

VLOGA FINANČNIH VIROV PRI UVELJAVLJANJU SODOBNE VARNOSTNE PARADIGME NA OBRAMBNEM PODROČJU V IZBRANIH DRŽAVAH

THE ROLE OF FINANCIAL RESOURCES IN ESTABLISHING CONTEMPORARY SECURITY PARADIGM IN DEFENCE AREA FOR THE SELECTED COUNTRIES

Povzetek Večplastno varnostno okolje in izzivi sodobnega sveta, s katerimi se vsak dan srečujemo, predstavljajo rdečo nit članka, v katerem trdim, da se mora obrambni sistem kot del nacionalnovarnostnega sistema sodobne družbe nenehno prilagajati izzivom okolja, v katerem deluje. Le njegovo nenehno prilagajanje mu namreč omogoča, da se učinkovito odzove na izzive, ki jih prinašajo s seboj procesi globalizacije, tudi na področju varnosti. Izziv predstavlja področje organiziranosti obrambnih sistemov in finančnih virov, ki zagotavljajo njihovo delovanje po posameznih državah. Omenjeno področje je namreč v državah različno urejeno oziroma so se države večinoma različno lotile organiziranja oziroma prilagajanja sistema na izzive sodobnega okolja. Uspešnost njihovega prilagajanja bo merljiva šele čez čas. Strateški in usmerjevalni dokumenti določajo tudi preoblikovanje obrambnega sistema Slovenije, zato je smiselno upoštevati tudi primere dobre prakse in pristope, ki so jih uporabile izbrane države. Le s pravočasnim in celovito izvedenim preoblikovanjem obrambnega sistema se bo zagotovila še učinkovitejša podpora obrambnemu sistemu in v nujnem obsegu tudi sistemu varstva pred naravnimi in drugimi nesrečami.

Ključne besede *Sodobno varnostno okolje, globalizirana varnost, bruto družbeni proizvod, finančni viri, obrambni sistem, preoblikovanje obrambnih zmogljivosti.*

Abstract This paper examines a complex security environment and every-day challenges of the modern world. According to the author, the national defence system, as part of the national security system in a modern society, should constantly adapt to challenges of the environment in which it operates. Only in this way, it is possible for the defence system to effectively respond to the challenges of globalization processes, including those pertaining to security. The challenge exists in the organisation of defence systems and financial resources providing their functioning in individual countries. In this respect, countries are organized differently or have started

to introduce the organizing or adapting of the system to the challenges of the modern environment in a different way. The success of their adaptation will only become measurable over time. Since Slovenian strategic and guidance documents lay down the transformation of the Slovenian defence system, it is reasonable to consider the examples of good practice and follow the approaches used by selected countries. Only timely and comprehensive transformation of the defence system will provide a more efficient support to the defence system and to the system of protection against natural and other disasters, to the necessary extent.

Key words *Contemporary security environment, globalised security, gross domestic product, financial resources, defence system, transformation of defence capabilities.*

Introduction People perceive and understand threats in different ways, depending on where and in what conditions they work. Thus, the international as well as the national security environments of the 21st century are faced with various sources of threat and risks to security that, from a geographical point of view, occur at global, transnational and national levels (The Resolution on the National Security Strategy of the Republic of Slovenia, 2010). They are complex, correlated or independent, synergistic and interoperable by nature. Furthermore, they are often very hard to predict and have a multiplier effect and character. They are usually posed by non-state entities. Such perception of the contemporary security environment and, consequently, the understanding of security have been affected by a number of processes which have brought about many important shifts, triggered numerous processes and fundamentally rearranged the political and security appearance of Europe in terms of international relations, both at regional and global levels (Stelle, 2002).

Globalisation, universalisation and information revolution, and the subsequent high level of interdependence, have also contributed to the changing security risks and threats. These processes bring all the risks or increase their influence on security level and, consequently, on the price required by the security. Hence, the more far-reaching the effects and consequences of the globalisation processes, the greater the diversity and impact of contemporary security risks and threats on the security of different references. On this basis, it could be concluded that globalization and security are mutually dependent and directly proportional. In other words, the higher the risk and the greater the threat, the higher the price of security. As a consequence, security is increasingly globalised not only in financial but also in geo-strategic terms, and is thus becoming globalised security.

Perception and understanding of security in modern society is affected by modified sources of threat which move the understanding and study of security away from the traditional forms, focusing on state or national security, towards modern forms of study that are mostly related to the security of the individual and the international community. In the past, security environment had military and political dimensions. Today, however, the wider social, cultural and civilization dimensions are stepping into the forefront (Grizold 2005, p.7).

All this diversity of processes and related impacts, including security risks posed by rapid changes in the society, on the one hand, and new opportunities and challenges, on the other, have triggered a number of unstoppable processes within the existing national security systems which are, under a new, contemporary security paradigm, changing the role of the government in providing security to its citizens and residents. Security efforts belong to the category of culture and civilization, which covers all aspects of security, including economic, social, political, legal and defence aspects. It could be argued that the concept of security covers social values at the regional, national, international and global levels (Anžič, 1997, p.35).

The modern security paradigm deals with three basic conceptual frameworks of security: individual, national and international. When the security needs felt by an individual are met and satisfied, this allows for the quality development, existence and functioning of an individual in a society and in the environment (Brezovšek and Črnčec, 2007, p.17). Thus security is a social phenomenon which is related to all entities, that is both to the individual as well as to all organizational forms of networking and integration, at any level. Contemporary security discussions are mainly addressing the following three references: first, who the security refers to; second, the origins of security threats; and third, what security mechanisms should be employed for the provision of appropriate level of security (Liotta in Svete 2005, p. 55).

Post-modern or more complex approaches to dealing with security, where also non-state actors have started to enter security discussions, go back to the beginning of 1970s. However, this new or modern understanding of security could be linked with the end of the Cold War and processes in international community that followed, when man and his security have increasingly been stressed out among references. Moreover, discussions on security entities, security as emancipation, danger dilemma, social and human security and risk society have become more and more legitimate (Newman in Svete, 2005, p. 57). These rather complex security definitions should be understood as a consequence of rapid social development, and changes to the international environment and traditional concept of threat.

The large number of references may lead to the conclusion that there is no consensus in contemporary security studies about references, due to excessive interconnectedness and interdependency. Similarly, sources of threat cannot be determined based on a single reference. In addition, it should be noted that references may not necessarily be only facilities under threat, but may also present potential sources of threat to other references. On this basis, it could be concluded that the period concerned has been characterized by an increase in the number of non-military sources of risk, and also in the number of references that may be potentially affected. A new understanding of security and the related threats will only be possible to develop in the future due to an increase in the number of references and not so much due to sources of threat, be it real or detected.

The provision of security requires financial resources. These, however, often lack in a modern changing environment, or at least their distribution is not proportional. One of the reasons for such situation is globalization. According to Lechner (2009, pp. 15-16), globalization is a "process in which an increasing number of people are connected in different ways across larger distances. It refers to transplanetary – and recently also to supraterritorial – connections between people, ranging from reduction of boundaries to transglobal social contacts."

One of the forms of globalization that is closely connected to financial resources is economic globalization. Bhagwati (2004, p.3) defines economic globalization as a form of integration of national economies into international economy through the international trade, exchange and production, foreign direct investment, short-term capital flow, international labour migration and transfer of technology. Such understanding of globalization strongly emphasizes economic efficiency, new knowledge and ideas, market behaviour and management, global market competition, facilitation of foreign direct investment and efficient allocation of production factors.

Globalization can also be seen as liberization in relation to the processes of international economic integration in which political barriers to trade and investment in global economy between countries have been removed. It is also associated with the concept of deterritorialization in terms of reorganization of social space which is no longer controlled by territorial space or territorial boundaries. This results in the reduction of trade barriers, thus bringing progress to transport, flow of resources, capital¹, services, technology, ideas, information and communications, and allowing for global dispersion of activities and creation of economies of scale (Kovač et al., 2008, p. 54).

Economic globalization is not an unstoppable or irreversible process, and it does not have a short-term influence. On the contrary, it causes long-term structural changes in the global economy, especially in the nature and scope of integration of different factors, investments and end markets. Most theorists (Kovač et al., 2008, p. 59) believe that economic globalization presents new challenges to the national state. Due to rapidly-growing markets, some nation states have lost or have been slowly losing their supremacy, power and autonomy, and have had increasingly less control and influence over social and economic processes in their traditional space. Liberation, privatization and deregulation have changed their traditional role of the nation state. According to Rizman (2001, p. 31), only those nation states that are willing to adapt and modernize their internal policy and in international space can hope for their long-term survival and development. The old type of nation states can no longer exist in modern international environment, as contemporary challenges require different operational contexts of a nation state.

In such a complex, dynamic and interdependent modern international security environment, subjected to unpredictable global changes, and given the variety and multiplicativity of modern sources of threat and security risks, countries can no longer autonomously ensure their own national security. Furthermore,

integration and partnership cooperation as well as multinational participation in various projects are essential also in terms of limited financial resources for the development of required military capabilities. The Republic of Slovenia was no exception in this and by entering into the EU and NATO, the two key factors assuring international peace and stability in the Euro-Atlantic region, Slovenia was granted access to a community that provides long-term stability, support, cooperation and security at regional level and in the wider environment.

The new NATO Strategic Concept adopted in 2010 is yet another proof that the international environment is highly complex and requires a multidisciplinary approach and continuous adaptation to new threats and security challenges. The decisions of the Lisbon summit also pertain to structural reforms, capability transformation, commitment to the principles of the United Nations Charter, and strengthening of relations with the EU and the Alliance's open door policy. Realising the importance of the security situation and as the exit strategy in the current situation, NATO Secretary General, A. F. Rasmussen introduced already in 2011 at the Munich Security Conference 2011 the following initiative on behalf of NATO: "I know that in an age of austerity, we cannot spend more. But neither should we spend less. *So the answer is to spend better. And to get better value for money. To help nations to preserve capabilities and to deliver new ones. This means we must prioritize, we must specialize, and we must seek multinational solutions. Taken together, this is what I call Smart Defence².*"

The discussion in the continuation will present the impact of financial resources on the establishment of contemporary security paradigm in defence area, with the focus on defence capabilities in selected countries. Using the comparative method, financial resources earmarked by the nations for the operations in this area will be defined, as well as the impacts, similarities and differences brought about by the trends in financial resources that are earmarked for the operations of defence systems. The impact and establishment of contemporary security paradigm can be best seen from the trends in the provision of financial resources earmarked for the building and operability of defence capabilities in selected countries. The data acquired from various Slovenian and foreign sources have been analyzed using a qualitative approach, followed by a secondary interpretation of statistical results. In connection with the above-mentioned method, the analytic-synthetic method has also been adopted to analyze various written sources in detail, whereas an analytic approach was used in the search and proper evaluation of common points.

The research presented in this paper has, of course, employed both the inductive and the deductive research methods. The first has been used in conclusions, summaries and personal reflections, which include some key findings of the entire analysis, whereas the second has been used in the remaining part of the paper.

Table 1:
Selected
countries

After a thorough analysis on how to obtain relevant and comparable results¹, the following countries have been selected for comparison:

| No. | Country | Neighbouring country | NATO member country | Neutral country | Mandatory military service |
|-----|----------------------|----------------------|---------------------|-----------------|----------------------------|
| 1. | Republic of Austria | X | | X | X |
| 2. | Italian Republic | X | X | | |
| 3. | Republic of Hungary | X | X | | |
| 4. | Republic of Croatia | X | X | | |
| 5. | Republic of Slovenia | | X | | |

Table 1 (Selected countries) includes Slovenia and its four neighbouring countries, of which Italy, Croatia and Hungary are NATO members with professional armies, whereas Austria has the status of neutrality and still has mandatory military service.

The comparative analysis examines the period from 2005 onwards, after following Slovenia's full membership of the EU and NATO in 2004. The data on various indicators of the selected countries have been acquired from the Military Balance 2005–2012² (The International Institute for Strategic Studies, IISS), which proved most credible, transparent and comparable during data collection, while data on the defence budget trend³ for the period 2010–2015 and on the defence system structure of the selected countries have been obtained from the IHS Jane's: Defence & Security & Analysis. Originally, the data on financial indicators in the Military Balance are expressed in U.S. dollars, but have been converted to Euro for convenience sake⁴. The paper presents and analyses the following key indicators: gross domestic product, expressed in the amount – GDP; gross domestic product *per capita* or per inhabitant, expressed in Euro (in 1,000) – BDP pc; the amount of defence budget, expressed in Euro – DB; and the amount of defence budget, expressed in % of the GDP – DB.

¹ For the sake of convenience, the obtained results are presented in a table. After the quantitative data of mutually comparable countries have been gathered, they will be listed in tables and charts, as appropriate, and processed using different methods. At the end, an interpretation is given.

² The case of Austrian GDP amount expressed in USD will be used to show the differences that arise due to information from various sources. According to IHS Jane's Defense & Security Intelligence & Analysis, the GDP amounts to \$320 bn.; according to CIA's the World's Factbook it is \$376.8 bn.; and according to Global Finance, it totals \$405.6 bn. The differences range from 1.8% up to 9.5%. On the basis of this example, it can be concluded that the differences occur depending on the institution collecting the data, especially on whether it is state- or private-owned. This conclusion also applies to all the countries included in this analysis.

³ For Austria and Croatia, the financial burden of the defence system is determined in the defence budget. Therefore, only the defence budget, regardless of defence expenditure, will be used for a valid and uniform comparison to other countries.

⁴ The currency exchange from USD to EUR or national currencies in USD and later in EUR is based on the foreign exchange rate used in the Military Balance, which was applicable at the time of performing the analysis. The currency rate was as follows: 1 USD = 0.79 EUR in 2005; 1 USD = 0.78 EUR in 2006; 1 USD = 0.70 EUR in 2007; 1 USD = 0.74 EUR in 2008; 1 USD = 0.67 EUR in 2009; 1 USD = 0.76 EUR in 2010; and 1 USD = 0.71 in 2011.

1 THE INFLUENCE OF FINANCIAL RESOURCES ON DEFENCE CAPABILITIES OF THE REPUBLIC OF AUSTRIA

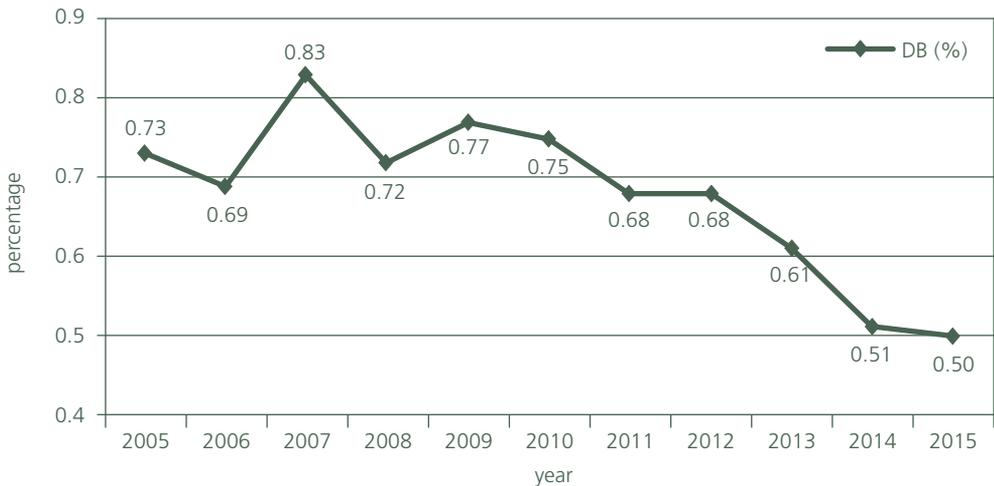
The body implementing the defence policy of the Republic of Austria is the Ministry of National Defence and Sport (hereinafter referred to as MoD) which is, in addition to national defence, responsible for the Austrian Armed Forces. In accordance with their Constitution, the President is the Commander-in-Chief of the Austrian Federal Army. The armed forces of Republic of Austria are represented by the Austrian Armed Forces (hereinafter AAF).

The following findings are based on the analysis of key financial indicators which ensure the implementation of tasks and missions of the Austrian defence system.

Table 2:
Key
indicators of
the Austrian
defence
system

| Financial indicators | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------|----------|----------|----------|----------|----------|----------|----------|
| GDP | 245 bn. | 262 bn. | 270 bn. | 282 bn. | 281 bn. | 284 bn. | 301 bn. |
| GDP pc | 29.9 | 32 | 31.9 | 34.5 | 30.5 | 33.9 | 36.7 |
| DB | 1.81 bn. | 1.81 bn. | 2.25 bn. | 2.03 bn. | 2.11 bn. | 2.12 bn. | 2.06 bn. |
| DB (%) | 0.73 | 0.69 | 0.83 | 0.72 | 0.77 | 0.75 | 0.68 |

Figure 1:
Defence
budget
estimates for
the period
2012–2015



The level of defence budget is one of the lowest among the EU member states. Figure 1 shows that estimates indicate an additional 30-percent decrease (approximately €600 bn.) by 2015, which will greatly hamper transformation effort of the Austrian Federal Army into a fully professional army. Almost 10-percent cut of budget for the

period 2008–2010 has resulted in a decreased peacetime structure, partly also due to a decrease in the number of soldiers doing mandatory military service. Moreover, numerous planned replacements and modernization of weapons systems have been postponed until after 2010. According to Military Balance 2012, the Austrian MoD is planning further prolongation of defence weapons system modernization, downsizing of members of the Austrian Federal Army deployed to international operations and missions, and selling off of real estate, due to a downward trend in defence expenditure. Furthermore, Austria is also planning the transformation of the armed forces.

Priority tasks in the area of defence, in accordance with available financial resources, are given below:

1. According to strategic directives, the Austrian defence system should consist of 21,000 members of the peacetime structure and 24,000 members of the reserve component. The number of other personnel employed at the Ministry of National Defence and Sport should be 10,000 or 55,000 in total.
2. Conscription is likely to remain the basis of defence security policy. Nevertheless, more attention will be given to modernization of the reserve component and the service in the armed forces.
3. In addition, in the future, greater attention will be paid to cooperation with European partners as regards joint forces and full use of common capacities in order to increase efficiency and reduce the costs of EU operations and involvement in the European Battle Groups (EUBG) concept.
4. The mission and tasks of the Austrian Federal Army should mostly be shifted from the protection of sovereignty (as part of the national military defence) to relief operations⁵ during natural and other disasters as part of the crisis management.
5. Changes of the primary purpose also involve changes to human resources, equipping, and especially to adaptation of legislation (Constitution, the Military Act and Labour Law).

2 THE INFLUENCE OF FINANCIAL RESOURCES ON DEFENCE CAPABILITIES OF THE ITALIAN REPUBLIC

The body responsible for the implementation of defence policy of the Italian Republic is the Ministry of Defence (hereinafter referred to as MoD), which is also responsible for civil defence and meteorology. In accordance with the Constitution of Italy, the President of the Italian Republic presides over the Supreme Council of Defence and is the Commander-in-Chief of the Italian Army. In war, the Prime Minister of Italy is Commander-in-Chief. The Italian military is represented by the Italian Army.

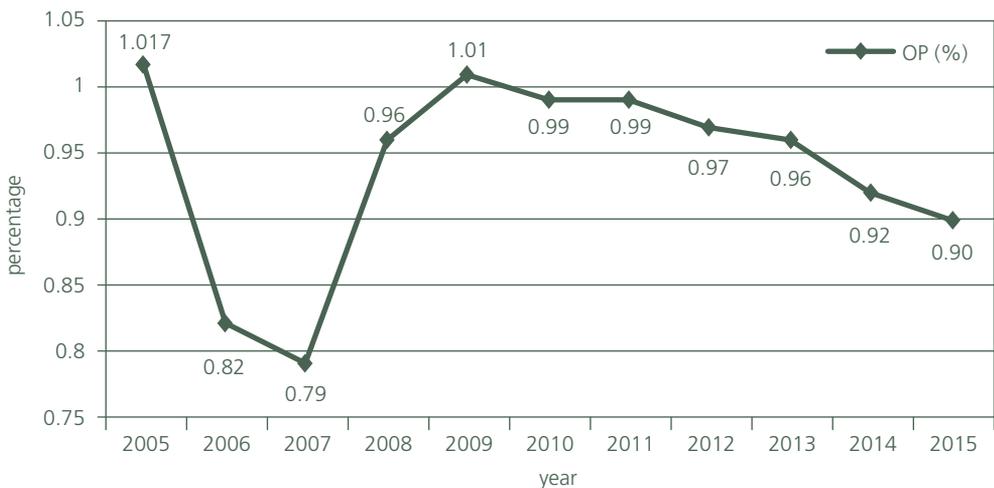
The following findings are based on the analysis of key financial indicators which ensure the implementation of tasks and missions of the Italian defence system.

⁵ *The Austrian Armed Forces are assuming an increasingly greater responsibility and initiative in this area. They have also been playing a more active role in helping people at risk by providing them with supplies and transport, and have actively participated in injured and missing persons search and rescue operations.*

Table 3:
Key
indicators of
the Italian
defence
system

| Financial indicators | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| GDP | 1,370 bn. | 1,470 bn. | 1,550 bn. | 1,610 bn. | 1,510 bn. | 1,560 bn. | 1,590 bn. |
| GDP pc | 23.6 | 25.2 | 26.7 | 27.6 | 26.1 | 28.1 | 25.9 |
| DB | 14 bn. | 12.1 bn. | 12.4 bn. | 15.4 bn. | 15.4 bn. | 15.5 bn. | 15 bn. |
| DB (%) | 1.017 | 0.82 | 0.79 | 0.96 | 0.99 | 1.01 | 0.99 |

Figure 2:
Defence
budget
estimates for
the period
2012–2015



We can see a 20% fluctuation in defence budget for the entire comparative period 2005–2011. Similarly, Table 2 shows no increase in fluctuation. By 2015, the GDP is expected to decrease further to as low as 0.9% or by 10%. In 2012, additional financial resources in the amount of €1.5 bn. were allocated (extra-budget) for smooth operational functioning and public procurement.

65.4% of defence budget is allocated to personnel costs, which consequently reduces financial resources intended for operations and readiness as well as for investments. Cost and salary intervention is currently not anticipated for the members of the Italian Army. 10.4% of defence budget are earmarked for training and operations, which is considerably less than the anticipated 30%. This downward trend might threaten operational capability of the armed forces, and a dilemma occurs whether such intervention in the manpower could actually facilitate army modernization. Italy, too, is facing the fact that the professional army is significantly more expensive than the army based on conscription, if all comparable parameters are considered.

In addition, it has planned a prolongation of weapons systems modernization and further selling off of real estates. In this connection, the balance between

modernization and maintenance should constantly be sustained, as they facilitate smooth operations and future procurement. When the operating cycle of an asset expires and there is no proper maintenance or replacement available, the delay in a program, maintenance or a new investment may have a significant impact on its functioning.

Despite the defence budget cuts, financial resources allocated for the Carabinieri operations will have increased due to the changing security situation⁶. This means that the financial resources will have been relocated within the defence system.

Priority tasks in the defence area, in accordance with the available financial resources, are given below:

6. For the national defence purpose and as a NATO member state, Italy will continue its cooperation with the Alliance Forces and will, therefore, ensure interoperability, mobility and effectiveness of its operations as well as maintenance of its capabilities.
7. In the near future, mainly due to the existing financial situation and the operational capability gaps of the Italian Army, Italy will need to revise its defence policy and strategy and the obligations arising from alliances, taking into account its national interest at the same time.
8. Despite the continuous savings plan and cuts in defence budget, Italy shall promote full integration among national military components, maintain a high operational tempo and continue to participate in multinational operations and provide operability with the allied forces.
9. Upon completion of the reform, the Italian peacetime structure will be composed of 150,000 members, which means a 18.4% reduction in manpower.

3 THE INFLUENCE OF FINANCIAL RESOURCES ON DEFENCE CAPABILITIES OF THE REPUBLIC OF HUNGARY

The body responsible for the implementation of defence policy of the Republic of Hungary is the Ministry of Defence of Hungary (hereinafter referred to as MoD). In accordance with the Constitution of Hungary, the President is the Commander-in-Chief of the Hungarian Defence Force. The Hungarian defence forces are represented by the Hungarian Defence Force⁷.

The findings below are based on the analysis of key financial indicators which ensure the implementation of tasks and missions of the Hungarian defence system.

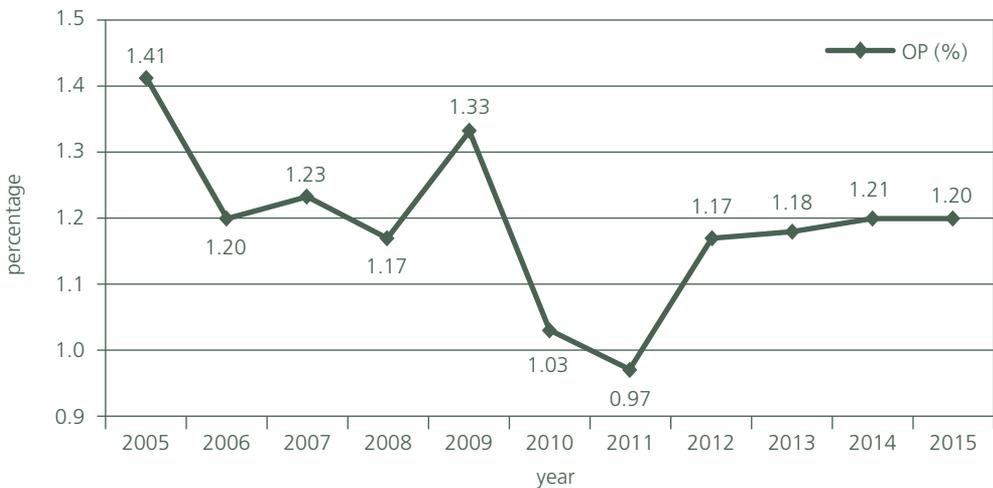
⁶ *Such as an increasing number of illegal immigrants, the pressure on the Italian borders and higher levels of corruption and organized crime.*

⁷ *In war or in conflict, Hungarian defence forces are augmented by 12,000 members of Border Guard. In peacetime, the Hungarian Border Guard forms an integral part of the National Police.*

Tabela 4:
Key
indicators of
the Hungarian
defence system

| Finančni kazalniki | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------|------------|------------|------------|-----------|------------|------------|-------------|
| BDP | 86,9 mlrd. | 84,2 mlrd. | 102 mlrd. | 102 mlrd. | 93,1 mlrd. | 98,8 mlrd. | 102,9 mlrd. |
| BDP pc | 8,4 | 8,4 | 10 | 10 | 9,3 | 9,8 | 10,3 |
| OP | 1,12 mlrd. | 1,01 mlrd. | 1,26 mlrd. | 1,2 mlrd. | 1,24 mlrd. | 1,02 mlrd. | 1 mlrd. |
| OP (%) | 1,41 | 1,20 | 1,23 | 1,17 | 1,33 | 1,03 | 0,97 |

Figure 3:
Defence
budget
estimates for
the period
2012–2015



There is a 26.9% downfall in defence budget for the entire comparative period 2005–2011, although the National Military Strategy adopted in 2008 planned an increase of 0.2% of GDB in defence budget for the period 2009–2013. According to Military Balance 2011, the Hungarian MoD is planning prolongation of defence weapons system modernization⁸ amounting to 20% of defence budget, and selling off of real estate, due to a strong downward trend in defence expenditure resulting from the revised national budget. Cost and salary intervention is currently not envisaged for the members of the Hungarian Defence Force.

Hungary, too, is confronted with the fact that a professional army is significantly more expensive than a conscript army, considering all comparable parameters.

Priority tasks in the defence area, in accordance with the available financial resources, are given below:

1. According to Military Balance 2012, the plans for the near future include, among other things, transformation or a new organizational structure of the defence staff,

⁸ The plans involve modernization of aircraft capabilities, procurement of new military vehicles and upgrading of communications and information systems (CIS).

changes in defence planning, increased participation in diplomatic activities involving partner states, transformation of the military medical system, changes in the officer personnel training, and a review of the situations, in companies delivering different services to the Hungarian MoD under service contracts.

2. The tasks deriving from the Strategic Defence Review 2003 and Defence System Operational Guidelines 2005 remain unchanged⁹.
3. In no instance should economy measures affect operational readiness and implementation of long-terms plans¹⁰.
4. Finally, the plans also support the development of the Army component in terms of establishing a deployable brigade and intelligence capabilities.

4 THE INFLUENCE OF FINANCIAL RESOURCES ON DEFENCE CAPABILITIES OF THE REPUBLIC OF CROATIA

The body, implementing the defence policy of the Republic of Croatia, is the Ministry of Defence (hereinafter referred to as MoD) which is, in addition to national defence, responsible for the Armed Forces of the Republic of Croatia. In line with the Constitution of the Republic of Croatia, the President is the Commander-in-Chief of the Croatian Armed Forces. The Croatian military is represented by the Armed Forces of the Republic of Croatia.

The following findings are based on the analysis of key financial indicators which facilitate the implementation of tasks and missions of the Croatia's defence system:

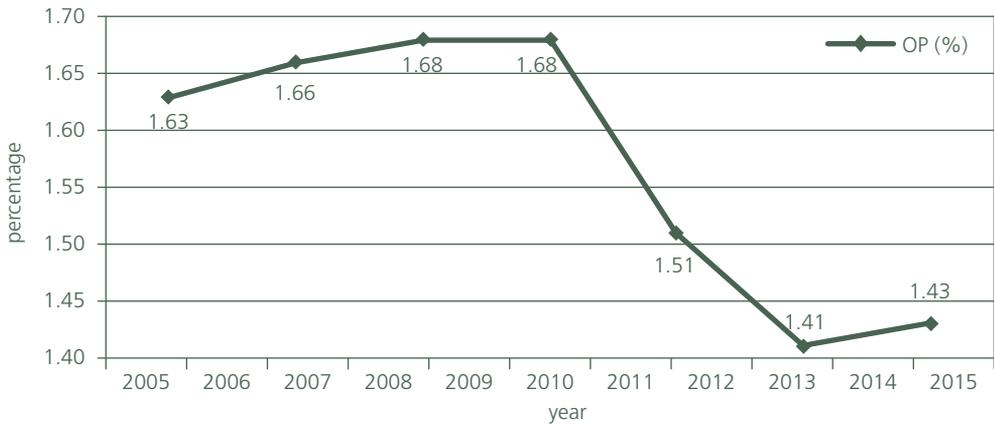
Table 5:
Key indicators
of the Croatian
defence system

| Financial indicators | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------|----------|----------|------------|----------|----------|------------|------------|
| GDP | 30.2 bn. | 33.3 bn. | 36.3 bn. | 42.1 bn. | 45.1 bn. | 48.1 bn. | 46.3 bn. |
| GDP pc | 6.7 | 7.4 | 8 | 9.4 | 10 | 10.4 | 10.3 |
| DB | 494 mio. | 555 mio. | 612.5 mio. | 712 mio. | 683 mio. | 655.8 mio. | 663.8 mio. |
| DB (%) | 1.63 | 1.66 | 1.68 | 1.68 | 1.51 | 1.41 | 1.43 |

⁹ Some principal tasks are: Article V NATO-led operations, including the Hungarian military defence and assistance to other member states in collective defence; support in the implementation of border security tasks; host nation support; participation in international counter-terrorism activities; support to civil authorities, including in SAR and UXO operations; and assistance in the eliminating of consequences of natural and other disasters.

¹⁰ In line with the National Military Strategy, Hungary is planning to employ up to 3,000 new members, who would relieve the existing manpower in carrying out their missions in international operations. Furthermore, the strategy concerned envisages the establishment of a voluntary military service and a voluntary contract reserve system, which would consist of 4,000 members by 2014. The existing reserve component is to be gradually replaced by the voluntary contract reserve, where members may be called up in the event of war or crisis situation.

Figure 4:
Defence
budget¹¹



By introducing fundamental reforms and entering into NATO, the GDB for defence purposes would be expected to increase to achieve 2% of GDB, as anticipated by NATO. However, Figure 4 shows the GDP for the period 2008–2010 decreased from 1.68 to 1.41 or by 16%, which equals to a nominal amount of almost €57 mio.

According to the data obtained from Military Balance 2012, the Croatian MoD is planning prolongation of defence weapons system modernization¹², to which only 5% of defence budget is currently allocated, and selling off of real estate, due to a strong downward trend in defence expenditure resulting from the revised national budget. 70%¹³ of defence budget is earmarked for costs and salaries of the Croatian Armed Forces members. Intervention into this expenditure is currently not envisaged.

Below are priority tasks in the defence area, in accordance with the available financial resources:

1. After the admission to NATO and in accordance with long-term development plans, the Armed Forces of the Republic of Croatia will continue to modernize, with the efforts to achieve high level interoperability and integration into NATO and EU structures.
2. Croatia plans to reform and complete the restructuring of the MoD in terms of increased management capabilities of defence ministry, in accordance with NATO standards. Among other things, it also plans to establish a Joint Force Command which would be responsible for the comprehensive integrated planning and conduct of operations, in accordance with NATO standards.
3. New strategic and doctrinal documents are being drafted, including the national and security strategy, defence and military strategy, and the updated long-term development plan.
4. Finally, Croatia will continue to adopt NATO standards, especially in the field of human resources management and defence planning. The long-term development

¹¹ No technical publication to provide the data for the period 2012-2015.

¹² The planned large-scale contracts include the purchase of 12 multi-purpose aircraft and patrol boats.

¹³ The long-term development plan for 2006–2015 anticipates the reduction of the related costs, with the maximum of 50% of defence budget.

plan for 2006–2015 anticipates the abolishment of the traditional reserve component and plans to establish the voluntary contract reserve with 6,000 members.

5 THE INFLUENCE OF FINANCIAL RESOURCES ON DEFENCE CAPABILITIES OF THE REPUBLIC OF SLOVENIA

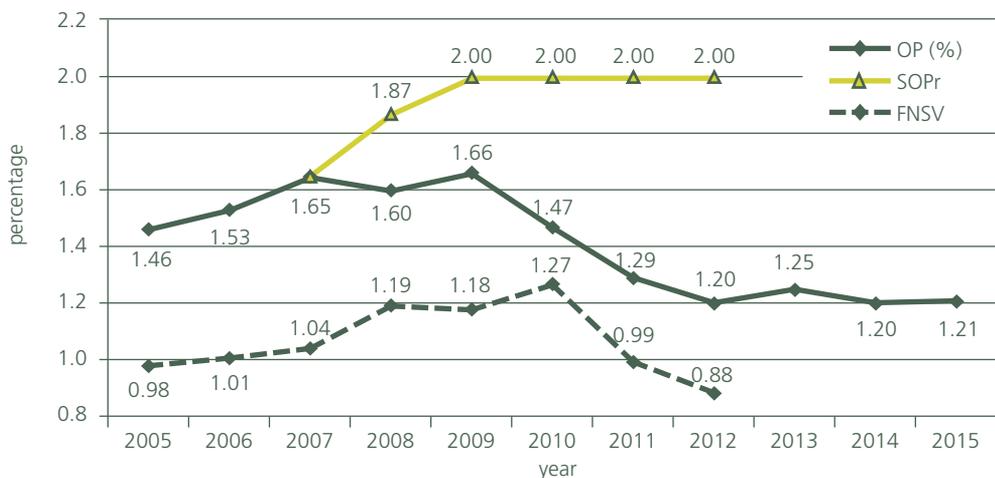
The body responsible for the implementation of tasks in the defence system and the system of protection against natural and other disasters of the Republic of Slovenia is the Ministry of Defence (hereinafter referred to as the MoD). In addition to military defence operations, conducted by the Slovenian Armed Forces either independently or within the alliance, the MoD is also responsible for civil defence. Through the implementation of activities which contribute to national defence, other national authorities, local community bodies and civil society organisations of special significance for the defence are also included in the defence system. In line with the Slovenian Constitution, the President of the Republic of Slovenia is the Commander-in-Chief of the Slovenian defence forces, which are represented by the Slovenian Armed Forces.

The following findings are based on the analysis of key financial indicators which ensure the implementation of tasks and missions of the Slovenian defence system:

Table 5:
Key indicators
of the Slovenian
defence system

| Financial indicators | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------|----------|----------|------------|----------|----------|------------|------------|
| GDP | 30.2 bn. | 33.3 bn. | 36.3 bn. | 42.1 bn. | 45.1 bn. | 48.1 bn. | 46.3 bn. |
| GDP pc | 6.7 | 7.4 | 8 | 9.4 | 10 | 10.4 | 10.3 |
| DB | 494 mio. | 555 mio. | 612.5 mio. | 712 mio. | 683 mio. | 655.8 mio. | 663.8 mio. |
| DB (%) | 1.63 | 1.66 | 1.68 | 1.68 | 1.51 | 1.41 | 1.43 |

Figure 5:
Defence
budget
estimates for
the period
2012–2015¹⁴



¹⁴ The figure of Slovenia shows the planned financial resources derived from the Mid-Term Defence Programme (SoPr) for 2005–2010 and the applicable SOPr for 2007–2012, the Government's revised budget proposal for 2012 as well as projected defence resources up to 2015, arising from the 2011–2016 SOPr proposal.

In the entire comparative period, Slovenia developed a relatively high level of GDP growth until 2009, when its defence budget fell by 22.3% to 1.29%, the military expenditures of which present only 0.99% of GDP. In terms of the nominal value, the defence budget for 2011 is almost equal to the financial resources earmarked for defence in 2006. The reduction in budgetary resources also brings the reduction in financial resources earmarked for the operations of the SAF, as shown by the line chart of financial resources in the SAF (SAF FR). Slovenia too, has been hit by the economic and financial crisis, which has also affected its defence budget level. GDP growth is not expected to increase. Quite the opposite, an additional reduction to 1.20% of GDP or an additional downfall by 7% is anticipated by 2014, of which military expenditures would present only 0.88 % of GDP. The GDP spent on defence is expected to gradually increase to 1.21% only as late as by 2015. Thus, military expenditures would have increased to 0.97% of GDP.

The downward trend in defence financial resources presents an even greater problem to Slovenia due to the country's rapid transition from a labour-intensive compulsory service to a professional army, which is a very intensive concept in terms of finance. This does not mean that a professional army is more expensive than a conscript army in nominal financial terms. Nevertheless, its efficiency and operability largely depend on the quality of its weapons systems and equipment or available financial resources intended for the development, building and maintenance of its capabilities. A continued downward trend might have a long-term impact on all of the positive effects which the defence system and the SAF have been achieving since the transition to a professional army.

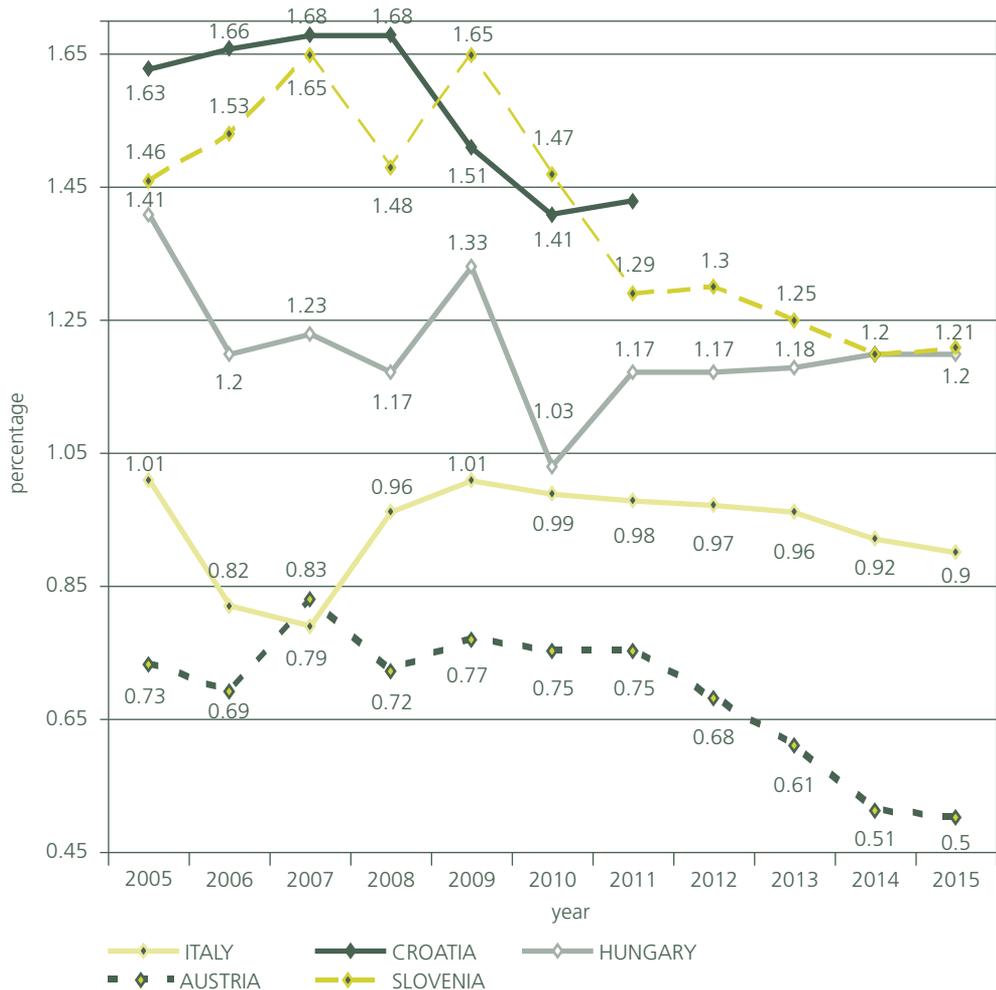
Priority tasks in the defence area, in accordance with the available financial resources, are the following:

5. to consider the ambitions and priority tasks on the basis of the Resolution on Basic Long-term Development and Equipping Programme of the Slovenian Armed Forces up to 2025, and to set minimum standards to ensure national security and implementation of statutory tasks;
6. to continue with the reforms, including the SAF, in line with the strategic guidance documents, and to develop the SOPr for 2013–2018; to follow a comprehensive approach to planning and use of available financial resources earmarked for the development, building and maintenance of its capabilities;
7. to create the starting points for negotiation with the Alliance over a new package of capability goals; to streamline the scope of training and international operations in terms of Slovenia's adaptation to foreign-policy and international obligations related to the SAF's participation in international operations, in accordance with the available (mainly financial) resources; Continued integration into the NATO and EU defence system structures and playing an active role in the area of peace-support and stability operations remain Slovenia's priorities;

8. to establish and improve the crisis management system and the provision of civilian capabilities in consideration of the current civil defence system.

The line chart below shows an analysis of key financial indicators of the selected countries in comparison with Slovenia¹⁵.

Figure 6:
Defence budget for the period 2005–2011 with the estimates for up to 2015



The line chart above (Figure 6) shows that the percentage of the GDP spent on defence by the selected countries during the period 2005–2011 decreased most in the new NATO member states: from 1.63 to 1.43% (by 14.8%) in Croatia and from 1.41 to 0.97% (by 31.2%) in Hungary. The fluctuations of Slovenia's GDP indicated positive

¹⁵ According to the data in Annual Report of the MoD for 2010.

trend up to 2009, but were followed by a decrease to 1.29% of GDP (-22.3%). The percentage of GDP of Italy and Austria (0.75%) remained almost the same through the entire comparative period. Austria has the lowest percentage of GDP earmarked for defence expenditure also on a European scale. Slovenia earmarks the highest percentage of GDP for defence expenditures of the selected countries, although with the value of €462 mio., it is ranked by far in the last place.

However, it is interesting to observe the fluctuations in the trend (percentage) level of the defence budget up to 2015. Most countries can expect a further decrease by 2014, when the slope of the yield curve should finally become positive. Italy and Austria cannot expect a positive trend by 2015, but they can expect the reduction in their defence budgets to be smaller. Hungary, unlike Italy and Austria, has made more optimistic forecasts, as its annual defence budget is expected to increase from 2012 onwards. The yield curve representing Slovenia's defence budget is expected to hit the bottom in 2014, when its slope should finally become positive.

Conclusion In addition to major historic events after the end of the Cold War, the paper also touches upon conversion and defence restructuring, two parallel on-going processes, typical of the countries that used to be part of the Bloc Alliances during the Cold War. Their presence can also be seen in the countries that were neutral or non-aligned in their foreign policy with regard to any of the former blocs.

All of the analyzed countries have undergone defence restructuring and have continued or completed the process more or less successfully. The fact that this is an on-going process can be seen in all of them, as defence system reforms present a constant effort in every long- and short-term plans. The trend of defence capabilities is moving towards the restructuring of forces as part of traditional maneuver units intended for the defence of the territory, into modern, rapid response, flexible, mobile, re-deployable, interoperable units equipped with modern weapons systems, integrated into the Allied force structures, which are capable of carrying out a wide range of operations at different levels of intensity, expeditionary and asymmetric warfare, acting as a stabilizing force in international operations, and ensuring the military defence of the national territory. The adopted NATO standards present an important principle in transformation used in order to provide interoperability, robustness, high level of force protection and mobility, equipment and support. Austria is no exception, despite its neutrality.

One of the important findings shows that all the countries with a professional army are facing considerably higher costs, or that such an army is significantly more expensive than a conscript one, considering all comparable parameters. The situation has been worsened by an economic and financial situation, bringing a further decrease in financial sources, including those in support of defence system operations. The comparative analysis shows that no country is immune to the consequences of financial resources decrease. The difference lies only in the manner or the part of the defence

system where rationalization is approached. Expressed in percentage, between 60% and 70% (and more) of defence budget is earmarked for personnel costs, between 20% and 25% for operations and readiness, and only between 10% and 15% for infrastructure and equipping. For comparison purposes, NATO standards¹⁶ for medium-developed countries, including Slovenia, are listed which earmark 50% of financial resources for human resources management, education and support, 30% for operations, and 20% for infrastructure and equipping.

The analysis shows that human resources have been most affected/exposed. Moreover, the reduction in peacetime structure forces and weapons system maintenance and procurement continues, whereby the majority of financial resources have been earmarked for the maintenance of existing defence systems and increasingly fewer for the procurement of new ones. The purchase and delivery of ordered assets have often been prolonged.

Despite the announced reforms, none of the NATO member countries reached the planned 2% GDP level of financial resources spent on defence. The slope of the yield curve representing defence budget level is expected to become positive only after 2013. However, these are only estimations, and it is possible for the negative trend yield to continue in the future, beyond 2015.

The present economic and financial situation and, consequently, the geopolitical and security situation are very uncertain. Unpredictability and uncertain future of the EU, to focus only on the "old continent", which was created, among other reasons, to prevent the recurrence of nationalism in its worst, will require close monitoring of action in the selected and other countries, including the yield point at which the trend in reduction of financial resources intended for the operation of the defence system stops. Throughout history, we have learned several times that the escalation of crisis in economic or financial sector creates a crisis in the political environment, which could affect security and stability in a country and its internal security situation. Escalation of tensions, the emergence of different factors of uncertainty that might cause social unrests, instability or even open conflicts due to intense internal and international situations, as well as a possible inability of a country's internal security system to properly function demand from the political leadership to legitimately use its own armed forces in subsiding the situation. Any random or continuous downsizing of the armed forces in terms of human, financial and material resources can lead to their inability and incompetence to operate, not only as regards their assistance in the internal security system operation in the scenario concerned, but also with regard to their primary mission, i.e. military defence of the state. Moreover, the ability to provide assistance and maintain the operation of the system of protection against natural and other disasters is also questionable.

¹⁶ *These standards facilitate the development of interoperable capabilities of individual Alliance members integrated into the Alliance structures which are able to operate in international stability operations.*

Member states of the Alliance are obliged to participate actively in different subject areas. The basis is a successful implementation of processes and activities, at the national level. In doing so, the country is not isolated or self-sufficient, but has to consider other different factors or effects of international environment when trying to ensure its national interest. In times when financial resources decrease, cooperation between NATO state members and their partners is especially significant, as encouraged by the Smart Defence concept. The countries adapt to the situation in different ways, yet in order to protect their national security interest, the transformation of the defence system should be approached primarily through efficient operation, which demands integrity of its structure, appropriate organization, effective management, command and control, appropriate level of readiness and response as well as balanced development of capabilities that are able to operate in integrated joint operations in the national and international environment.

In line with the national strategic guidance documents and with the aim of long-term stability and security provision, Slovenia will undertake the building of new and transformation of the existing defence capabilities. With regard to its national interests and objectives, Slovenia's defence system will have to be adapted based on realistic starting points and long-term availability of its human, material and financial resources, while following constitutional and statutory tasks. Therefore, the changes in the defence system will have to focus on balanced development, maintenance and efficiency of defence forces, and capabilities which will ensure consistency of and timely response to contemporary sources of security threats and risks on the one hand, and on greater interoperability and operational capability in terms of provision and operation of its own capabilities within the Alliance, particularly within NATO and the E, on the other. In addition to the internal publicity, the crucial role in this process will also be played by a wider social environment with its own expectations and demands, and to key political state actors. The undeniable fact remains that only timely and comprehensive transformation of the defence system will provide a more efficient support to the defence system and, as required, also to the system of protection against natural and other disasters.

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