein, 1984, 1985; Briguglio et al., 2006; Cooper & Shaw, 2009). Thorhallsson (2018) argues that in contrast to classical hard threats (economic and military) only a minor academic attention is put to modern soft threats such as epidemics, natural disasters, attacks on critical infrastructure, and others, while studying the small states. According to the author, in order to respond to these threats, small countries depend on the association and cooperation with other states via international organisations (i.e. the EU), the great regional and international or former colonial powers. Cooperation with other countries directly or through international organisations empower small states not only to respond to soft security threats, but also to prevent them (Bailes & Thorhallsson, 2013). The need for assistance through cooperation in responding to both hard and soft threats yet again pose questions regarding the role of these countries in international affairs. Due to the lack of ability to independently respond to arising challenges, limited administrative resources, weak bargaining power, small states face difficulties in having a capacity to influence the agenda and the decision-making process in international organisations. Nevertheless, there are other means for small countries to be influential in a multilateral environment. Flexibility of diplomatic corps, contributing to various expertise, building the image of being neutral and compliant are among the top strategies (Thorhallsson, 2000; Bunse, Magnette & Nicolaïdis, 2005; Naurin & Lindahl, 2010; Panke, 2010; Gron, 2014; Thorhallsson & Steinsson, 2017). Among other vulnerabilities discussed in academic literature, small states are more exposed to foreign actions, meaning that regional and international political and economic actions/crises do impact small countries more heavily (Thorhallsson, 2018). As such it is seen that small states' economies were hit hard during the COVID-19 pandemic, due to the disruptions in global tourism, and are again being tested by the effects of the worldwide monetary tightening as a result of the Russian invasion of Ukraine (world bank 2023). Moreover, some small countries, especially ones located outside Europe, suffer from democratic deficit. As numerous Pacific small countries declare being democratic they hold regular elections, nevertheless, disregarding other democracy features such as independent media (Erk & Veenendaal, 2014; Corbett, 2015). Founding father Alexander Hamilton (1788) argues that political homogeneity, that some small countries suffer from, results in weak democracy and limited political discourse. The greater diversity in political opinion on the contrary empowers small states to take collective actions more seriously and rapidly (Baldacchino, 2012). Heterogeneity in addition leads towards openness for innovations, positively impacting social capital, institutional quality, public benefit system, etc. (Algan et al., 2016).

Complex challenges and vulnerabilities small countries are exposed to lead to complex responses mechanisms- adaptations.To respond to occurring global challenges and successfully adapt to globalisation, it is important for small countries to be economically competitive, promote innovation and ensure improving socio-economic indicators for the citizens. Macroeconomic stability and openness to innovations directly lead to increased direct foreign investment, thus the integration into the global economy becomes stronger (Brautigam & Woolcock, 2001). According to Katzenstein (1985) the size of the country impacts economic openness and is likely to affect the political regime and its features. Small countries, therefore, are expected to show greater political centralization and

closely interdependent political arrangements, that leads towards so-called corporatist politics, when various stakeholders are integrated into policy making. Furthermore, as the small countries are highly trade dependent, the public sector of such countries is larger. Streeten (1993) emphasises that the large public sector is needed to respond to the risks associated with flexibility and external shocks. According to Thorallsson (2018), small states react to economic vulnerability which is one of the challenges of increasing globalism and military security by cooperating with other states, often through international organisations. Another way of adapting to the global challenges safeguarding national security and solving security issues is by seeking out a 'protector state' in the array of the current world powers such as China or the United States. As mentioned above small countries tend to be more exposed to the risks associated with natural disasters, climate crises and pandemics. Recent COVID-19 pandemic posed unique challenges to the small states (Balkhair, 2020) including threat of facing lack of appropriate resources to combat the pandemic due to the deprioritization in global supply chain, overcrowded health sector, higher medical costs, etc. Understanding these challenges and limitations of actions, small states invested greatly in early prevention mechanisms, repurposing of the resources and the cooperation with bigger powers (sheltering through international organisations or directly with bigger states) in order to obtain necessary medical supplies and coordinate policy making processes. In order to overcome their individual limitations, small states have endeavoured to seek shelter in a multilateral framework, politically, economic but also societal (Briffa, 2022). Moreover, small states showed a great flexibility and adaptation towards the repurposing of the existing facilities into production and creation of high demand counter products[1] (e. g. 11 companies of various profiles started making hand sanitizer in Lithuania in order to meet the demand), as well as they shared knowledge and influenced global response towards combatting the pandemic. Another way small countries adapt to political and economic vulnerabilities is by fixating national currency (fixed exchange rate regime) to strong currencies such as the Dollar or Euro in order to lower the probability of banking and currency crises (Pizzinelli et al., 2021). Fixating the exchange rate attracts foreign investments and stimulates foreign trade, thus empowering small states in order to gain more economic competitiveness (Faudot & Nenovsky, 2022). Katzenstein (1985) argues that the fast adaptability of small states in the changing geopolitical realities by compromising internally instead of engaging in conflict or having harsh foreign and domestic policies results in the success of small states in international relations.

[1] "225 tonos dezinfekcinio skysčio jau pasiekė rinką," sam.lrv., accessed September 15, 2023, https://sam.lrv.lt/lt/naujienos/225-tonos-dezinfekcinio-skyscio-jau-pasieke-rinka

2. Defence Industry

In this part of the thesis, the defence industry, its developments, variants among the CEE countries and the role of the EU will be discussed.

2.1. Definition

The defence industry generally is defined as the industry that engages in the production, retail and service of military material: arms, weapons, equipment and military technology. Their primary role is to focus production to meet domestic demand and to outfit their armies. Defence industry is an umbrella term used for the collection of defence contractors and arms producing companies. The distribution of arms products is a separate aspect of the defence industry, whereas it is largely organised by governmental agencies and to a lesser extent by private commercial merchants (Byrne, 2017). Traditionally, the products of the arms industry can be categorised in multiple categories in accordance to the field of application. Some of which include the production of land based weapons (e.g. guns, vehicles, ammunition, artillery, mines, etc.), naval based weapons (e.g. ships, submarines, aircraft carriers, anti- air defence systems, etc.), aerospace weapon systems (e.g. fighter jets, military planes, drones, etc.). Since the end of the Second World War, the development of nuclear based weapons has become a major element of the defence industry for major powers. More recently with the dawn of the information era, control and protection of the cybersphere has become more relevant and is being utilised as an element of hybrid warfare, therefore the improvement of the cybersecurity industry is regarded as paramount. Historically, political entities strived to gain technological superiority for their arms production, in order to translate this advantage into political and military power. With the professionalisation and industrialisation of (Western) armies in the nineteenth century, defence industries have played a vital role in providing equipment, as well as to give the state a stable source of income, prestige and to ensure job creation. Furthermore, it can be noted that defence industries globally retain their relevance due to occurring conflicts and their ability to deter potential aggressors. The equipment produced is not only important for the defence sector, the aerospace, electronics as well as the shipbuilding sectors are dependent on these products. Over the decades, the industries have been subject to change. Defence industries are traditionally organised on a national level, however, multiple national industries have had a trend of internationalisation, and defence production is one of the aspects where the governments of states have intensive contact with the business sector or, in different words, where politics meets economics (Taylor, 1990). The growth and development of defence industries is dependent on geopolitical events, where supply and demand is created based on the location of a growing tension or an active conflict. Moreover, countries in general seek to keep military hard- and software up to date, in order to maintain their ability to integrate in a multinational context. The studies of the defence industry are multi-faceted and throughout the decades it can be noted that the industry is constantly evolving. Hayward (2001) emphasises the complexity of the defence industry as a national asset. As developed and well functioning arms industry gives significant military, political and economic advantages, it can be viewed as an important aspect of security. Therefore, local governments and policy makers have an incentive to influence the agency of defence companies. However, since the defence spending is mainly public coming from the taxpayers money, democratic civil societies are likely to prefer that money being spent for other domestic benefits (i.e. healthcare, pensions, etc.).

Defence technology partially defines the national capability level. In the figure below, key elements and supporting technology are listed. The United Kingdom in 2003 defined 8 key capability

categories that supported the main threat at the time. A major focus is put on defence products rather than human capital. Worldwide hard power is often measured following the same principle, e.g comparing military hard- and software. Other than effective army combat tactics, skilled personnel and effective communication, technology plays a pivotal role in modern armed forces (Biddle, 2004).

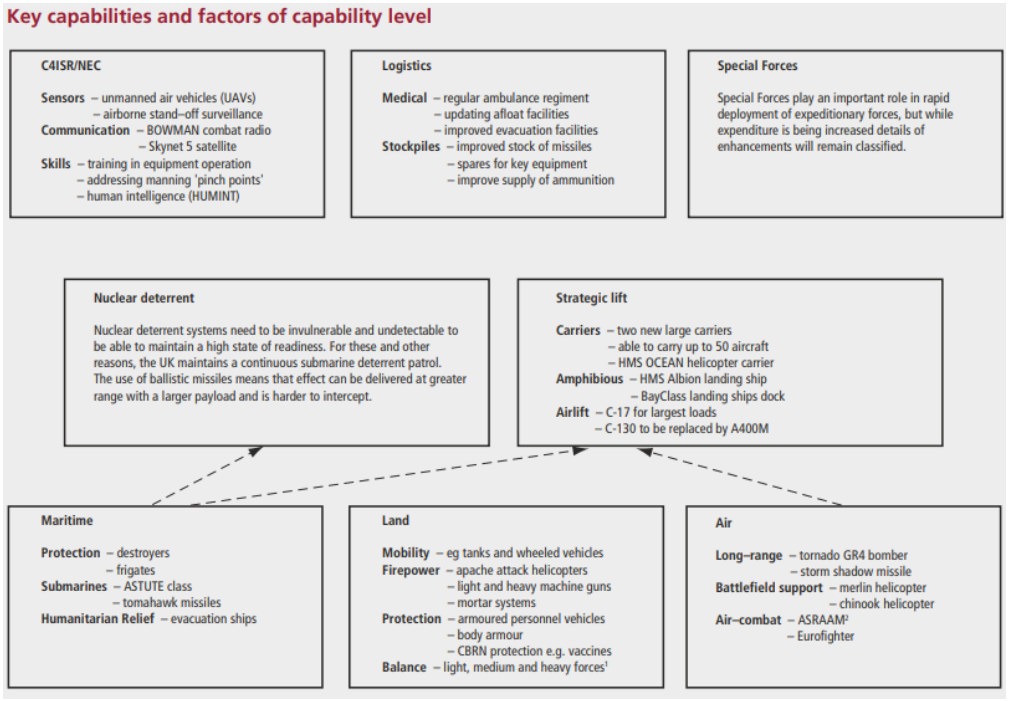

Fig.1. Key capabilities and factors of capability level. Source: Measuring defence, Anagboso, M., & Spense, A. (2009)

2.2. Development

The end of the Cold War marked a significant change in the global world order. With the emergence of new states and their strive for integration into the Western world, the nature of International Relations and global economic constraints became increasingly diversified. As a result, the number of indigenous defence industries built up, with strengthened industrial cooperation and integration globally. The transformation of the defence industry empowered major players (powerful countries and companies) to cut the costs of arms production and development. According to multiple scientists (Anthony, 1993; Sköns & Wulf, 1994; Adams, 2001) major defence companies in the West exploited new cooperative relationships and began to establish transnational networks of co-production/development. The share of knowledge, technology and data, laid the ground for transnational endeavour of arms production globally (Bitzinger, 1994). Seizing new opportunities, emerging states began defence industrialization processes. More open military technology and knowledge transfer empowered small countries to develop and improve local defence industries and thus integrate into transnational networks (Sköns, 1993; Bitzinger, 2003). The policies of emerging defence industries, however, differ. Considering globalisation and aiming to minimise the costs of defence research, development, and production, attract foreign direct investments (FDI) and promote defence industrial relations, it is important to liberalise the defence industry and eliminate public enterprises from it (Wulf, 1983; Hayward, 2000). Privatisation of the defence industry would stimulate business to explore new capacities for niche defence production and reduce the control of the state over the process (Hartley & Sandler, 2003; Struys, 2004; Hartley, 2007). Another group of

scholars argue that motives behind defence industrialization strategies differ from country to country. Besides the desire to hold power, wealth and prestige, domestic realities impact decision making. The protection of indigenous industries is often among the top reasons for local decision makers to turn back to the integrative industrialization of the defence industrial sector. A large number of the emerging states seek to minimise the dependency on supplier states to maintain their autonomy. According to Neuman (1987) the supplier states tend to influence and control over the policies and regulations that determine trade nuances and military capabilities. As a result, the foreign policy of the recipient is compromised through directly influenced arms embargoes and restrictions regulations set by the supplying state (Kinsella, 1998; Boutin, 2009). Therefore, the protectionist policies of the emerging states empower them to maintain autonomy of foreign affairs and independent trade of arms (Evans, 1986). The complementary argument is discussed by the other group of defence experts that emphasise the role of economics in the policy making process. Domestic industry reduces the economic burden of purchasing needed technology from other states (Benoit, 1978). Functional domestic defence industry not only promotes economic growth, but it also fosters the modernization and the development of the state's economy and technological base (Gansler, 1981; Neuman, 1994; Bitzinger, 2003). The advantages of non-integration, among which the independent decision making, political power, economic benefits, and others, inspire small states to pursue self-sufficient defence industries (Bitzinger & Kim, 2005; Bitzinger, 2015). Broszka and Lock (1992) emphasise the role of prestige seeking in the policy making of the emerging states. Prestige and influence combined with military and political power can determine the status of the state in international relations. According to Bitzinger (2003, p. 15) "an independent defence-industrial capability feeds directly into concepts of national power – not only by creating military power but also by demonstrating the country's industrial and technological prowess, thereby confirming its status as a great power in the broadest sense". In Europe, the defence industry has experienced a transformation since the end of the Cold War, smaller national players were replaced by a couple of bigger ones. There are several internal as external factors that can be identified to the causes of this transformation. External factors are the different developments in the US industry and the impact of technology and defence economics, internal factors can be found growing defence industrial policies and the formation of the European Security and Defence Policy (ESDP) (Guay & Callum, 2002).

2.3. Role of Resources

Resources can be divided into three categories: human resources, financial resources and material resources. A healthy, well functioning defence requires resources from all three categories. Human resources provide the manpower and necessary intellectual capital for technological advancement. Financial resources need to be given to support both the human resource as the material resources. The allocation of financial resources to human resources is needed for paying the wages, services and other benefits to personnel and affiliated persons. For the material resource, it is needed for acquiring the necessary goods to maintain and supply the connected industries. Access to raw resources is pivotal for any economy in order to grow, and by extension it plays a huge role for any national defence industry. Securing the supply chain of key material resources has become a growing concern for many major economies in recent years, with the growing tensions and competition between the major global players, and also between regional players. Import dependency brings potential risks, such as disruptions to the supply chain. The material supply chain of defence is complex, and involves actors specialising in the extraction and distribution of raw materials, manufacturing and retailing of the finished products (Pavel & Tzimas, 2016). Countries lacking adequate access towards resources

tend to be more exposed towards external threats. The studies of Kurç and Neuman (2017) and Mevlutoglu (2017) argue that shortfalls in human resources in Turkey negatively impact the effectiveness of its national defence industry, and efforts to produce diverse defence products fail. To summarise, the role of the different resources determines the defence capability of a country.

2.4. Niches of Small Countries

Global major powers are known for their extensive and wide industries, including the share of industrial output that produces military related products. These countries possess the necessary resources, political willingness, economic and industrial capacities and export demands to sustain an extended defence industry. In the graph below a global share of defence production is shown. It can be seen that the great world powers have the largest share in defence industrial outputs. In contrast to these major powers, small countries are often associated with small domestic defence production. Small countries show to produce niche defence products, which root from the civilian industry. For example, Lithuania has a well developed laser industry for civilian sector applications that currently provides more than 50 per cent of the worlds ultrashort scientific laser market (Račiukaitis, 2021). This sector is deeply connected with Lithuania's defence production, where multiple companies produce several components used for military hardware such as night vision and other equipment (Baltic miltech, 2021). As a result, small countries have a higher level of dependency regarding military equipment towards bigger economies, since they do not have the economic capabilities to provide in their own military procurement.

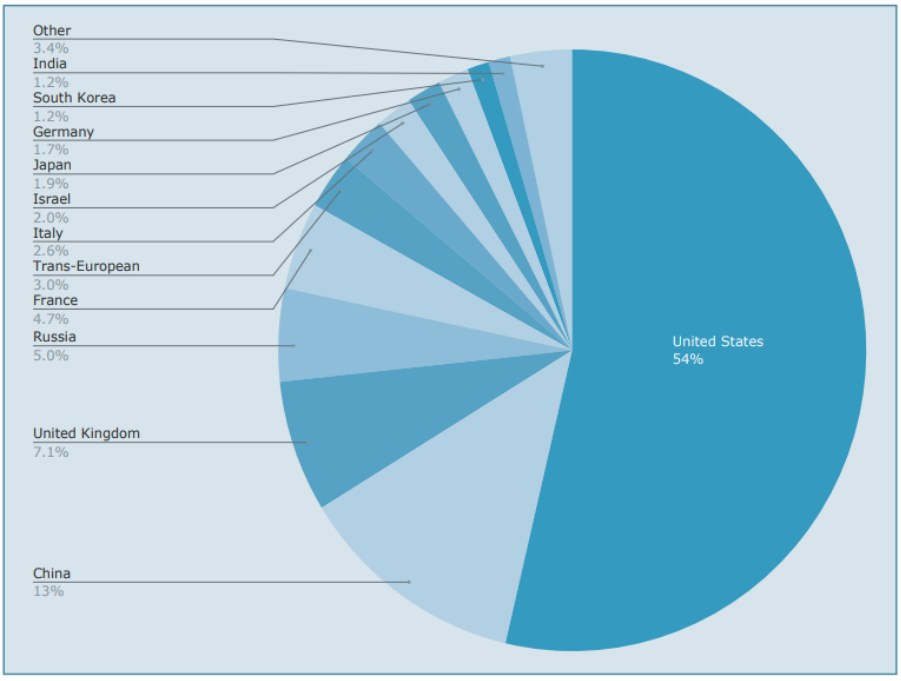

Fig. 2. Share of total arms sales of companies in the SIPRI Top 100 for 2020, by country, Marksteiner et al. (2021)

Defence production can be divided into two main categories, namely high technology products (high-tech) and low technology products (low- tech). The difference between these categories lies in various factors of what makes a product high- tech or low- tech, such as the complexity to produce, the level of training required to use the product and the presence of advanced technological features and other. The defence industries of big countries specialise in both categories of products while the small

countries often focus more on niche, high- tech industrial military production, which often derive from a civilian industrial application, more specifically named the dual- used technologies. Firms producing dual-use products can be found in both big and small countries, some of the examples include: Boeing (US), Rolls-Royce (UK), Rheinmetall (Germany), Optixco (Bulgaria), Audimas (LT), etc.

In Europe, Western European countries such as the UK, Germany or France, are known for their long lasting defence industries and capabilities of them. However, the majority of countries from Central and Eastern Europe do not have a long lasting defence industry, and therefore are dependent on imports from bigger economies (Gotkowska & Osica, 2012) as well as often show a specialisation in niche production. As a result, these new defence economies focus on survival, often unsuccessfully seeking to integrate into foreign markets and profit from commercial activities (Black et al., 2016). As described above, the production of these countries is linked with high technology due to developed national civilian industry in a specific sector and limited internal market for hard technology due to the low labour capital intensive usage of hard technology in the country of origin. In the table below niche production of some of the CEE countries is provided using information from the European Defence Agency. It can be observed that bigger CEE countries such as Poland and countries having older defence industries such as Czech Republic tend to produce a wider range of military products including hard technology while smaller countries such as Baltic States tend to focus on high technology and have limited range of defence products. Majority of smaller CEE countries face similar barriers and obstacles associated with small market size, limited capital and financial support, lack of experience in the sector and others.

Table 2. Country spefications. Made by the author based on EDA Central and Eastern Europe Report - Technical Annex – FINAL

Country	**Niche defence product(s) and areas**	**Barriers and obstacles**
Bulgaria	Small arms and light weapons (SALW), Unmanned air vehicles (UAV's) Ammunition recycling, unguided missiles, counter- IED equipment (force protection)*, optical surveillance systems, flight systems, simulators, radars (military electronics)*, CBRN and cybersecurity systems protection of critical national infrastructure (CNI)*.	Lack of cooperation between different government and defence industry actors, small producers, corruption and limited transparency, NATO standardisation issues.
Czech Republic	Air systems and military logistics vehicles, aerospace structures, radiolocation systems, IT and simulation equipment, military electronics and surveillance systems, CBRN, military ICT applications, dual-use aerospace technologies.	Limited availability of capital, lack of long term planning and budgeting shortages of certain types of physical infrastructure, limited defence budget.
Estonia	IT and cybersecurity technologies and software, surveillance technology, small UAVs, bomb shelters and containers, medicine, electronics, clothing and transportation equipment.	Limited size and the absence of large-scale domestic defence spending, limited experience.
Hungary	Military electronics and MRO, decontamination technologies and equipment, hand guns, Military ICT, software design.	Small size of the domestic market, shortage of capital and investments, lack of marketing and foreign languages skills.

Latvia	Nanotechnology, Electrical, optical and communications equipment, ICT solutions and cybersecurity, Dual-use robotics, satellite technologies.	Limited financial, technical and human resources, small size of Latvian defence firms.
Lithuania	Ammunition, military clothing, protective gear and personal equipment, laser research, specialist laser production, software programming and MRO of certain platforms (e.g. Antonov aircraft, Mi-type and Kamov helicopters), ICT, radio and UAV information systems and softwares.	Limited availability of capital, lack of technical knowledge and administrative capacity within the Lithuanian defence ministry.
Poland	Armoured vehicles, helicopters, artillery systems, SALW ammunition, weaponry, air defence radars and short-range missiles, small arms and light weapons, ICT solutions for defence and security users, sonar, counter-mine and torpedo systems.	Heavily bureaucratic domestic business environment, competitive rather than collaborative nature of firms.
Romania	Tanks, heavy armament vehicles, system integration, engineering, energy security, ICT, cybersecurity, border security, critical infrastructure protection, SALW and ammunition (anti aircraft missiles, rifles, bombs), personal protective equipment, specialist textiles, aircrafts.	Lack of international interest in Romanian-manufactured defence products, limited defence budget, lack of long-term planning and vision, low local salaries.
Slovakia	Air defence and aviation technology, ammunition and explosives, armoured vehicles and artillery, individual protection, logistic and medical support, small arms, robotic systems and remote-controlled weapons stations.	Limited availability of procurement programmes or capital, limited defence spending, bribery in the sector.

*long term focus in high- technology niche areas through international cooperation

2.5. European Union and the Central Eastern European Countries

After the collapse of the Soviet Union in the early nineties the aim to aspire to the creation of strong European cooperation and interconnectedness to prevent possible military conflicts in the region played a vital role. Following the creation of the North Atlantic Treaty Organization (NATO), founding members of the European Union signed Alliance and Mutual 23 Assistance and Brussels Treaties, which formalised mutual assistance and deeper integration between the countries. It is important to mention that the field of defence and security was left for autonomy of national states. Some countries, nevertheless, established bilateral cooperation in the field of military industry (e.g., France-UK aircraft manufacturing agreement). As a result of inter-state cooperation, NATO-EU member states established the Independent European Program Group (IEPG), that brought the different countries together annually to share important notes of the defence industry. In response to the establishment of the Single European Act, European defence companies that at the time suffered from issues occurring from market competition, initiated the move of merging civil security and military defence sectors and started the production of dual (civil and military)- use products (Guay, 1998). Member states focusing mainly on domestic interests, there were no signs of cooperation and interest in development of broader strategic perspectives and policies. As a result, the collapse of the USSR followed by the Balkan crisis posed significant challenges to the military and political cohesion of the EU member states. In the period of Cold War and later the spread of globalisation, EU countries reconfigured common security framework and the capacity of armament industry, resulting in the increase of local defence industry competitiveness and development of more innovative arms (Mabee, 2009). The strategic cooperation and interdependence of private and public sectors between the countries to correspond the inefficiencies of the European arms industry laid the groundwork for the Treaty of Maastricht and the creation of the EU's structure (Guay, 1998). Ever since, the EU has

established itself as an international power. The promotion of the Common Security and Defense Policy (CSDP) empowered the EU with the response mechanisms to civilian crises (Faleg, 2017) while the European Security Strategy (ESS) brought countries for more cooperation and reconciliation of divergent views (Tocci, 2017). The emergence of the European Defense Agency (EDA) marked the political willingness of the member states to reach for the improvement in single policy and regulation of defence. Rufanges (2016) and Jones (2017) note that the significant influence on the decision-making regarding the production of arms belongs to powerful arms companies such as BAE Systems, Airbus, Leonardo and Thales, LeaderSHIP, Star 21, and others. Slijper (2005) argues that these companies directly influence the European defence industrial policies through the perspective of private industries interests and needs. With the adoption of the Lisbon Treaty the CSDP of the EU was reorganised, and a unitary structure of principles was introduced. Furthermore, structural issues (i.e., underfunding, shortage/oversupply of arms, etc.) were addressed in the treaty with the aim to shift the EU from soft to hard power (Koutrakos, 2012). Following global events such as economic crisis, Arab Spring, Syrian civil war, refugee crisis impacted the policies of the EU from military capabilities-security focus to a civilian security attention (Tocci, 2017). "Extra-territorialism, militarised, increasingly transnational" and "moveable, floating and harder" border policies were introduced (Baird, 2018, p. 118-119). This has changed in 2022, following the full-scale invasion of Ukraine by the Russian Federation. Fragile and unstable security situation around Europe and threats arising from Russia's realpolitik project of re-emergence, that is unarguably the most severe violation of the international law ever since the end of the WWII, pose a set of new challenges for EU member states and policymakers (Smith, 2017; Tocci, 2017). At the same time, challenges from within the union, namely the decision of the United Kingdom to withdraw from the European project (Brexit), led to the issue of the EU Global Strategy (EUGS). EUGS defined the common defence and security strategy of the member states, aimed to create coherence in the security agenda and proposed four key principles of external action (unity of action, commitment in the global context, responsibility or sense of moral duty and partnership with states, regions and international organisations) and named general interests of the union (promotion of peace and security, prosperity, sustainable development and the protection of democracies) (Council of the European Union, 2016). Following the issue of EUGS, a three pillar Winter Package was introduced. It included a joint declaration of common proposals between the EU and NATO, European Defence Action Plan (EDAP) and the Implementation Plan on Security and Defence that comprehend CARD (The Coordinated Annual Review on Defence), PESCO (Plan on Security and Defence is the Permanent Structured Cooperation), EU battlegroups and the EU Military Staff. The goal of these various policy packages is to promote cooperation and safeguard regional security.

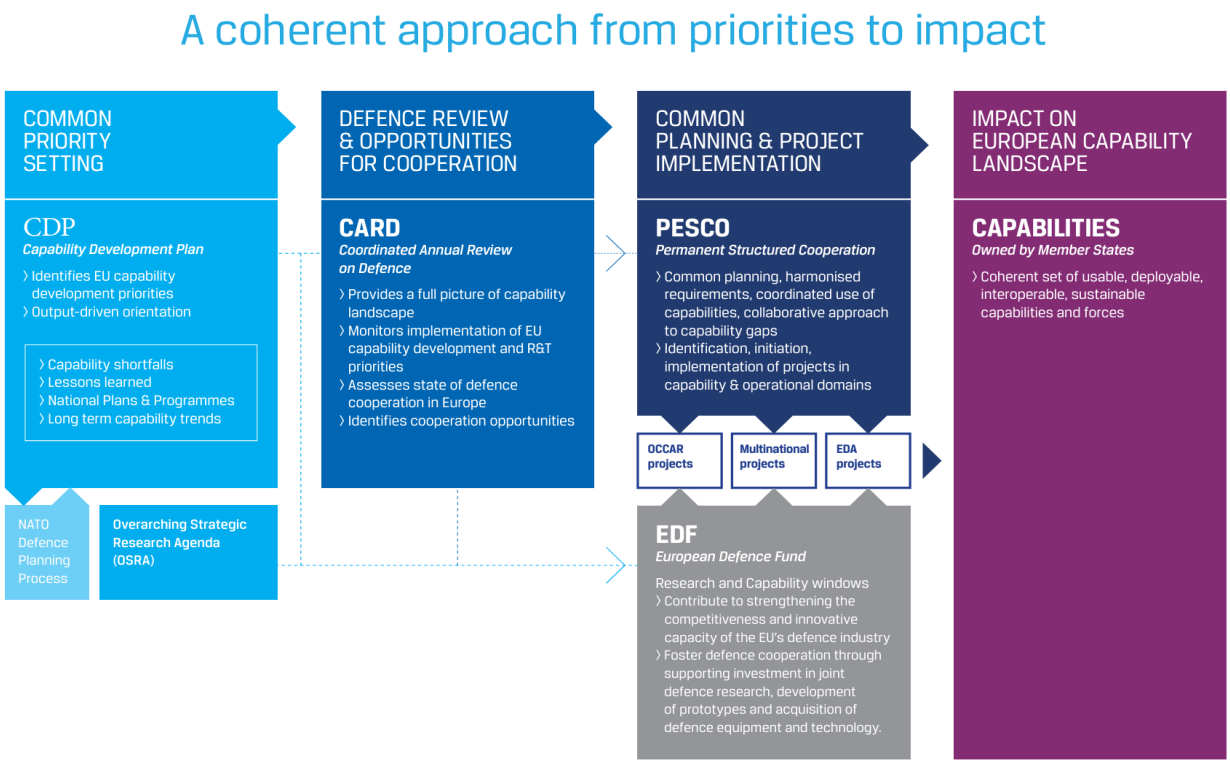

Fig. 3. A coherent approach from priorities to impact, EDA fact sheet (2019)

With the recent changes in the security environment in Europe the defence industries of NATO- allies face a new set of challenges. The end of the Cold War has initiated decades of underinvestment, fragmentation, lack of supply of raw and refined goods and manufacturing capability, all of which led to a struggle to meet the increased demand of equipment. In order to react to these challenges, a 'Europeanising' of the supply chain could be seen as a possible solution, by the proposal of the Critical Raw Materials Act (European Commission, 2023). The Defence Joint Procurement Task Force (DJPTF) has been set up to ensure a coordinated approach, to identify the member states' needs in relation to weapon deliveries and to make the supply chain less dependent on foreign economies, such as China and the United States. As discussed above the current crisis on the border of the EU has laid bare the challenges and weaknesses of the EU and their defence/security policies. In order to counter and avoid equipment supply issues the implementation of 'ever- warm factories' that run non-stop is considered by the commission, foreseen in the Regulation on supporting Ammunition Production (ASAP), as well as more intense coordination in defence planning across the European bloc, an increased standardisation of military equipment and revising the European Defence Fund (EDF) (European Commission, 2023). Policy makers of NATO-EU countries announced an increase in national military spendings in order to address existing shortfalls. Morten Brandtzæg, CEO of Norwegian aerospace and defence company Nammo, argues that the current geopolitical climate suggests the existence of a conflict between the interest groups about industrial capacity (Aries et. al, 2023). The success of these attempts to promote the cooperation between the EU countries and establishment of new defence policies regarding the subject can only be measured after an undefined period of time.

CEE countries being on the border of Europe towards the growing military adversaries and conflict areas, requires a more in depth examination. Being exposed to various threats and vulnerabilities these countries have from none to very limited defence industrial capacity and greatly depend on

imports (Gotkowska & Osica, 2012). Moreover, even with the increasing military spending in the region, the military strength and capacity remains relatively weak from the perspective of possible direct threats. In order to show determination of possible military action and pose as a deterrence, NATO responded to Russia's aggression in Ukraine (2014 and 2022) by establishing a continuous presence of multinational troops in the region, known as the 'Enhanced Forward Presence' (Forward Land Forces). Activities include multilateral military training, air en sea surveillance. The presence incrementally built up according to the growing threat and tension in the region, starting in 2016 after a NATO summit agreement which established NATO's forward presence in the eastern part of the territory of the alliance. In 2017, the first multinational battle groups were deployed in the Baltic countries and Poland, followed in 2022 by the deployment of troops in Bulgaria, Romania, Slovakia and Hungary (NATO, 2023).

3. Military Spending

In this section literature regarding the concept of military spending will be discussed.

3.1. Definition

In this paper, defence spending and military spending are used as synonyms, since both of the terms hold a highly similar meaning. In contrast is the term arms spending, which refers to a part of the defence/ military spending, specifically dedicated to the assembly and distribution of armament. In academic literature, a multitude of definitions can be found regarding military spending. Different organisations and institutions related to the topic have given their own definition, and each definition more or less has the same scope of the matter. For example, according to the North Atlantic Treaty Organisation (NATO) military spending is a share of government allocated financial resources for meeting national and alliance's needs (NATO, 2023). The Stockholm International Peace Research Institute (SIPRI) attempts and succeeds largely to encompass all aspects into the definition. The institute aims to incorporate different aspects of defence spending, more specifically besides capital spending on military forces, it also includes it includes different factors such as: paramilitary forces when judged to be trained, military space activities and other (SIPRI, 2023). In general, military expenditure can be described in a broad sense as the amount of financial resources dedicated by a nation to retain their armed forces in order to uphold their domestic and foreign defence objectives (Kumar, 2017). Furthermore, the amount of financial resources allocated can be spent on defence preparations in peacetime, building a deterrent force and waging wars. Often the defence expenditure is viewed as the total count of spending by a defence ministry of a country, and it provides different kinds of information about a nation, like their spending priorities in regard towards other sectors as well as the economic effort a nation takes to maintain a capable and effective armed force, as it shows the overall operational capabilities of an armed force. A sudden and significant increase might also serve as a warning sign to others indicating an approaching internal or external conflict. In short, defence or military spending of particular countries or political blocs used as a variable in relation to other categories (economic, political) may prove useful in conducting research and surveys, in order to efficiently design domestic and foreign policies (Stańczyk, 2016). Anagboso and Spense (2009) frame defence spending into a larger framework of defence activities which can be defined as the administration, the supervision and operations of all kinds of military concerns. In their study the data from the National Accounts of the United Kingdom, where defence is divided in two separate categories: military defence, which makes up to 99.9 per cent of the total spending, and other defence, which include aspects such as civil defence, foreign military aid and research and development. The authors define different concepts that help to define the relationship between military inputs, outputs and outcomes. In the figure below the connection between the concepts can be seen. Military input has a significant effect on both defence activities and capabilities, which in turn lead to objectives met and outcomes reached. The external factors interact with the previous described relationship (Anagboso & Spense, 2009).

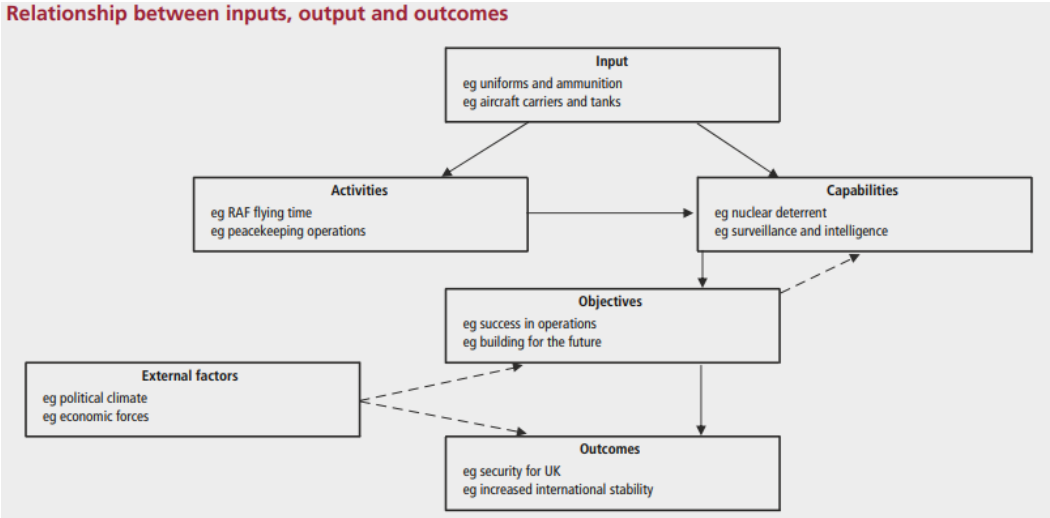

Fig. 4. Relationship between inputs, output and outcomes. Source: Measuring defence, Anagboso & Spense (2009)

Anghel and Vasilescu (2018) while talking about the military expenditure focus on its role through economic perspective and applications of military products in civilian life. According to the scholars, defence spending leads to economic benefits in the long run especially through export, promoting labour, and attracting foreign investments. It also benefits the national security.

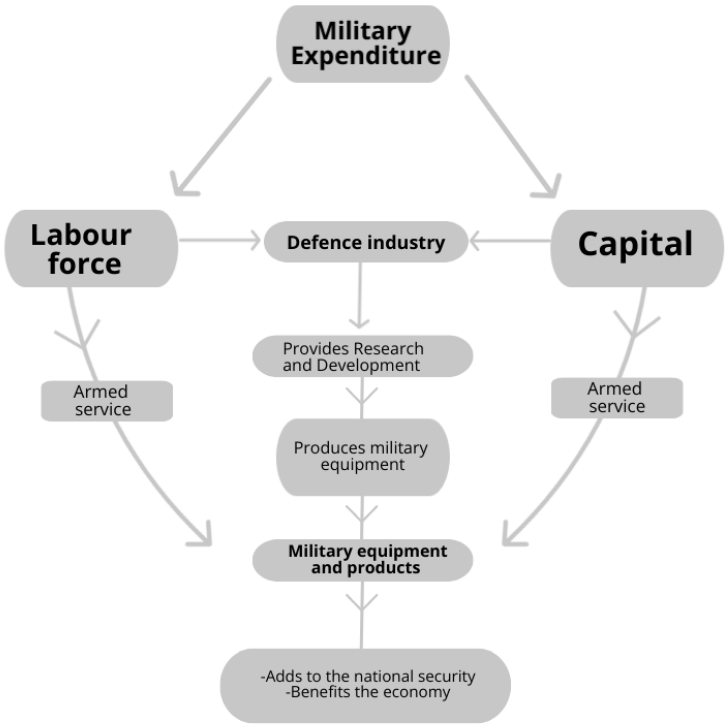

Fig. 5. Made by the author, based on Anghel & Vasilescu (2018)

To conclude, military expenditure is a separate share of government spending that is allocated for defence purposes and often lacks academic consensus regarding its effects on the economy.

3.2. Theoretical Approaches

It is a commonly held view that the defence is a form of public good aiming to respond to national security threats. As economic literature suggests it has features of being offered for everyone without exclusion, thus benefiting the general public. Nevertheless, the possibility to use defence as a form of private good in authoritarian regimes does exist together with the Free Rider Problems coming together with lack of determination of the opportunity costs, when individuals avoid contribution to the good they receive. According to Maslow's Theory of Hierarchy of Needs, a need for defence is among the primary needs for humans. Dunne and Nikolaidou (2012) argue that defence has an economic dimension, namely military spending. In academic literature there is no unified agreement regarding the impact of defence spending on the economy. The Neo-Classical approach suggests that the public spending on defence can negatively impact economic growth (Szymanski, 1973; Deger, 1986; Dunne & Tian, 2015), proponents of the Keynesian approach and Marxist and the Underconsumptionist in contrary highlight the positive effects on economic growth (Benoit, 1978; Baran & Sweezy, 1966; Farzanegan, 2014) while Benoit Hypothesis looks at the relationship between the variables through the perspective of developing countries, laying the argument about the positive relationship specifically in developing countries. Furthermore, both the Marxist and the Underconsumptionist approaches underline a positive influence of military spending on economic growth. Some scientists, however, argue that there is no relationship between the defence spending and economic growth (Kollias et al., 2017; Abdel-Khalek et al., 2020). Since there is no scientific agreement regarding the relationship between military spending and economy any conclusions are ambiguous (Alptekin & Levine, 2012). Examining above mentioned approaches in more depth it can be observed that the proponents of the Neo-Classical approach argue that defence spending negatively impacts economic growth. When defence investments rise due to need, the state is not able to allocate these investments to alternative areas of the economy. According to Neo- Classicists, defence spending redirects resources from productive investments and human capital accumulation, and as a result the performance of economic growth will not reach its full potential. In contrast stands the Keynesianism approach, which suggests that an increase of military spending will result in a growth of the economy, which is based on the Keynesian Expenditure Theory. According to Keynesian theory, when a government increases military expenditure, there is an increase in demand for goods and services utilised by the military. These firms offering the goods and services will in turn buy more from suppliers, leading to a bigger employment rate and increased wages in these supplying companies, resulting in a spread of increased aggregate demand. As such, an overall increased production and economic growth can be noticed. Furthermore, the theory states that an increase in military expenditure can promote economic growth, drive innovation and incentivise investment by increasing security. Similar to the Keynesian approach, the Benoit Hypothesis follows the assumption that there is positive correlation between economic growth and defence spending. The hypothesis of the positive correlation was developed following different studies. In a first study Benoit (1973) claims there is a positive relationship between military expenditure and economic growth in developing countries. In a later study Benoit (1978) argues that countries with heavy defence burden enjoy the highest economic growth rates, while looking at different Growth Indexes, including civilian growth and non- defence production. When taking other approaches in consideration, it can be seen that the Keynesian approach supports the Benoit Hypothesis, yet the Neo- Classical approach claims the hypothesis is invalid, due to the assumption that defence spending delays economic growth (Aydin, 2021). Another approach originates in the Marxist school of thought, where defence spending is regarded as a social phenomenon. The focus is on the socio- political and strategic aspects, rather

than on economic aspects. Military spending, according to marxists, stimulates economic growth, since it prevents crises and can be regarded as an informal industrial policy of a nation. Furtheron, in line with the Marxist approach, the underconsumptionist approach by Paul A. Baran and Paul Sweezy (1966) argue that when a capitalist economy becomes richer, the available surplus of capital extends over that necessary for consumption and investment, bringing a disbalance. As such defence expenditure is beneficial and key to economic growth. As an example Baran and Sweezy (1966) state that the main reason for the post-World War II boom instead of the underconsumptionist situation of the Great Depression was the increased military spending.

3.3. Regional Cases

In recent decades military spending worldwide continually grew, reaching the highest share since the Cold War period in 1988 (Da Silva et al., 2020). Da Silva et al. (2020) argue that despite a rapid population growth the military spending per capita continues to increase showing the changing geopolitical climate. As a result military burden- a ratio between military expenditure and GDP- is growing as well.

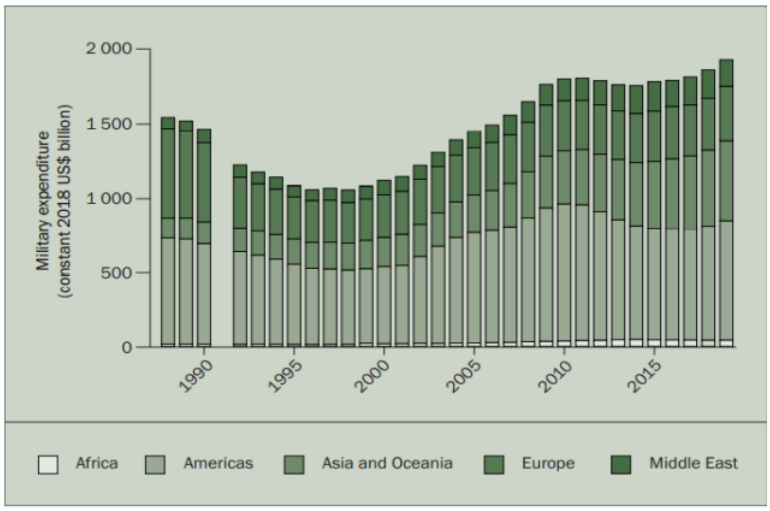

Fig. 6. Military expenditure, Da Silva et al. (2020)

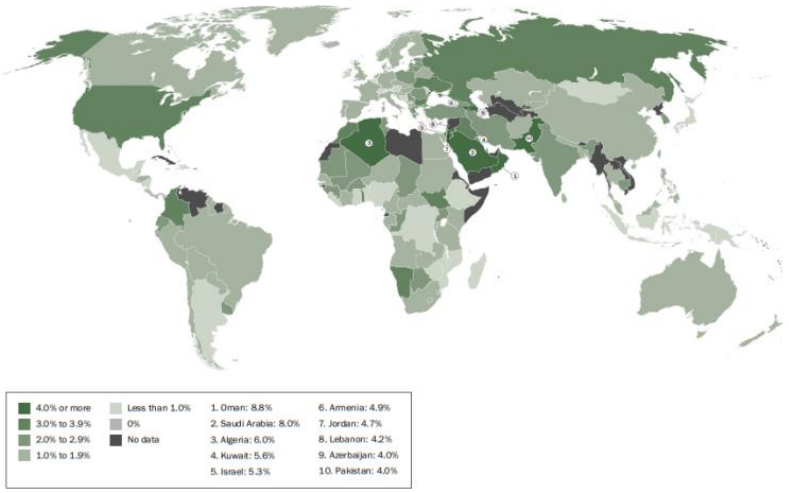

Fig. 7. Military burden, Da Silva et al. (2020)

In the graphs above it can be seen that both the military spending as military burden vary from region to region. In Europe military spending in 2019 summed up around 19% of total global spending, it has continually been increasing because of the Cold War, later the wars in the Middle Yeast followed by Russia's actions in the region. According to Perlo-Freeman (2016) the gradual increase can be observed through European history seeing two periods of decline, namely 1990-1995 and 2009. The greatest growth in military spending is observed in Eastern and Central Europe increasing more than 60% since 2010 (Da Silva et al., 2020). A substantial increase in military spending in the Central and Eastern European countries (CEE) can be associated with the increasing military spending, therefore the greater threat, of Russia (Wezeman in SIPRI, 2019). Military spending in Central Europe reflected the geopolitical realities of the time: being high during the Cold War, dropping after the collapse of the USSR, increasing again in response to the membership in NATO and the EU, falling down during the global financial crisis and increasing again since 2013 (Perlo-Freeman, 2016). The leading role in the CEE region is argued to be attributed to Poland, showing the greatest defence transformation in the last decades.

In Asia and Oceania military spending uninterruptedly has been going up since 1989 rounding up to roughly 27% of global defence spending. Ever since military spending grew more than 50% (Da Silva et al., 2020). This being associated with both the economic growth and regional tensions including the ones of Chinese claims in the South China Sea, India - Pakistan border tensions, North and South Koreas' ongoing conflict (Perlo-Freeman, 2016).

A rather dinamic military spending is seen in Africa whose share in the global defence spending rounds up to approximately 2%. Perlo-Freeman (2016) argues that debt burdens and proxy conflicts together with the rampant corruption are among the top reasons of rather stable somewhat falling defence spending in the region before 1995, followed by an increase in the couple of last decades as a response to the improving economies. However, a closer examination is needed for sub-regions where the defence spending situations differ considerably because of rampant corruption, civil wars, armed conflicts, regional tensions and other reasons.

Defence spending in Americas' rounds up to 43% in global share, out of which the USA and Canada together account for 92% of Americas' total spending and USA spending as 38% of total global spending (Da Silva et al., 2020). According to the authors, the increasing US defence spending suggests that the military competition between the great powers is coming back. As for the South and Central Americas and the Caribbean, defence spending is reflected by national challenges such as hyperinflation, debt crisis, drug wars, corruption, civil wars, etc. Perlo-Freeman (2016) emphasises that the spending is generally growing in response to economic growth and in some cases government strategy to combat drug cartels with the help of armed forces.

Regarding the situation in the Middle East and the lack of reliable data all the results should be interpreted with caution. Da Silva et al. (2020) argues that of the data available the conclusion of decreasing military spending can be made. However, Perlo-Freeman (2016) and Da Silva et al. (2020) emphasise the changing nature of military spending that is directly reflectant to regional tensions such as the Gulf War, the tensions between the State of Israel and its Arab neighbours, the ongoing Syrian civil war and others. From the data available it is observed that Israeli defence spending has steadily been increasing for the last decades being 30% higher in 2019 in comparison to 2010 (Da Silva et at., 2020). Among other important aspects of defence spending in the region is oil revenues and the defence investments of the United States to their key allies in the region.

3.4. Threat Perception

In order to illustrate greater and more diverse reasons for foreign policy, international cooperation, defence policy and expenditure, I opted to overview literature regarding the threat perception. Scholars of IR studies lay a focus on understanding the relationship between the origin 'sender' and destination 'receiver' of threat (Baldwin, 1993; Stein, 2013). However, various and diverse threats countries face come from different sources and different times, making it difficult to study the relationship. Jervis (1976) argues that different leaders perceive threats differently, therefore the perception and misperception are in need of studies. According to the scholar the security dilemma appears when countries try to increase their security by decreasing the security of others, resulting in competition and political fragmentation (Jervis, 1978). Moreover, the emphasis is put on the balance and differentiation of offence-defence ratio in the security dilemma, which illustrates the attractiveness of cooperation/ competition possibly leading to peace/ armed conflict (Quester, 1977; Ter Borg, 1992; Glaser, 1997; Nilsson, 2012). Literature suggests that threats are categorised into two main groups, namely the realistic (Realistic group conflict theory) and symbolic (Symbolic interactionism). Proponents of the former conflict category focus on the competition of different interest groups for resources (Jackson, 1993; McKenzie & Gabriel, 2017) while the proponents of the latter lay a focus on social-cultural and political clashes (Bruce & Blumer, 1988; Adler-Nissen, 2016; Carter & Fuller, 2016). This is used to explain the relationship between various social phenomena such as bigoted beliefs and the expressed support for far- right political ideology (Jost et al., 2017; Kristi et al., 2022), Oslo accords (Bernett, 1998; Adler-Nissen, 2016) and others. Furthermore, threats can also be categorised into the following groups: regular and irregular, violent and non- violent, verbal and physical, individual and organised, natural and man made, etc. Rousseau and Garcia-Retamero (2007) argue that the degree of shared identity positively impacts the level of cooperation and determines the perception of threats. Scholars, moreover, support the realist views regarding the increased perception of threat when national defence structures are weak.

Stein (2022, 2023) and Brandt et al. (2021) analyse the relationship between politics and threats. Authors argue that politicians, while measuring the severity, likelihood and response mechanisms of threats, often base their assumptions on their personal as well as national context. The nature of threats is multifaceted and therefore, it can be perceived differently by different individuals and countries. Often the accumulation of military power might signal the possibility of direct threat, however, the intended purposes might differ. In order to perceive the threat accurately it is important for the policy makers to keep historical, social and cultural context in mind over the personal biases. Scientists (Adorno et al., 1950; Stenner, 2005; Conway et al., 2020) highlight the relationship between political beliefs and perception of threat. Jost et al. (2017) emphasises the likelihood of individuals to adopt comforting psychologically beliefs that help people cope and act under threatening situations. Such affiliations are often regarding the right-wing ideology. Right-wing parties attract supporters through the propagation of societal traditions and acceptance of inequality, aspiring individuals to be more negative towards the social changes which they perceive as threatening situations (Hibbing et al., 2014). As such, threat perception is made by political, cultural and often economic beliefs (Choma & Hodson, 2017). Stein (2023) contributes to the understanding of threat perception by adding additional components- capabilities and probabilities. The former component examines the possibility of a possible threat that can be either actorless (e.g. pandemic) or with the actor, to inflict harm and if yes, the severity of it. The later component focuses on the likelihood of a threat to occur.

Evaluation of these components is methodologically challenging due to the subjectivity of individuals.

Threat perception in Europe varies from region to region based on geographical location, size of the economy, country's history, socio-cultural realities, government in office and other factors. Changing political climate within the NATO and EU member states and rising threats around the borders of Europe, followed by economic improvement encouraged many governments to increase military spending and pay more attention to the defence sector (Béraud-Sudreau & Giegerich, 2019). Growing aggression and militant rhetoric of the Russian federation, increasing China's presence in Europe, hybrid and unconventional warfare, rising terrorism and migration are considered as top threats of the majority of European countries (Weaver, 2018). Nevertheless, different countries evaluate and perceive these threats differently. Modernisation of armed forces of the Russian federation, militant rhetorics and actions in Ukraine are perceived differently in different parts of Europe. Threats arising from Russia are perceived as higher in the CEE region[2]. In response to the previously described actions of Russia the government of Lithuania not only indicated that "the major threat to the national security of Lithuania originates from Russia's aggressive intentions and actions"[3], but also increased military spending and reinstalled mandatory military service[4] (KAM, 2018; LRT, 2015). The annual growth in defence spending could illustrate changing threat perception and political climate by region. The graph below illustrates the difference in threat perception through military spending in Europe. It can be seen that different European regions in response to geopolitical events including Russia's actions of 2014 in Ukraine, react in different manner and speed. Quick reaction to emerging threats through military spending for the upcoming years is observed in Central and Northern countries, slower reactions can be seen in Southern and Western European countries. Due to the lack of newer freely available data, I make an assumption that similar trends would be observed in the current days.

[2] Other CEE countries such as Poland, Slovakia and Czech Republic hold similar views stating described actions violate international law and pose direct threat to territorial integrity. For the southern-European countries the focus lies on the terrorism and illegal migration flows converging from the Middle East, North and sub-Saharan Africa. These countries do not see Russian actions as threatening and are therefore not taking any measures regarding that. The Western part of Europe perceives terrorism as the greatest threat to the wellbeing of the region and only expresses a degree of concern regarding the Russian actions (Béraud-Sudreau & Giegerich, 2019).

[3] State Security Department of the Republic Of Lithuania Second Investigation Department Under the Ministry of National Defence. (2018). National Threat Assessment 2018. https://kam.lt/wp-content/uploads/2022/03/2018-gresmes-internetui-en.pdf

[4] Algirdas Acus, LRT, last modified September 8, 2015. https://www.lrt.lt/en/news-in-english/19/94044/lithuania-reintroduces-compulsory-military-service

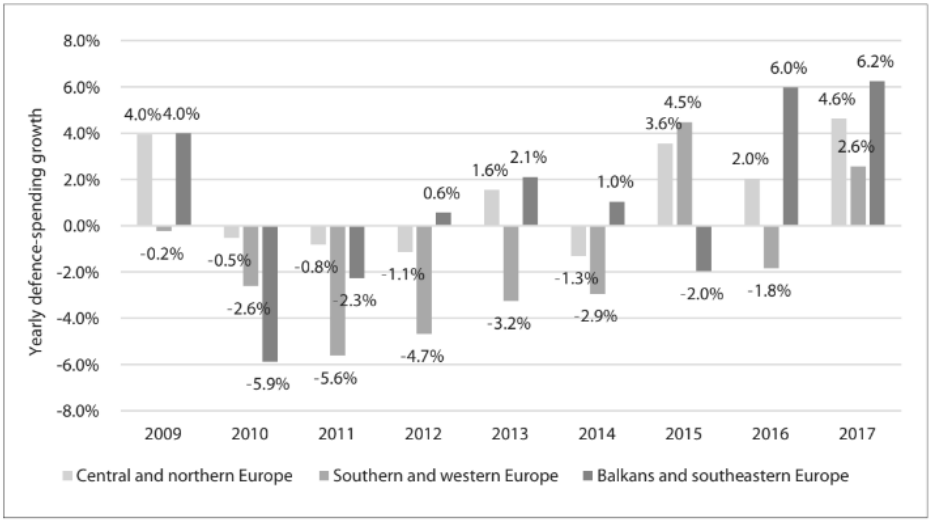

Fig. 8. Béraud-Sudreau & Giegerich, 2019, IISS Military Balance+ database

Similar situation appears in the field of defence- investment growth. Defence- investment spending is a type of military spending allocated to appliances and research and development (R&D) for the future defence products. This part of defence spending is crucial for meeting military capabilities in the short and long term (Béraud-Sudreau & Giegerich, 2019). The graph below illustrates the growth in defence-investment spending between 2011 and 2017 of NATO- EU member states. Most significant growth is seen in the Nordic- Central- Eastern region of Europe despite the limited industrial capabilities of these countries. Supporting previous arguments regarding diverse threat perceptions of different countries. These findings should be interpreted with caution bearing in mind the historical past of the CEE region and the association of military equipment inherited from Soviet times, and the need for modernization to NATO standards.

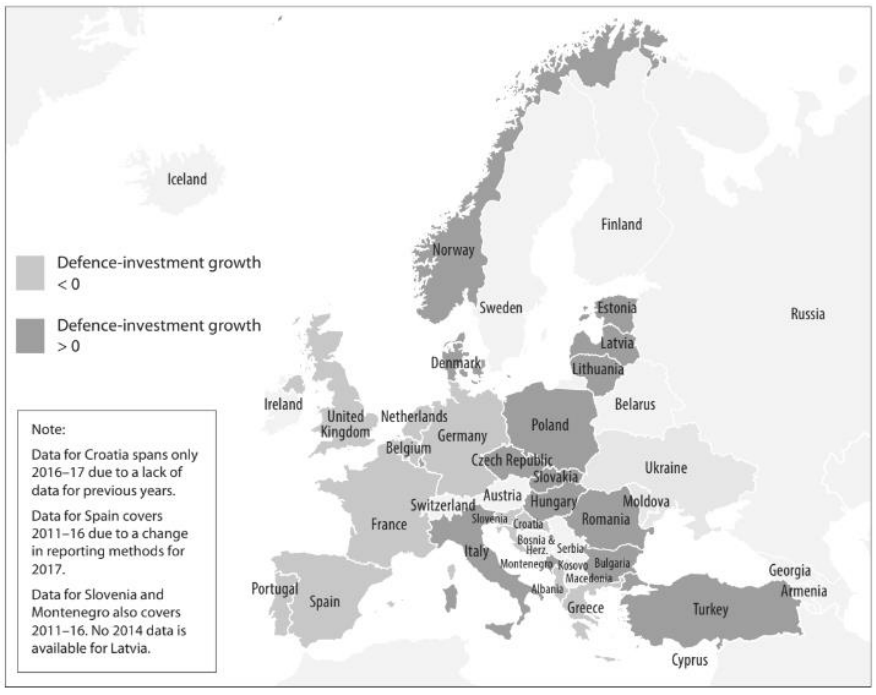

Fig. 9. Béraud-Sudreau & Giegerich, 2019, IISS Military Balance+ database

Despite the general trend in defence expenditure growth in Europe the substantial differences in defence-policy objectives and threat perception lies between the different blocks of countries (Béraud-Sudreau & Giegerich, 2019). Another important factor which influences threat perception and military spending is party ideologie. There is a pattern to be found with left leaning parties favouring expenditures on civil partnership through foreign aid programs, and right parties who are more in favour of hard power through implementations of pro- military expenditure policies. The foreign policy of a country is often decided by the political beliefs of individual leaders and ruling parties and can be evaluated by the spendings on defence and/or foreign aid. The ratio of investments in hard and civil pheriperies can as well determine regional and transatlantic relations.The presidency of Trump America brought active criticism towards European NATO allies regarding their low defence expenditures, resulting in growing tension between the countries (Wenzelburger & Böller, 2020; Schlipphak, 2021). Wenzelburger & Böller (2020) argue that democracies tend to spend similar shares on military as on foreign aid, however, the individual decision making and party ideologies paired with involvement in military conflicts and domestic constraints influence the ratio. Moreover, political leaders are considered as rational actors seeking for re-elections, thus the policies reflect the preferences of the possible voter base, which can lean either left or right. Regarding the accession of different types of threats, ideological camps' views differ. Proponents of the right- wing beliefs are more likely to assess violence based threats while the proponents of the left- wing beliefs lean towards economic ones (Eaden & Chang, 2019). The relationship, however, is nuanced. For example right-wing supporters show to be concerned about surveillance more than the ones of the left (Brandt et al., 2021). To conclude, threat perception is dependent on various factors including ideological beliefs, political agenda, geographical location and many more.

4. Geopolitics of XXI Century

In this section an overview of recent geopolitical events relevant to Central- Eastern European countries will be provided.

4.1. Definition

Some authors claim that geopolitics can be synonymous with political geography, due to the geographical dimensions. Nevertheless, geopolitics is concerned with the international relations and the agency and interests of major powers on the world stage (Storey, 2009). Simply put, geopolitics analyses the various events and power relations in the international arena. According to Flint (2021), geopolitics can be defined as the use of geographical entities for political reason. The emergence of geopolitics as a field of study began in the course of the 19th century, at a time when the geographical discoveries came to an end and nation states began to emerge. Interstate rivalry and competition was on the rise, and gave incentive to scholars and statesmen to formulate the first geopolitical theories, where geography was approached as a resource of power and as defining factor for cultural traits and historical patterns (Nestoras, 2023). The major powers at the time, Great Britain, Germany, Russia, and the USA, each brought forth their own geopolitical theorists which influenced domestic and foreign policies of these states, thus playing an important role in the relationships among these great powers. The growing imperialist ambitions and colonial expansions of the major powers transformed geography into a new scientific discipline used as a tool to legitimise colonial expansionism. 'Geopolitics' as a term was introduced in 1899 by Swedish political scientist and geographer Rudolf Kjellen, since then the term and concept has been subject to debates, thus finding one clear definition is a complex task. Inventor Kjellen defined the study of geopolitics as the impact of a nations' geographical location and the size of population on its national politics (Tunander, 2001). Geopolitics nowadays is highly connected with the study field of International Relations and often describes important political, economic and social events. The term is also being used to define interstate relations. Walton (2007) estimates that the future world affairs and international decision making will move to Eastern Eurasia, which culture will strongly impact great power politics.

4.2. Key Geopolitical Events of XXI Century

When looking at the key geopolitical events of the twenty- first century, a clear boundary in time has to be set. Multiple notable events took place over the course of twenty years. When discussing the key geopolitical events, the short and long term effects should be considered. In general on a geopolitical scale, in the twenty-first century as for now one can observe the unfolding from a bipolar towards a multi-polar world order. Geopolitical events have different regional, economic, political and social effects. For the purposes of this study, the main focus will lay in Russia's military activities in the Western Eurasian region, enlargement of the European Union and NATO and the Presidential elections in the USA in 2016.

A first notable geopolitical event in Europe relevant for the analysis of this study in the early years of the twenty first century can be identified in the enlargement of the European Union and NATO in 2004, that incorporated the majority of the Central and Eastern European countries into the alliances and marked a significant turn in the political, socio- economic and security dimensions of Europe. Before accession to both of these institutions, the candidate countries underwent significant national transformations. Sadurski (2004) argued that the membership of CEE countries in the EU should make the democratic transition irreversible. After 20 years of membership, some of the countries

show a great embrace of democratic values. However, the situation is more nuanced, the growing right- wing and (pseudo)populist movements undermined the set of democratisation expectations. The expansion of EU and NATO promoted increasingly provocative rhetoric and actions from Russia, which considers the Central and Eastern European countries as part of their sphere of influence. In response to the enlargements, Russia employed and is currently using soft power tools to reintegrate the former territories into its sphere of influence, by trying to influence local elites and decision makers through corruption, propagating the Russian identity in foreign diaspora, instilling general nostalgia of Soviet times and spreading disinformation in order to influence public opinion. In addition to the soft power tools Russians federation uses other types of hybrid warfare tools, one of the recent examples include migrant crisis between the EU and Belarus in order to destabilise and discredit some of the Baltic countries (Berzins, 2022). As mentioned above, the criteria for accession to the EU and NATO required economic, social and legal reforms, moreover both the EU as NATO sets different measures and guidelines that member states should adhere to (e.g. allocation of 2 percent of national GDP to defence spending, adhering to democratic values, meeting Copenhagen Criteria, etc.). The adherence to these criteria and commitments empowered CEE states to become credible members of the democratic family, with their own political agenda and goals. Scientists argue that the expansion of EU and NATO is a key factor of the deterioration of relations between Russia and the EU (De Bardeleben, 2013).

A subsequent relevant event is the Russo- Georgian War, erupted in 2008. Following the reorientation of Georgia towards the EU and the desire of joining NATO, the relation between Russia and Georgia deteriorated rapidly, culminating into the first armed conflict between the Russian Federation and an independent country since the Cold War. That marked the beginning of a new era of conflicts and a new style of warfare. Strong integration of non kinetic tools such as cyber ones into the physical war between two uniformed armies can be seen as the early stage of modern conflict that is better known as then hybrid warfare (Beehner et al., 2018). The background of this conflict dates back to the late XXth century when after the fall of Soviet Union Georgia declared independence. Within the newly formed republic situated different ethnicities other than Georgian, that strived for recognition and self autonomy. Being geographically concentrated in the North- West and Central parts of the Republic of Georgia, these ethnically different regions known as Abkhazia and South Ossetia showed sympathy for the Russian world and were heavily supported by the Russian Federation. Despite the cultural and historical ties between Georgia and Russia, Georgia wished to orient itself towards the West under the presidency of Mikheil Saakashvili, and after multiple reforms within the country a specific interest was expressed in the early 2000s to join NATO. Saakashvili understood the complexity and importance of the issues arising from the self- proclaimed provinces of Abkhazia and South Ossetia and strived for deeper integration of the regions to Georgia's territorial integrity (Bishku, 2022). These developments angered the Russian leadership that identified the Caucasus as part of their sphere of influence. In order to curb Georgian ambitions and political climate, Russia initiated a destabilising campaign. Before the direct military intervention and recognition of the breakaway republics, Russia took measures to alienate these republics further from a unification with Georgia by distributing Russian passports, expanding subsidies, etc. The tensions reached its height after Georgian attempts to re-establish control in the breakaway regions, and later the year followed by the recognition of Kosovo by the West. Hostilities began in August, when South Ossetia and Georgia accused each other of opening fire. Russia responded by occupying the South- Ossetian region, launching strikes on Georgian targets and landing troops in Abkhazia (Nichol, 2009). After five days of armed conflict, a ceasefire was reached followed by the recognition of Abkhazia and

South Ossetia as independent republics by Russia. Beehner et al. (2018) emphasise that this conflict played a significant role in the future actions against Ukraine. Authors argue that the lack of response and condemnation from the West contributed to an emboldening and increasingly aggressive stance of Russia. The war showed the first signs of the bigger geo strategic goals of Russia, asserting its influence in the post- Soviet region and challenging the West and young democracies.

Fig. 10. Administrative Map of Georgia, Nations Online. Accessed 07.11.2023. http://www.nationsonline.org/oneworld/map/georgia_map2.htm

A similar situation took place eight years later in Ukraine with the annexation of the Crimean peninsula by the Russian Federation and the self-proclamation as independent republics by Donetsk and Luhansk provinces. The Russian Federation considers Ukraine as a part of their influence and promotes the narrative of a deep- rooted brotherly connection. Historically, Ukraine remained a loyal neighbour, following the Kremlin's political agenda after gaining independence in 1991. Being exhausted by the rampant corruption, political stagnation and other socio-economic grievances, the Ukrainian people started expressing deeper interest towards the West. President Yanukovych, a sympathiser of the Russian regime, refused to sign an association agreement with the EU and preferred stearing the country to the economic community with Russia. It sparked a wave of massive protests known as Euromaidan followed by the Maidan Revolution, also known as the Revolution of Dignity, that brought together thousands of Ukrainians to the Maidan square in the capital city of Kyiv, pressuring the government to sign the association agreement with the EU. It can be considered among the primary causes of the conflict between Russia and Ukraine and a turning point in Ukrainian geopolitical discourse. After five days of tumultuous demonstrations in the square of Maidan, an agreement between the President and opposition was signed regarding the change in the country's constitution and government. In the upcoming days the association agreement was signed, sparking pro-Russian counter revolutionary protests in the East of the country. In light of these events Russia, seeking to discredit the pro- western movement, started a destabilisation campaign in the Crimean peninsula against Ukraine. Not only by utilising condemning rhetoric, but also by the use of hybrid warfare techniques, specifically by employing desinformation narratives supporting pro- Russian

Crimeans and rallying the local population against the newly formed Ukrainian government. Soon after, unmarked Russian forces, the so-called 'little green men', under the pretext of being 'freedom fighters for Crimea' started occupying the crucial infrastructure of the peninsula. Subsequently supporting the independence of Crimea and organising a highly contested and unconstitutional referendum for the incorporation into the Russian Federation under the 'accession treaties' (Czaplinski et al., 2019). The annexation process can be seen as another significant event in the power projection of Russia, wishing to retain influence over the region whilst also securing their political, economic and military interests. Under the pretext of protecting ethnic Russian minorities, and propagating an oppressive image of the central Ukrainian government, Russia attempts to justify its actions. In order to hide the true reasoning of the annexation, Russia invested in a narrative to bend reality in their favour. As such, the organised referendum was legitimised by the claim the Crimean people had the right of self determination and the free will to join the Russian Federation. Moreover, the Russian Federation overly demonised the Ukrainian government, identifying it with a neo- Nazi regime in order to bring forth the claim an independent Crimea was needed to protect the local population. Alongside the unfolding events in Crimea, Russian Federation backed separatists from Donbas region specifically- Donetsk and Luhansk, and their actions towards the dis-integration of the Ukrainian state. An escalating proxy war between Ukraine, Russian backed separatists and clandestine Russian forces erupted. After a stalemate conflict in the Donbas region and the mediation from Western- European countries, the Minsk agreements were signed, yet were unsuccessful in ending the hostilities. Similar to the annexation of Crimea, Russian actions in the East of Ukraine demonstrate the attempts to discourage post- Soviet countries' orientation towards the West (Beehner, 2018).

The Presidential elections in the United States in general can be considered as an important geopolitical event. Ever since The Second World War, the United States has held the status of a superpower, involving itself via hard and soft power in global affairs. The office of US President and the US Congress as decision makers are unarguably of substantial importance on the geopolitical stage, since the US is one of the strongest economies, wields the largest military and is perceived as playing a vital role in the international security structure. The Presidential elections of 2016 between Republican candidate Donald Trump and Democratic nominee Hillary Clinton proved to be a pivotal moment in recent history.

Trump's election signalled a return of core American conservative values in domestic and foreign affairs. Regarding the latter, the administration of Trump initiated multiple multinational agreement withdrawals, including the Paris Agreement, UNESCO, the Iran nuclear deal and others. His notorious narrative 'America First' expressed the desire of the administration to focus on domestic affairs, rather than to contribute financially to ensure global stability, empowered his presidency to pressure NATO allies to invest more in their national defence and military capabilities. Moreover, It can be observed that in the last decade the US reduced its influence on the management of international crises, in an attempt to avoid direct involvement in other long lasting conflicts, as could be noticed in the inaction in Syria and the withdrawals from Iraq and Afghanistan (Rutland, 2017). The change in policy perception was welcomed by the adversaries of the democratic world, especially in Russia, which saw an ideological ally in Trump and expected to meet their geopolitical agenda through his presidency. After the end of the Cold War, the bilateral relations between the US and Russia remained fragmented, therefore the previously described change in policy focus of the US were regarded as favourable. As later was proven, Russia showed a great interest in the presidential

elections in 2016, by employing cybertools attempting to influence public opinion regarding the two presidential candidates, disrupt the electoral process and discredit the democratic rule of Law, all the while propagating their own conservative, antiliberal worldview (McFaul & Kass, 2019). The usage of hybrid warfare extends to delegitimize and undermine Western democracies. In order to achieve their goals, Russia's tactic to target and exploit the internal weaknesses and divisions of the West is likely to remain the main tool to upkeep hybrid warfare (Beehner et al., 2018). The previously made statements regarding US foreign policies should be interpreted with nuance. Due to the volatile nature of Trump's decision making, it should be noted that his administration undertook some steps that aided in the attempt to stabilise regions where the US has a strategic interest (e.g. Abraham Accords) and to curb the economic influence of China.

The last notable event relevant for the analysis of this study, regards the recent Invasion of Ukraine in 2022. Under the pretext of a 'special military operation' aimed to oust the 'neo- Nazi' Ukrainian government and to protect the Russian ethnic minority living in Ukraine, the Russian Federation launched a full scale invasion of Ukraine in early 2022, violating its national integrity. The invasion can be seen as the escalation of the ongoing conflict in the Donbas region between Ukraine and Russia, and the switch from hybrid into classic conventional warfare. As it was described earlier, the tensions between Ukraine and Russia have been lasting for the last decade following Ukraine's willingness to turn towards the West and join NATO and EU. To ensure that Ukraine would not enter these alliances, the Russian Federation took several actions including setting demands for the West, increasingly ramping up aggressive rhetoric and a build- up of troops and military material on the border of Ukraine. Among the goals of the full scale invasion, Russia aimed to overthrow Kiev's government and install a pro-Kremlin regime, to discredit Ukraine internationally and prevent it from joining the EU and NATO, to restore the glory of Russia and incorporate breakaway provinces into Russian territory. It can be claimed that the invasion signified the return of the old style imperialist ambitions of Russia, in which diplomacy and ratio do not play a role (Marples, 2022). Russian military actions in Ukraine have been recognised as genocidal, including displacement of Ukrainian people and children, rape and torture, ethnic cleansing, russification, indiscriminate massacres and other acts that constitute warcrimes (Vittorio, 2023). The ongoing war affects not only Ukraine, but also has global implications. Scholars agree that the war has since influenced the global economy, energy and financial sectors, food supply chain to developing countries in Africa, EU policies and incentives for enlargement, national interests of many countries in their defence, etc. (Anghel & Džankić, 2023; Johannesson & Clowes, 2022; Behnassi & El Haiba 2022; Tian et al., 2023; George & Sandler, 2022). These effects in turn contribute towards the growing international polarisation and the deterioration of the livelihoods of millions of people.

Fig. 11. Map of Ukraine, Nations Online. Accessed 07.11.2023. https://www.nationsonline.org/oneworld/map/ukraine-political-map.htm

To summarise, the twenty-first century is rich with various notable events. Judging the scope of them, I have reviewed the events that are relevant for the analysis of this thesis. It can be seen that Russia's rising involvement in Western Eurasia sparked diverse reactions of the affiliated countries, directly and indirectly influencing the national and global agenda. Authors agree that Russia's militant actions will increase and diversify when they do not face any resistance or reaction from the West (Beehner et al., 2018), resulting in a more emboldened Russia pursuing its geopolitical goals and meeting its desired imperial ambitions.

5. Empirical Method

After reviewing and analysing relevant academic literature, the hypothesis for the thesis are proposed and will be empirically tested in this chapter. The section is structured as follows: in the first part of the chapter hypothesis will be proposed, further sections include the presentation of variables, descriptive statistics and data analysis. The final section of the chapter indluces overall conclusions, limitations of the research and recommendations for upcoming ones.

5.1. Hypothesis

Following the reviewed literature hypothesis of the thesis are constructed according to the logic described in the table below:

Table 3. Assumptions for the hypothesis

Size	Border with Russia	Expected Sensitivity Level	Possible Defence Spending	Possible Defence Import
Small	Yes	Most sensitivity	Increase	Increase
Small	No	Medium sensitivity	Increase	Increase
Medium-large	Yes	Medium sensitivity	Increase	Increase
Medium-large	No	No sensitivity	No change	No change

H1: Small CEE countries that share border with Russia are very sensitive to Russia's military actions, thus the defence spending increases;

H2: Small CEE countries that do not share border with Russia are somewhat sensitive to Russia's military actions, thus the defence spending increases;

H3: Medium-large CEEcountries that share border with Russia are somewhat sensitive to Russia's military actions, thus the defence spending increases;

H4: Medium-large CEE countries that do not share border with Russia are not sensitive to Russia's military actions, thus the defence spending is not changing;

H5: Small CEE countries import more defence products than medium-large countries in response to Russia's military actions in Western Eurasia.

5.2. Data Sample

The data sample includes 9 countries from the Central-Eastern European region, namely Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania and Bulgaria. I chose to include Finland, the 10th country to the sample due to its geographical location, existing border with Russia and historical- military precedents. Data is accumulated using the following databases: Stockholm International Peace Research Institute (SIPRI) and TheGlobalEconomy.com, offering newest data relevant for the analysis. The reason for this scope of countries derives from reviewed literature and the availability of data. The time period of consideration is 2000- 2022 with the

exceptions in case unavailable data. Any countries which have missing values of IV are later excluded from the statistical analysis. The aim is to find how the aggressive Russia's actions in Georgia and Ukraine, Presidential elections of the US and the enlargement of NATO and the EU influenced military spending and imports of military products in the CEE countries. I have pursued a research strategy of descriptive data analysis and have as well estimated two econometric models for testing different hypotheses. Consistent with the literature, I expect that countries that are smaller in size and share a border with Russia will react more sensitively to Russia's aggression in the region by increasing the military spending and importing more defence products than larger ones. In my research I group countries according to size using the same criteria method of small countries as Kurecic et al. (2017)[5] and the presence of the shared border with Russia.

5.3. Variables

Table 4. Variables for H1-4

Variable	**Source**
Defence spending (DV)	SIPRI
Size of the country	TheGlobalEconomy.com, Kurecic et al. (2017)
Shared border with Russia	-
Geopolitical events	-

Table 5. Variables for H5

Variable	**Code**	**Source**
Defence imports (DV)	IMPORTS_CAPITA	TheGlobalEconomy.com
Defence spending	MILSPEND_GOV	TheGlobalEconomy.com
Defence imports after war in Georgia in 2008 and annexation of Crimea in 2014	POST2008 and POST2014	TheGlobalEconomy.com
Shared border with Russia	BORDER	-
Size of the country	COUNTRY DUMMIES	-

5.4. Descriptive Statistics and Testing of Hypothesis 1-4

In order to test hypothesis 1-4, descriptive statistics are employed. Using Kurecic et al. (2017) threshold countries are grouped according to their size in the following way:

[5] The population size of a country as a quantitative criterion to define a small country was utilised, and the population threshold used was established at 12 million inhabitants. The threshold was set in relation among all the member states of the European Union. The choice to use the same criteria is made due to its relevance to the study of the CEE countries.

Table 6. Population size

Country	**Population size in millions (2022)**	**Large/Small**
Finland	5.56	Small
Estonia	1.34	Small
Latvia	1.88	Small
Lithuania	2.83	Small
Poland	37.56	Medium- large
Slovakia	5.43	Small
Czechia	10.53	Small
Hungary	9.68	Small
Bulgaria	6.47	Small
Romania	18.96	Medium- large

For the analysis and testing of the proposed hypothesis, I decided to look at the dependent variable- defence spending, by including data for countries of analysis in the span of 24 years. Using information gathered and compiled from SIPRI, following graphical visualisations were made. First, I will introduce the evolution of military burden. Military burden can be described as the ratio between the defence spending and GDP. The share of military burden indicates a country's willingness to invest in its security structure. Moreover, it can define a country's international commitment to global partnerships. Further on, I look at the change of the military spending per capita. It shows the overall spending divided for all the residents of the country. I chose to include this variable because it helps to compare the relative defence spending by country taking into account population size. Lastly, I include military spending in current US$ prices, as it shows the allocated defence spending in monetary means from each respective country.

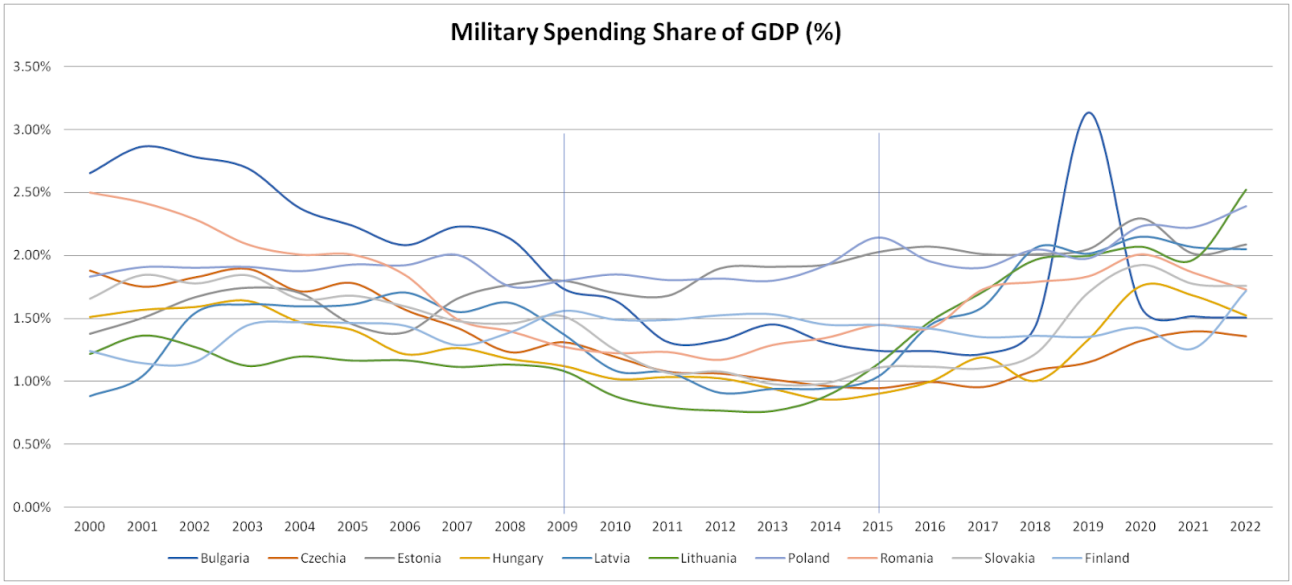

Fig. 12. Military spending as % GDP

Table 7. Military spending as % GDP

Share of GDP	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bulgaria	2.65%	2.86%	2.78%	2.69%	2.37%	2.24%	2.08%	2.23%	2.13%	1.74%	1.64%	1.31%	1.33%	1.45%	1.31%	1.25%	1.24%	1.22%	1.45%	3.13%	1.59%	1.52%	1.51%
Czechia	1.88%	1.75%	1.82%	1.89%	1.71%	1.78%	1.57%	1.42%	1.23%	1.31%	1.19%	1.08%	1.06%	1.02%	0.97%	0.95%	1.00%	0.96%	1.09%	1.15%	1.32%	1.40%	1.36%
Estonia	1.38%	1.50%	1.67%	1.74%	1.70%	1.45%	1.39%	1.66%	1.77%	1.80%	1.70%	1.68%	1.90%	1.91%	1.93%	2.03%	2.07%	2.01%	2.01%	2.05%	2.29%	2.01%	2.09%
Hungary	1.51%	1.57%	1.59%	1.64%	1.47%	1.41%	1.22%	1.27%	1.18%	1.13%	1.02%	1.04%	1.03%	0.94%	0.86%	0.90%	1.00%	1.19%	1.01%	1.34%	1.76%	1.68%	1.53%
Latvia	0.88%	1.04%	1.54%	1.61%	1.60%	1.61%	1.71%	1.55%	1.62%	1.38%	1.08%	1.07%	0.91%	0.94%	0.94%	1.04%	1.45%	1.59%	2.06%	2.01%	2.15%	2.07%	2.05%
Lithuania	1.22%	1.36%	1.27%	1.12%	1.20%	1.16%	1.17%	1.11%	1.13%	1.08%	0.88%	0.79%	0.77%	0.76%	0.88%	1.14%	1.48%	1.71%	1.97%	2.00%	2.07%	1.97%	2.52%
Poland	1.83%	1.91%	1.90%	1.91%	1.87%	1.93%	1.92%	2.00%	1.75%	1.80%	1.85%	1.80%	1.81%	1.80%	1.92%	2.14%	1.95%	1.90%	2.04%	1.98%	2.23%	2.22%	2.39%
Romania	2.50%	2.42%	2.29%	2.09%	2.01%	2.01%	1.85%	1.49%	1.40%	1.28%	1.23%	1.24%	1.17%	1.29%	1.35%	1.45%	1.43%	1.73%	1.79%	1.84%	2.01%	1.86%	1.73%
Slovakia	1.66%	1.84%	1.78%	1.84%	1.65%	1.68%	1.59%	1.48%	1.46%	1.52%	1.25%	1.07%	1.08%	0.98%	0.98%	1.11%	1.12%	1.10%	1.22%	1.70%	1.92%	1.77%	1.76%
Finland	1.24%	1.14%	1.15%	1.45%	1.47%	1.46%	1.44%	1.29%	1.39%	1.56%	1.49%	1.49%	1.53%	1.53%	1.45%	1.45%	1.42%	1.35%	1.36%	1.35%	1.43%	1.26%	1.72%

In the period of 22 years, military burden (defence spending as a share of GDP) among the CEE countries fluctuated in response to various national policies and global events. The enlargement of EU and NATO in 2004, does not show a particular upwards trend among the countries that joined NATO in 2004 (Bulgaria, Estonia, Latvia, Lithuania, Romania and Slovakia). The newly joined countries presumably had other domestic priorities, or the accession to both of the organisations might have been costly in preparation, resulting in stagnating or slightly decreasing expenditure for defence. The Russo- Georgian war in 2008 had similar outcomes. Defence spending of Czechia, Estonia, Poland, Slovakia and Finland, in the upcoming year was slightly increased while other five countries experienced budgetary cuts. An explanation of this trend is the very short duration of the conflict, which did not alarm other neighbouring countries. In the period from 2008 to 2013, a general dip in trend can be noticed. A possible explanation lies in the economic recovery of many countries in the aftermath of the global financial crisis that erupted in 2008. Since 2013 a tendency in increased military burden is seen. The response of selected CEE countries except Bulgaria and Czech Republic to Russia's involvement in Ukraine in 2014, was to allocate a greater share of GDP to military spending. An overall increase of 0.087% can be seen. Countries that share a common border with Russia (Finland, Estonia, Latvia, Lithuania and Poland) increased the burden by 0.136% in comparison to the previous years, while countries that do not have a shared border with Russia (Bulgaria, Czechia, Hungary, Romania and Slovakia) allocated 0.19% more in comparison to the previous year. With an exemption of Finland, which did not change the share of GDP to military budget, countries with a shared border allocated 0.17% more than in 2014. Lithuania and Poland increased their military burden the most respectively by 0.26 and 0.22 per cent in comparison to the

previous year. In 2017, at the beginning of the presidency of Donald Trump, no steep increase in defence burden can be detected. Overall increase of the countries of analysis is set at 0.6% in comparison to the previous year. However, it is worth noting that 6 out of 10 observed countries decreased their military budgets that year. The tendency of increasing defence burden can be traced back to 2014, therefore I can neither confirm nor deny Trump's influence in the overall growing defence burden. The overall increase in military burden in the year of the start of Russia's full scale invasion of Ukraine in 2022, in respect to 2021 was 0.9%. Countries that share borders with Russia increased the burden by 1.24%, while countries that do not have shared borders decreased it by 0.34% in comparison to 2021. Lithuania and Finland showed the greatest increase among the other countries respectively by 0.55% and 0.46% in comparison to the previous year. The one- time spike showing a sudden increase in military spending by Bulgaria can be explained by the acquisition of new fighter aircraft. The purchase agreement required to pay the full amount of the price at once, thus the allocated defence funds were significantly increased (Euractiv, 2020)[6]. Comparing the results of two medium- large countries of my analysis, namely Poland than has a shared border with Russia and Romania, that does not, it can be observed that after the Russo- Georgian war in 2008 and the start of Russia- Ukraine conflict in 2014 as well as in the year of 2022 when a full scale invasion started, Poland did increase its share of GDP dedicated to defence spending, in contrast, Romania decreased it. The increase of military burden in Poland went up by 0,05% in 2009, by 0.22% in 2015 and 0.17% in 2022, while in Romania it went down by 0.12% in 2009, increased by 0.1% in 2015 and went down again by 0.13% in 2022. These changes were measured in relation with the military spending of the previous calendar year. It supports H 3- 4, which states that medium-large countries that do not share a border with Russia, are less sensitive to Russia's militant actions in the region compared to medium-large countries that do have a shared border.

Comparing the results of small countries that have a shared border with Russia (Finland, Estonia, Latvia and Lithuania) with the small states that do not share its border with Russia (Czechia, Slovakia, Hungary and Bulgaria), it can be seen that countries with a shared border experiences an overall increase in military burden of 0.39% in 2015 and 0,27% in 2022, while countries that do not have a shared border with Russia saw an increase of 0.04% in 2015 and a decrease of 0.05% in 2022. The increase was measured in relation with the military spending of the previous calendar year. This partially supports the H 1- 2, that small countries that share borders with Russia are more sensitive to the military actions of the Russian Federation in the region than small countries that do not have a shared border. However, it does not support the assumption that military spending would increase in both cases.

[6] Alexandra Brzozowski, Euractiv, last modified April 27, 2023, https://www.euractiv.com/section/defence-and-security/news/military-spending-saw-biggest-increase-in-a-decade-in-2019/

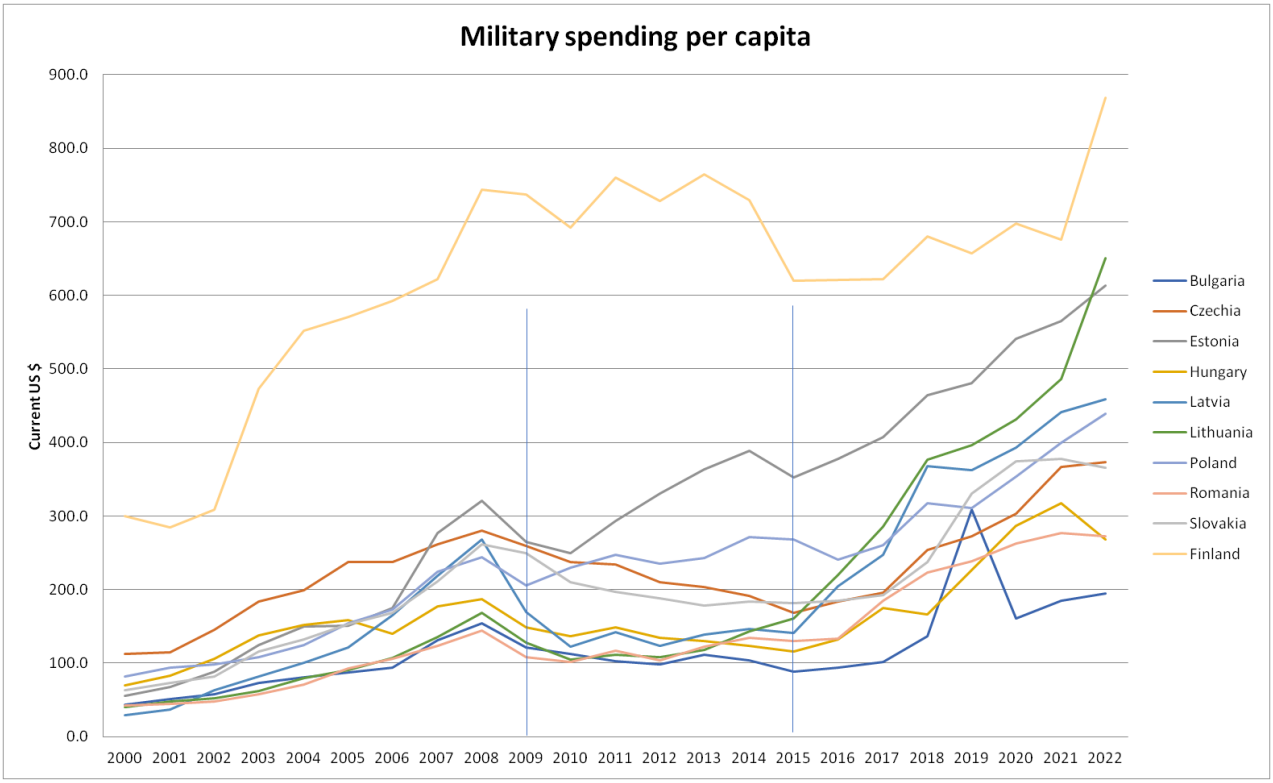

Fig. 13. Military spending per capita

Table 8. Military spending per capita

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bulgaria	43.9	51.2	58.0	72.9	80.2	86.9	93.8	130.7	154.4	121.1	112.1	102.7	98.5	111.3	103.2	87.8	93.8	101.4	136.3	308.4	161.1	184.9	195.2
Czechia	112.5	115.1	145.8	184.2	199.4	237.8	237.9	261.4	280.0	259.2	237.1	234.2	209.9	203.0	191.0	167.9	184.1	195.3	254.1	272.3	303.7	367.0	373.0
Estonia	56.0	67.4	88.3	124.8	150.3	150.8	175.2	276.8	320.6	264.5	249.4	293.1	330.2	363.4	389.1	352.5	377.9	407.5	464.8	480.4	541.2	565.0	613.4
Hungary	70.0	82.9	106.1	138.2	151.5	158.2	140.2	177.2	186.9	148.2	136.1	148.8	134.1	130.2	123.4	115.8	132.1	175.0	166.4	226.2	286.6	317.6	267.8
Latvia	29.4	36.9	63.1	82.0	100.6	121.0	165.3	219.1	268.0	169.6	122.5	141.8	123.6	138.7	146.3	141.5	204.9	247.3	367.9	362.8	393.5	440.9	459.0
Lithuania	40.1	48.0	52.7	61.8	80.1	90.9	106.5	135.6	168.5	127.8	104.5	111.8	107.9	117.9	143.7	160.7	219.9	285.5	377.1	396.3	431.3	485.8	650.7
Poland	81.6	94.2	98.1	108.0	124.4	153.7	172.6	223.9	243.7	206.1	229.3	247.0	235.1	243.1	271.6	268.5	241.2	260.1	317.5	311.1	353.2	399.8	439.1
Romania	42.3	44.8	48.3	57.6	70.9	92.3	106.0	124.0	144.0	107.8	101.9	117.0	104.0	121.8	134.3	129.5	133.6	184.3	223.5	238.2	262.6	277.1	272.5
Slovakia	63.4	73.0	81.5	115.6	131.7	152.5	168.8	211.0	261.5	250.0	210.5	196.9	188.4	178.5	183.8	181.4	184.3	192.6	237.7	330.3	374.9	378.1	365.2
Finland	300.3	284.5	309.1	473.5	551.9	570.3	592.9	622.2	744.1	737.7	692.7	760.6	728.2	765.1	729.8	620.2	621.1	622.6	679.8	657.1	698.2	676.3	868.2

Military spending per capita shows a trend of increase until the year of 2008. The sudden fall in overall spending per capita could have decreased due to the financial crisis and demographic changes. Finland, Czechia and Poland experienced slight population growth at the time. Combined with reduced defence spending in response to the financial crisis, the fall can be explained. Positive changes among the majority of countries can be observed in 2015. Among the other reasons Russian aggression in Ukraine the year prior is likely to have an effect. Population decline which was experienced by the majority of selected CEE countries could have a possible effect in the growth of spending per capita as well. Furthermore, the significant spending results per capita of Finland indicates a favourable economic condition of the country. As of 2015 and 2022, countries that have a shared border with Russia show the greatest spending per capita among all the observed countries. The general increase of military expenditure per capita might also indicate the growing investments of the governments in the military. That could be related with the desire to strengthen the defence sector by modernising and well-equipping national armies in order to function more effectively within the NATO framework and in response to changing geopolitical climate, Russia's aggression in the region and the trend of shrinking populations.

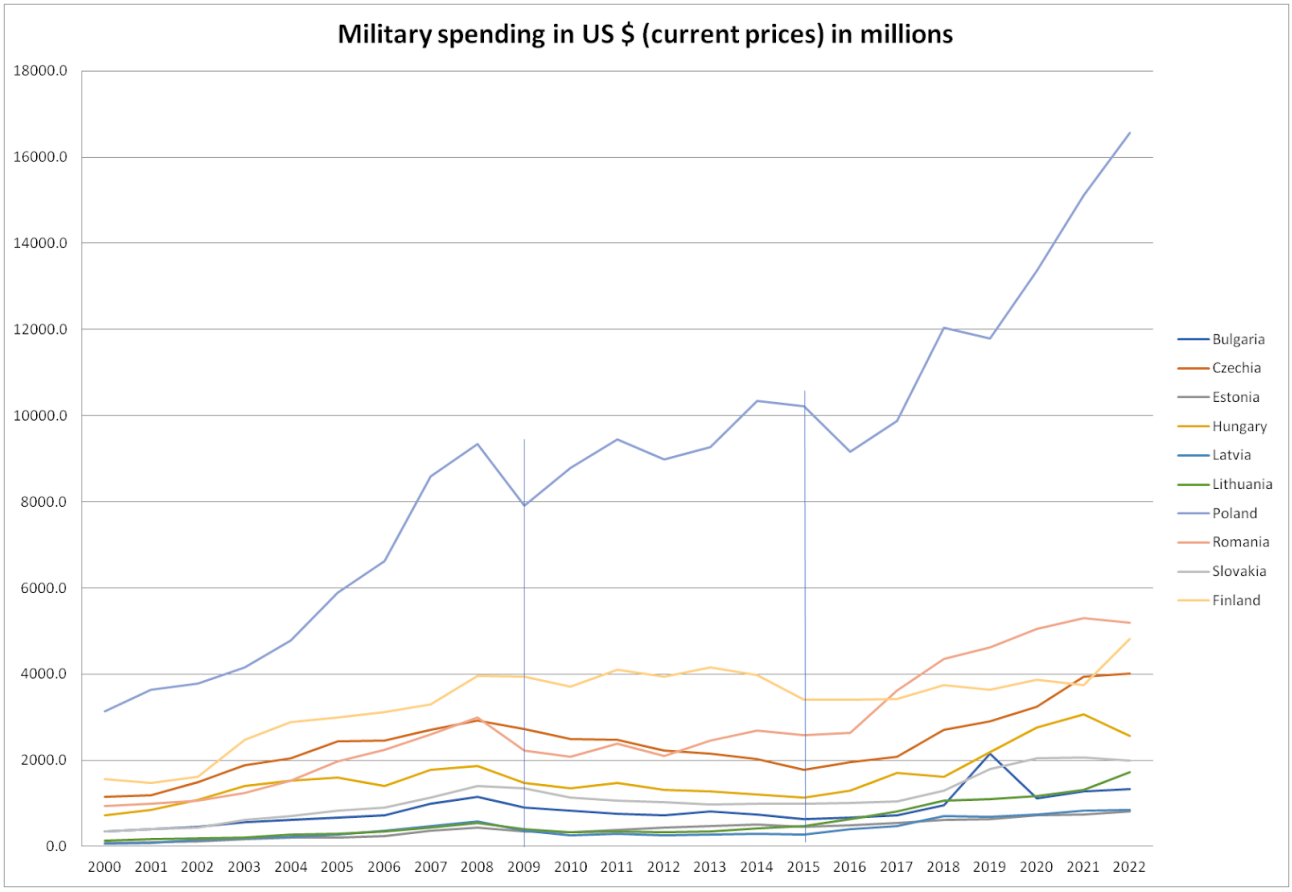

Fig. 14. Military spending in current US$

Table 9. Military spending in current US$

Military expenditure	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bulgaria	351.3	406.0	456.0	569.1	620.9	667.7	715.7	990.2	1161.5	905.0	832.5	757.9	722.1	811.6	747.5	632.5	670.6	720.0	961.3	2158.6	1119.0	1275.2	1336.0
Czechia	1157.3	1182.5	1494.4	1885.7	2042.1	2439.5	2450.0	2707.7	2918.7	2718.6	2497.9	2474.3	2220.6	2148.8	2022.9	1779.9	1954.9	2077.7	2710.0	2910.3	3252.5	3935.6	4005.4
Estonia	78.3	93.8	122.1	171.4	205.0	204.5	236.3	372.0	429.7	353.4	332.2	389.2	436.9	479.3	512.1	463.6	497.7	537.4	614.9	637.0	718.1	748.6	810.9
Hungary	715.9	845.1	1079.2	1401.6	1532.6	1596.1	1410.1	1776.5	1867.9	1475.8	1350.8	1472.1	1322.3	1280.1	1209.8	1132.5	1288.7	1702.6	1615.6	2190.6	2768.4	3060.1	2572.2
Latvia	70.0	87.0	147.2	189.1	229.4	272.6	367.8	481.5	581.8	363.8	259.7	296.8	255.7	283.6	295.7	282.7	404.6	482.5	709.4	691.9	742.0	823.1	848.8
Lithuania	140.4	166.9	181.5	210.8	270.8	303.8	351.6	442.0	541.4	404.8	326.3	344.6	328.6	354.9	426.9	471.2	635.4	812.1	1056.4	1093.8	1174.1	1306.8	1732.3
Poland	3146.1	3630.6	3776.2	4150.3	4778.6	5896.4	6619.4	8589.1	9349.4	7903.8	8790.2	9455.4	8986.8	9275.7	10345.2	10212.8	9164.2	9870.7	12040.7	11786.2	13368.4	15112.5	16573.1
Romania	935.6	985.7	1056.1	1250.3	1530.2	1976.0	2251.5	2607.7	3000.4	2225.1	2086.2	2379.9	2102.9	2452.5	2691.5	2580.6	2644.2	3622.1	4359.0	4613.0	5052.3	5300.0	5186.7
Slovakia	342.3	394.0	440.1	624.5	711.3	823.3	911.4	1139.2	1411.7	1350.3	1137.7	1064.8	1020.2	967.9	997.7	985.9	1003.0	1049.1	1296.0	1802.5	2047.2	2064.8	1994.2
Finland	1558.1	1479.3	1611.4	2475.1	2892.9	2999.4	3128.5	3296.6	3958.1	3940.6	3717.2	4099.5	3943.2	4161.1	3985.5	3399.1	3415.0	3431.1	3754.6	3635.2	3868.7	3752.4	4822.9

In the graph above, the military spending of selected countries in the current United States Dollars (US$) is provided. It can be seen that Poland has the greatest expenditure among the study countries. Romania, Finland, Czechia and Hungary are spending the most in US$, which indicates a bigger economy of these countries. For the analysis of this thesis, I aim to focus more on the analysis of military burden, and provide the graph and data of military spending in the US$ for illustrative purposes.

Unfortunately for the study, the data of military spending for the year 2023 to this day is not yet available. Therefore the decision was taken to analyse media and governmental sources of the separate EU member states in order to give a more complete analysis of the topic. In the table below the gathered information is provided.

Table 10. Expected defence spending 2023

Country	**Expected defence spending (in millions US$ and % of GDP)**	**Source**

Bulgaria	2532.5$ /1.85%	The Republic of Bulgaria Council of Ministers
Czechia	5100.0$/ 1.5%	International Trade Administration
Estonia	2.85%	News err
Hungary	4500.0$/ 2.4%	Daily News Hungary
Latvia	1089.4$/ 2.25%	Ministry of Defence Republic of Latvia
Lithuania	1958.7$/ 2.52%	Ministry of Defence Republic of Lithuania
Poland	29105.0$/ 3.9%	Statista
Romania	8615.7$/ 2.5%	KPMG România SRL
Slovakia	2620.0$/ 2.1%	Statista
Finland	6300.0$ /2.0%	Army Technology

Having in mind the possible inaccuracy of collected data, following assumptions are made. All of the countries experience an increase in military burden. For the first time, all the countries which are also members of NATO meet the 2% commitment goal. Furthermore, the overall increase can be associated with the ongoing war in Ukraine. It can be seen that Poland increases its military burden by 1.51% and Romania by 0.77%, supporting H 3 and rejecting H 4. In light of Russia's invasion of Ukraine, the Romanian president Klaus Iohannis[7] decided to commit a greater share of the national GDP towards defence spending. The deployment of a multinational NATO battlegroup in Romania in 2022 might explain the change to increase its military burden. Regarding the small countries that share a border with Russia, an increase of 0.31% is found, in comparison to the countries that do not share a border an increase reached 0.42%. This would go in line with the proposed hypothesis 1 and 2. The substantial increase of small countries that do not share borders with Russia can be explained by the need to catch-up after previous trends of decline and /or slow increase. Both of the comparisons are made in regard to the military burden of 2022.

5.5. Hypothesis 5 testing: Econometric Methodology and Regression Results

In order to test the hypothesis H5 I estimate two econometric models:

IMPORTS_CAPITA = MILSPEND_GOV + BORDER + POST2008 + COUNTRY DUMMIES;

IMPORTS_CAPITA = MILSPEND_GOV + BORDER + POST2014 + COUNTRY DUMMIES.

In the first regression I examine the change in defence imports after the Russo- Georgia war in 2008 while in the second regression investigate the change in defence imports after Russia's- Ukraine conflict in 2014. Due to the lack of available data for 2023, examination of the change of defence imports after Russia's invasion of Ukraine in 2022, is not yet possible.

In order to test the underlying hypotheses panel data analysis is performed. Gretl software is employed for such purposes. For both of my models I have conducted multiple normality tests, that

[7] The Shephard News Team, Shephards media, last modified March 15, 2022, https://www.shephardmedia.com/news/defence-notes/romania-pledges-to-raise-defence-spending/

are described below. Non stationarity: Augmented Dickey Fuller test shows that all variables in the equation are stationary. Other non-included values, such as population, GDP per capita, GDP overall, R&D spending are all strongly non-stationary and cannot be corrected by conventional means (logs, first differences, etc.). Heteroscedasticity: White's test shows homoscedastic errors for both models. Collinearity: VIF statistics are all under 5 for both models. Normality of residuals test: residuals of both models are not distributed normally. To solve the issue, I could take the log of IMPORTS_CAPITA. But that would generate missing values, making panels unbalanced. So, I decided to interpret the results with caution while keeping all original variables. Estimation procedure: because small countries are needed to be compared against some large country, I choose a case of fixed effects regression, therefore no further testing is needed. For the purposes of this testing I have omitted Poland as the big country – the largest and the most populous country of CEE – so all country dummies of the remaining countries are comparisons of those countries with Poland. Due to the missing data for the following countries they were eliminated from the testing: Finland, Romania and Bulgaria. Pooled Ordinary Least Squares (OLS) models for fixed country dummies are considered for testing the validity of hypotheses. Overall, the data for 8 categories over 23 periods of time was used, which resulted in 184 observations in total.

Figures below contain regression results for both models:

Model 1: Pooled OLS, using 184 observations
Included 8 cross-sectional units
Time-series length = 23
Dependent variable: IMPORT_CAPITA

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	−5,61952	3,09921	−1,813	0,0715	*
MILSP_GOVT	2,29494	0,679237	3,379	0,0009	***
POST2008	0,250854	1,22233	0,2052	0,8376	
BORDER	1,78416	2,40955	0,7405	0,4600	
du_1 CZE	3,13157	2,31826	1,351	0,1785	
du_2 EST	5,27247	2,31494	2,278	0,0240	**
du_3 HUN	3,36205	2,37494	1,416	0,1587	
du_4 LAT	2,87002	2,33163	1,231	0,2200	
du_5 LIT	5,50455	2,35982	2,333	0,0208	**
du_7 SLO	−1,56265	2,55510	−0,6116	0,5416	

Mean dependent var	6,704148	S.D. dependent var	8,525755
Sum squared resid	10656,35	S.E. of regression	7,825814
R-squared	0,198891	**Adjusted R-squared**	**0,157454**
F(9, 174)	**4,799882**	**P-value(F)**	**9,99e-06**
Log-likelihood	−634,5104	Akaike criterion	1289,021
Schwarz criterion	1321,170	Hannan-Quinn	1302,051
rho	0,254660	**Durbin-Watson**	**1,444358**

Fig. 15. Outcomes of the model 1

Model 2: Pooled OLS, using 184 observations
Included 8 cross-sectional units
Time-series length = 23
Dependent variable: IMPORT_CAPITA

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	−5,19601	2,79574	−1,859	0,0648	*
MILSP_GOVT	2,11591	0,680114	3,111	0,0022	***
BORDER	1,96686	2,40606	0,8175	0,4148	
POST2014	0,998762	1,25413	0,7964	0,4269	
du_1	3,07335	2,31438	1,328	0,1859	
du_2	5,32065	2,31105	2,302	0,0225	**
du_3	3,21416	2,37131	1,355	0,1770	
du_4	2,78221	2,32781	1,195	0,2336	
du_5	5,37456	2,35612	2,281	0,0238	**
du_7	−1,27355	2,55217	−0,4990	0,6184	

Mean dependent var	6,704148	S.D. dependent var	8,525755
Sum squared resid	10620,22	S.E. of regression	7,812536
R-squared	0,201607	Adjusted R-squared	0,160311
F(9, 174)	4,881985	P-value(F)	7,77e-06
Log-likelihood	−634,1979	Akaike criterion	1288,396
Schwarz criterion	1320,545	Hannan-Quinn	1301,426
rho	0,254620	Durbin-Watson	1,446028

Fig. 16. Outcomes of the model 2

The results presented above partly support my argument that small countries import more defence products after Russia's aggression in Georgia (2008) and Ukraine (2014) over the large countries. Coefficients for both models (0.25 for model 1 and 0.99 for model 2) show that all the smaller CEE countries except Slovakia, are proven to engage in imports more than Poland. High country dummy coefficients for both models show the strong increase in defence imports among the small CEE countries in comparison to Poland. The lower import level in comparison to Poland of defence production by Slovakia might be explained by the inherited Czechoslovakian defence industry and ability of the country to meet its own needs by domestic production. It might as well be an indication of an already well equipped army and the conviction of Slovakia that its national security is safeguarded by NATO allies. Slovakia might not deem the Russian actions in the region as hostile, or does not possess adequate defence funds. Countries having a shared border with Russia except Latvia showed to be importing more than the countries that do not share the border with Russia. The decision of the Latvian government to increase the import of defence products in lower than other countries' coefficient rate might indicate the country's fragmented defence budget, sense of urgency, possibility of a bigger stockpile of defence products. Defence spending showed a statistical significance with the p-value below 0.05. This implies that a 1 billion US dollar increase in national defence spending would result in 2.29 times after 2008 and 2.12 times after 2014 increase in defence imports overall. To summarise, hypothesis 5 can partly be accepted. Based on the findings of Model 1 and 2, it can be stated that small countries are likely to import more of the defence products in response to Russia's actions in the region than big countries . A negative relationship between the variables can be found in one of seven countries of the analysis. After reviewing some more academic literature and information sources, it was found that Slovakia does have a long lasting and strong national defence industry (Ostatník & Potočňák, 2023; Chovancik, 2018), which could explain its low need of imports. The developed Polish defence industry could also suggest the country's relatively

low need for defence imports. High coefficients for Estonia and Latvia in comparison to the ones of Czechia, Latvia and Hungary could imply the high threat perception because of the proximity or historical background to Russian Federation or less developed national defence industries. For the more accurate analysis, the scope of selected countries should increase and the variable regarding national defence industries should appear. Lastly, the high coefficients for Lithuania and Estonia could partly support the H 1-4 regarding the level of sensitivity of small countries that share borders with Russia.

5.6. Limitations and Recommendations

This study has multiple limitations. As I draw the attention to these shortcomings, I also propose recommendations that could be applied in the later studies of the field. First of all, the study of small states in international relations is a relatively new field, therefore I faced issues finding a sufficient amount of sources that would support my study. The only recommendation to that end in my opinion, would be to encourage scholars to engage and contribute to this field of study. Similar issues were faced while exploring the defence industry subject. Due to the sensitivity of the topic, it was challenging finding detailed and usable information. For the further research, I would propose to dedicate time in systemising and exploring available information, that is often available only in different national languages. However, a great share of information regarding the defence industry is marked as classified, therefore it is important to choose an angle of study which could provide available data and information access. Furthermore, a great share of the available information regarding the topics of military spending and defence industry, was only accessible under paid subscription. More transparency in official sources, greater diversity and availability of information towards the subject matter, would increase the likelihood of a better exploration and analysis of this field. Regarding the empirical analysis and testing of H5 limitations lay in the suboptimal number of countries of analysis. Due to the lack of available data for some CEE countries they were eliminated from the analysis leaving the analysis partly incomplete. Furthermore, the estimated models showed low significance levels for some of the variables. For future research, I would suggest including more countries to the analysis and exploit the effects of the national defence industry on the imports of defence products.

Conclusions

In this thesis I study the relationship between the effects of geopolitical events and defence spending and imports of defence products in small countries. The changing geopolitical climate and rising tensions worldwide, gave inspiration to the choice of the topic. Understanding the differences between the reactions of small and big countries can help national policymakers to adjust their policies and offer better preparation for external shocks. A relative small amount of studies in this field were conducted, resulting in a gap of knowledge and an incomplete view on this topic. An overview of various international relations and economic theories was made in order to deepen the understanding of the relationship. Literature suggests that small countries are more dependent on bilateral cooperation with bigger countries and multilateral partnership through international institutions and organisations (Bailes & Thorhallsson, 2013). Furthermore, the reviewed literature points out the greater exposure of small countries towards foreign events (Thorhallson, 2018). I chose to investigate these assumptions by comparing the reaction of small and large countries of Central-Eastern Europe to militant Russia's actions in Western Eurasia. The hypotheses implied that small countries that have a shared border with Russia are likely to be more sensitive to Russia's aggression than the small countries that do not, or the larger states. In addition, it was assumed that small countries would engage in the import of defence products more than large states, in response to the aggressive demeanour of the Russian Federation. The empirical analysis partly supported the hypothesis regarding the imports of defence products. Two models were tested to measure the change of imports in respect to the relation between small and big countries within two periods of time, after the war between Russia and Georgia in 2008 and the annexation of Crimea in 2014. Results partially supported the hypothesis, with an exception of one country (Slovakia), that proved to have a well developed national defence industry and be likely to engage in imports less than other countries. More nuanced results appeared while testing the hypothesis regarding the sensitivity level of countries and expected changes in defence spending. The results showed different outcomes for the different periods of time. Generally, small countries that share a border with Russia showed an overall sensitive reaction from Russia's actions by increasing its military burden. The overall results from non bordering small countries however, showed a fluctuating trend, both increasing as decreasing their military burden. Regarding the large countries in the region, it can be noticed that Poland, the only large country that shares a border with Russia, reacted by an increase in military burden in response to Russia's aggression. Romania on the other hand, which does not share a border with Russia, has a fluctuating trend. Therefore the proposed hypotheses can be both accepted and rejected for the specific periods of examination. All the countries considered in Central Eastern Europe, no matter their size or whether they share a border with Russia, showed an increase in military burden in 2023, and met the NATO 2% commitment. These results, however, should be interpreted with caution, due to the lack of official end data. It can be stated that the impact of geopolitical events on the defence spending in small countries is ambiguous. Depending on the type of the event, its severity and proximity as well as other socio-economic and political factors. Furthermore, the responses of small and large countries to Russia's aggressive actions do not differ considerably. All the countries despite their size showed a positive growth in defence imports after the Russo- Georgia war. As for the defence spending, countries showed different results for different times of analysis, making it difficult to define a clear difference in tendencies. For further research I propose to include variables regarding the national defence industry capabilities and their background (e.g. privatisation versus nationalisation, governmental subsidies, etc.). Despite the inconclusive results that varied based on the timeframe, I believe it contributed to the academic debate regarding the study of small states.

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