

## **THE COSTS OF NATO ENLARGEMENT TO THE BALTIC STATES**

### **Abstract**

The first round of NATO enlargement, which has ended on March 12, 1999, with the formal admission of the Czech Republic, Hungary and Poland to the Alliance was marked by an unprecedented debate on the financial implications of admission of new members to NATO. Although the ranks of the North Atlantic Treaty Organisation have increased several times during the Cold War period, previously new members were first of all accepted because of geostrategic arguments and the risk that, if not anchored in NATO, the state in question may end up on the side of the Warsaw Pact. In this situation, it would be pointless and even dangerous to start accession negotiations with making different sorts of calculations about the price of having new member in the Alliance, let alone to relate the question of eligibility of a candidate with calculations of the costs necessary for its integration into the Allied defence structures. Whatever costs could be then calculated or anticipated, they would be considered indispensable and therefore had to be paid once the political decision has been made.

With the end of the Cold War, the geostrategic imperative for admitting new members has all but disappeared. Having lost a reliable enemy, in the early 1990s NATO has experienced a serious identity crisis. Some might even argue that the Alliance was saved by the explosion of nationalism in the Balkans and the eagerness of a number of the formerly socialist and communist countries to become its members. Thus, differently from the Cold War days, the process of NATO enlargement became driven by the pressure of the former enemies. Those countries, for many good reasons, regard

NATO membership as the best means to anchor their security in free and democratic Europe.

In the post-Cold War political and security context, the debate on NATO enlargement, which took place after the Alliance has received a dozen of membership applications and before it decided to take in the three new members, was multidimensional and rather unfocused. A great number of prominent scholars and politicians opposed NATO enlargement as such, producing volumes of writings explaining why NATO should not take in new members. Even more writers regarded the breakdown of the Soviet Union as a historic opportunity to make Europe whole and free and NATO enlargement was one of the key elements to be used by the Western countries to that end. Those who supported the idea of NATO enlargement had different opinion as to which countries should be admitted and when. Practically everyone involved in the debate, in particular those who opposed the enlargement, stressed the importance of taking into account the costs related to admission of new members. Proponents of NATO enlargement preferred to talk about the costs of non-enlarging NATO. Representatives of both sides had different understandings and interpretations as to what NATO enlargement costs consist of.

There were several ambitious attempts to in greater detail the financial aspects of NATO enlargement, undertaken by state institutions and semi-independent think tanks. The most prominent among those are presented in this paper. Their estimates of costs of admission of several Central European states range from 15 billion to 150 billion dollars.

The issue is indeed very intriguing and therefore analysis of articles on the subject is highly stimulating exercise. However, such papers or studies leave some of the key questions, which indeed are the primary purpose for making such studies, unanswered. First of all, whatever the figures the analysts come up to, those can hardly be helpful to determine what is the “acceptable cost” and when it becomes too high. Judgements of this kind can hardly be made without taking into account the benefits which NATO enlargement is expected to provide. If one of its outcomes were the increase of tensions in Europe and a more bellicose Russia, even the lowest possible price would probably be too high. If, however, NATO enlargement would

prevent escalation of violence, instability and spur economic development in the new NATO countries, then even the more expensive options could be worth considering and pursuing.

In the course of preparation of this study the author became even more convinced that the entire debate on the costs of admission of new members is a luxury that is provided by the end of the Cold War and the disappearance of credible threats to the security of the Alliance. The pragmatism of approach, which the very making of cost estimates suggests, is in contradiction to the musketeers' principle, which is (used to be?) in the essence of NATO.

NATO enlargement always was and will remain a purely political decision. Debate on the costs of admitting new members is making stress in a wrong place. It leads to the technical side of the issue which could well be addressed (probably in a shorter period of time and with less resources) after the political decision has been made. Having said that, the author has to admit that the intensive speculations on the cost issue prior to the first round of NATO enlargement have made the financial aspect an integral part of the political debate on NATO enlargement. The topic is likely to be raised time and again whenever the Alliance starts consideration on inviting new members. Therefore the proponents of NATO enlargement will need to have coherent arguments and figures to counter the talk of unaffordable cost of NATO enlargement. The author hopes that this paper will provide some inspirations for those having to defend NATO enlargement in their committees, governments and parliaments.

The estimates presented in this paper with respect to the costs of Estonian, Latvian and Lithuanian membership in NATO are based on the studies on the costs of NATO enlargement, which were prepared prior to the NATO Madrid Summit in 1997. In particular, the paper introduces and uses the methods applied by the US Department of Defence, US Congressional Budget Office and RAND Corporation in their contributions on the subject. In addition, the paper presents a broader perspective on the financial aspects of military alliances and covers both theoretical principles of optimising defence spending and the cost sharing principles in NATO.

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## **CONTENT**

**Introduction - 5**

### **CHAPTER 1 ECONOMIC ASPECTS OF NATO ENLARGEMENT**

1.1. Hard decisions on defence spending – theoretical approach- 8

1.2. NATO cost - sharing principles - 12

### **CHAPTER 2 BALTIC INTEGRATION INTO NATO**

2.1. Membership criteria 17

2.2. Preparations for NATO membership 19

### **CHAPTER 3 DEFINING NATO ENLARGEMENT COSTS**

3.1. Costs of NATO enlargement in their broad sense 21

3.2. Costs of NATO enlargement in their narrow sense 25

3.3. NATO defence planning process 26

3.4. The main assumptions of NATO enlargement studies 28

3.5. Comparative Analysis of NATO Enlargement Cost Studies 31

### **CHAPTER 4 THE COSTS OF NATO ENLARGEMENT TO THE BALTIC STATES - 35**

**Conclusions - 40**

**Endnotes - 42**

## INTRODUCTION

In this paper I would like to explore one of the most intriguing topics in the debate on NATO enlargement, which is the cost of extending NATO security commitment to Estonia, Latvia and Lithuania or the three Baltic States as they are often referred to. The attention, on the part of the NATO members and of the applicants, to the issue of costs associated with the enlargement is easy to understand – those costs will have to be paid by the taxpayers on both sides. In the first place NATO will want to be sure that it can afford the extension of security guarantees to the new countries and that the new members are capable of shouldering their part of the burden when being members of the Alliance. The importance of the cost issue should increase as the decision on further steps of NATO enlargement draws nearer.

The NATO invitation of the Czech Republic, Hungary and Poland to join the Alliance, which was officially announced in Madrid in July 1997, was preceded by a number of authoritative studies on the costs of NATO enlargement. Some were produced by governmental agencies others by (semi)independent think-tanks. The high number of studies on the issue, which have appeared in a relatively short time, reflects the intensity of the debate where both supporters and opponents of the process of NATO enlargement actively exploited the cost argument. Special mention deserves the US Congress, where NATO enlargement debate was both lengthy and scrupulous with financial aspects invariably being in the centre of the discussion.

In this context, one could conclude that the absence of discussion and serious studies on the financial consequences of NATO enlargement to the Baltic States signifies that their membership in the Alliance is not yet seriously considered. On the other hand, those who were following the debate on NATO enlargement prior to the invitation of the Madrid Summit would agree that their findings have hardly played a role in deciding on which countries and when will be invited to join the Alliance. These decisions have been made

at the last moment by the NATO Heads of States themselves. Apparently there was a number of considerations, which could have influenced the final outcome of the Summit (i.e. which countries should be invited) among which the cost estimates was one but clearly not the most important factor.

In the Baltic States, financial implications of their membership in the Alliance have not been systematically analysed. From time to time this issue props up in political discussions on television, also it is one of the marginal topics in the conferences on European or Baltic security, however a more in-depth analysis, which would start a more thorough and competent discussion is still lacking.

In the official politics NATO sceptics and others who consider membership in the Alliance as a too expensive option, are told that collective defence by definition is a more efficient and therefore a less expensive solution than any kind of individual efforts. Being a member of a military alliance, the country will buy more security than it would for the same price if it were non-aligned. As an illustration, the examples of Sweden and Switzerland are used, who, staying neutral throughout the Cold War period, were spending for defence purposes a significantly larger share of their GDP than the NATO average was at that time.

Another traditional reasoning in favour of NATO membership, which is presented in many different forms and probably, is more relevant for the Baltic States than other NATO aspirants, sounds “we have no other choice”. There is plenty of sound arguments and evidence to support this choice. However, even if this is indeed the only option, it is worth trying to estimate the cost implications of it. NATO membership implies not only security guarantees provided by other countries – which is the highest possible commitment by other state – it will also require the same commitment from the new members themselves towards the other states in the Alliance.

Looking retrospectively, one could have reasonable doubts about the ability of the Baltic States to shoulder all the responsibilities of an Ally had they been invited to join the Alliance at the Madrid Summit in 1997 along with the Czech Republic, Hungary and Poland. The NATO-led operation in Kosovo has indicated to all the aspirants the type of operations the Alliance is likely to become involved in in the foreseeable future. The relatively modest

participation of the Baltic States in the operation is could first of all be explained by the high costs involved in the deployment and sustaining of troops abroad. Thus, an in depth analysis of the costs of NATO membership is important for preparation to the responsibilities of an Ally and for realistic assessment of the national capabilities

Also, the very attempt to assess the advantages provided by NATO membership and the costs associated with it is important as an exercise requiring to once again think about some of the fundamental questions related to the national security. The main questions to be answered by politicians of any state are “how much security do we need?” and “how much are we ready to pay for it?” This paper is merely an attempt to start a discussion on economic aspects of NATO membership for the Baltic States. It will not provide any magic numbers, therefore those who would like to know how many dollars or euros NATO membership is going to cost for Estonia, Latvia and Lithuania will most probably be disappointed. Instead, the main part of the paper will provide a rather comprehensive overview of the major studies on the costs of NATO enlargement published before the first round of NATO enlargement and their critical assessment. More specifically, in the first Chapter of the paper the reader will find a theoretical discussion on formation of defence expenditure, which should provide a better understanding of the ways in which the size of defence expenditure should be determined. Later in the same Chapter cost-sharing principles currently applied in NATO are presented, having made the assumption that the same principles will be applied for the Baltic States when they become the members of the Alliance. The second Chapter is devoted to the presentation and analysis of the major studies on the costs of NATO enlargement. In the final part of the paper the reader will find cost estimates of the of Estonian, Latvian and Lithuanian membership in NATO, which were developed using the principles and methodologies of the studies on the costs NATO enlargement prepared prior to the first round of NATO enlargement.

## CHAPTER 1 ECONOMIC ASPECTS OF NATO ENLARGEMENT

### 1.1. Hard decisions on defence spending: theoretical approach

Security is a common good of a society. Therefore the national armed forces are financed by all taxpayers through the national defence budget, which is integral part of the state expenditure. Every single soldier, every weapon and every kilometre by military transport become possible only if they have been entered into the national defence budget. Accordingly, if procurement of certain weapons or certain activities have not been foreseen in the budget, they will not be conducted. Therefore, both the *size* of the state defence budget and its *use* are reflecting the national plans for development of the armed forces as well as the current defence capabilities of that state.

The size of the national defence budget and its change from year to year says a lot about the nature of the perceived threats to national security as well as about the interests, which it is ready to defend with the military means. The use of national defence budget will also indicate which branches of the armed forces are considered to be priority areas and will allow making certain conclusions about the state's military arsenal and fighting capabilities.

Theoretically, two lines of logic could be used when deciding how much should be spent for defence. Firstly, this could be done by estimating the *needs* for deterring or repelling the real or perceived external threat. Secondly, by assessing the realistic *ability of the state budget* to finance national defence efforts. In the former case, external *threat* and our understanding of it determines our decisions on allocations for defence, in the later – our understanding of the *acceptable cost* and the restrictions imposed by the scarcity of resources in the budget.

The first approach is normally favoured and driven by the military, who, having assessed the size and nature of external threats, draw up defence plans and estimate resources needed for the implementation of those plans. Such estimates are then presented to the politicians as the necessary precondition for the military to successfully carry out its duties.

The second option is preferred by politicians who in the end have to decide how much of the national budget should be allocated for defence and how much for the other purposes. Therefore politicians like to come up to the military with a certain figure, indicating the ceiling for what can be allocated for defence in the coming year(s). The military authorities are asked to make sure that their defence development programmes stay within the established limits.

The truth is, however, that “one cannot properly draw up defence plans on the basis of either cost alone or need alone. As Charles Hitch and Roland McKean argue, there is no budget size or cost that is correct regardless of the payoff, and there is no need that should be met regardless of cost<sup>i</sup>. Therefore, speaking about the national allocations for defence, one should not set any kind of immovable upper limit be it in absolute or relative terms. Perhaps the only real limitation is the size of the total national GNP minus the part of it which is vital for functioning of a state and to have any kind of national military programmes at all. But the rest of it, what is below this line, at least theoretically, could be used for the defence purposes. Indeed, there is no magic number which we must or which we can not spend on defence, as there are no obvious limitations for increasing or decreasing national defence spending. Every developed state within two-three years could significantly increase their defence expenditure and, having made appropriate changes in tax rates and monetary policy, could do so without causing severe inflation<sup>ii</sup>.”

On the other hand, there is no national security program, which has to be implemented regardless of its price. Because the list of items which the military may wish to obtain would be almost endless. How in this case (if the cost would not matter) one could draw a line between the things which are absolutely necessary for the armed forces and which (for the time being) are not. The essence of the problem is that there are no clear-cut criteria for defining “minimal needs” of the military. President Dwight Eisenhower emphasised this point by saying:

“Words like “essential” and “indispensable” and “absolute minimum” become the common coin of the realm – and they are spent with wild abandon. One military man will argue hotly for a given number of aircraft as the “absolute minimum.”... And others will earnestly advocate the “indispensable” needs for ships or tanks or rockets or guided missiles or

artillery – all totalled in numbers that are always called “minimum.” All such views are argued with vigour and tenacity. But obviously all cannot be right.”<sup>iii</sup>.

Defence is only one of the multiple areas financed by the state. The lists of “indispensable” items are long, if not endless, also in the other areas financed from the national budget. The state can (and should) decrease defence expenditures if it becomes clear that the society needs other items more. The politicians and only they have to make a decision and bear full responsibility for the choice.

President Eisenhower has illustrated the essence of the choice in the following way: “The cost of one heavy bomber is this: a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 population. It is two fine, fully equipped hospitals. It is some 50 miles of concrete highway<sup>iv</sup>”.

Thus the range of choice is wide and almost endless. The decision should be made with the aim of getting most out of the resources in the national budget, and not in the way of following certain budget, requirement or doctrine. In other words, we should neither base our decision on the *needs*, regardless of what we have to give up, nor should we stick to certain *ceilings within the budget*, without due consideration of the value of defence activities. This approach requires that the decision makers have full freedom to make deliberate choice to change budgets and reshape forces for as long as such changes appear to provide more than it costs. Charles Hitch and Roland McKean formulate the problem of optimising defence expenditures in the following way: “If taken literally, the questions, “What can we afford for defence?” and “What are our needs?” are the wrong ones in deciding upon the size of defence effort. The right question is “How much is needed for defence more than for other purposes?”<sup>v</sup>

In the countries that are members of an integrated military Alliance, the process of formulation of a defence budget is influenced by additional factor – commitment to contribute to the collective defence effort and the deriving financial implications. Successful functioning of military Alliance requires that each member makes adequate contribution to the promotion of Allied

interests also in terms of budgetary contributions. The national and the collective defence and resource planning requires close co-ordination.

For that purpose NATO has established dedicated political and military institutions (NATO Headquarters and Commands) as well as intergovernmental consultation mechanisms (North Atlantic Council – NAC, NATO functional committees). These institutions and consultation mechanisms, at least in theory, may influence national decisions both on the size of defence expenditures and on their use. Through the formulation of common defence policy and strategies to counter the identified threats, these forums also play a role in forcing Alliance members to undertake comparable financial commitments in the implementation of the agreed policies and strategies.

At the same time, one should not overestimate the power of those institutions or co-ordination mechanisms. It is enough to have a look at the defence expenditures of the NATO members during the Cold War period and nowadays, to notice that defence allocations in NATO countries vary to a very significant extent (Table 1). One could note that Denmark, for example, being one of the front-line states during the Cold War, in the period of 1980-1984 was hardly spending more than a half of NATO average at the time. At the same time, the high defence expenditures in Greece and Turkey throughout 1980 -1997 period could rather be explained by their mutual dislike rather than by a threat to the southern flank of the Alliance.

This evidence illustrates the fact that national rather than Alliance priorities dominate among the NATO countries in deciding on the size of national defence efforts. On the other hand, it shows that NATO, as an Alliance, has rather limited influence on the process of formulation of national defence budgets. It is not in a position to have its members spend more (or less) than they deem necessary for ensuring their security and for living up to the expectations of the other Allies. Therefore, when a new member joins NATO, it will be only her parliament, which will decide “how much is needed for defence more than for other purposes?”. NATO military planners will be in the same situation as the national militaries, having to develop defence plans within the framework of budgetary allocations decided by the national parliaments of its member states.

Having stated that NATO “central institutions” have very limited influence on the national decisions of its members concerning the size of their defence spending, we have to make important qualification with respect to NATO aspirants. Rather paradoxically, NATO aspirants, who have no obligation whatsoever towards the Alliance, are much more willing to listen to the recommendations coming either from the “central institutions” or even the individual members of the Alliance concerning their defence spending. Seeking to enter the club, the aspirants demonstrate exemplary behaviour towards the Alliance, offering to raise their defence expenditure to the “required” level and to direct it for NATO purposes. The danger of this policy is that it may harm all other sectors of their economies and societies where scarce budgetary resources are badly needed.

Table 1

DEFENCE EXPENDITURES OF NATO MEMBERS (GDP per cent)

<b>ŠALIS</b>	<b>1980-1984</b>	<b>1985-1989</b>	<b>1990-1994</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Belgium	3.3	2.8	2.0	1.8	1.7	1.7	1.6	1.6
Denmark	2.4	2.1	2.0	2.0	1.9	1.8	1.8	1.7
France	4.1	3.8	3.5	3.4	3.3	3.1	3.0	3.0
Germany	3.4	3.0	2.2	1.9	1.8	1.7	1.7	1.6
Greece	5.4	5.1	4.5	4.4	4.4	4.4	4.5	4.6
Italy	2.1	2.3	2.1	2.1	2.0	1.8	1.9	1.9
Luxembourg	1.1	1.0	0.9	0.8	0.9	0.8	0.8	0.8
Netherlands	3.1	2.9	2.4	2.3	2.1	2.0	2.0	1.9
Norway	2.7	2.9	2.8	2.7	2.8	2.3	2.4	2.2
Portugal	3.0	2.8	2.7	2.7	2.6	2.7	2.5	2.6
Spain	2.4	2.2	1.7	1.7	1.5	1.5	1.5	1.4
Turkey	4.0	3.3	3.8	3.9	4.1	3.9	4.1	4.3
United Kingdom	5.2	4.5	3.8	3.6	3.4	3.1	3.0	2.8
<b>Total: NATO Europe</b>	3.6	3.3	2.7	2.6	2.4	2.3	2.3	2.2
Canada	2.1	2.1	1.9	1.9	1.8	1.6	1.5	1.3
United States	5.8	6.3	4.9	4.8	4.3	4.0	3.7	3.6
<b>TOTAL: NATO</b>	4.6	4.8	3.7	3.6	3.3	3.0	2.9	2.8

Source: NATO Handbook, NATO Office of Information and Press, 1998

## 1.2. NATO cost - sharing principles

Activities of NATO Alliance are financed by the Governments of its member states. Resources are allocated to finance both the operating expenses and specific programmes. There is a clear cut division between the *common or shared* expenditures and *national* expenditures of the NATO members which they use for NATO purposes. Only a small fraction of NATO forces is financed from the common funds (mainly the Alliance Headquarters and a few special units). The main part of NATO forces and infrastructure remain under command, control and financing of the states in which they are located. Such forces are regular participants of joint NATO exercises. They are training for the tasks they are assigned in the implementation of Article 5 of the Washington Treaty or, more recently, in NATO-led peace operations. Even if deployed in a NATO-led operation such as SFOR in Bosnia or KFOR in Kosovo, these units are continuously financed and logistically supported by the sending state.

Another important part of expenditures consists of costs related to the maintenance of buildings and personnel at the NATO HQs in Brussels and major military Commands. Part of the personnel working in NATO HQ and military Commands has the status of international personnel. They are financed from the common Civilian and Military budgets, which consist of the national payments to the common budget. This personnel represents Alliance interests and not those of his or her country. The other part of personnel, which NATO members send to the various political and military committees for co-ordination of policies and activities, represents interests of and is financed directly by the sending states.

All these expenditures i.e. the costs of preparation and maintenance of forces for NATO purposes (including international peace operations), payments to the common budget as well as participation in the daily work of the Alliance have to be born in mind by finance planners of the aspirant countries.

As was mentioned above, the largest part of expenditures related to membership in the Alliance is covered directly from the national defence budgets of the NATO members. Only a relatively small portion of NATO expenditures is financed from the common funds, which consists of annual contributions of the Allies. Those funds are used for the purposes that are serving the interest of all members of the Alliance. In addition, certain scientific, industrial and procurement programmes are financed by several but not all NATO members. The general principle for deciding the size of the share is that each country has to contribute in proportion to its interest in a particular project.

Except for a few important exceptions, NATO does not conduct centralised procurement of equipment. All main weapon systems, vehicles, ships, aircraft and other equipment are procured and maintained nationally by the members of the Alliance. How much and what kind of equipment and capabilities each member has to provide for NATO purposes is agreed in consultations between NATO military planners and each individual member.

From the common funds NATO procures and maintains NATO Airborne Warning and Control System (AWACS), which consists of an aircraft fleet equipped with air surveillance radar as well as collective air defence and command and control (C2) systems. These systems are serving the interests of all the Allies and are too large to be placed under responsibility of one of the countries.

In each jointly financed undertaking the cost-sharing formula is agreed among the participants taking into consideration economic and political arguments and with due regard to the financial capabilities of the participants. NATO enlargement will require reviewing the cost-sharing arrangements in all the commonly financed projects, which the new members of the Alliance will decide to join.

Common NATO budget is divided into three main parts: Civil Budget, Military Budget and Security Investment Programme. Contributions of the NATO countries into these funds are present in the Table 2.

Civil budget is drawn from the contributions of all NATO members, normally, their Ministries of Foreign Affairs. In 1998 Civil budget was

approximately 157 million USD. This budget is used for paying salaries to and financing activities of the civilian personnel working in the NATO Headquarters, implementation of civil programmes, maintenance of the NATO Headquarters in Brussels, part of co-operation activities in the framework of the NATO PfP programme.

The military budget consists of two parts. One of those is financed by all sixteen (nineteen as of March 1999) the other – AWACS – by the fourteen countries (France and Spain do not participate). In 1998 the military budget was approximately 680 million USD. This part of common expenditures was used for such purposes as paying salaries for the international military personnel serving in NATO Headquarters and major military commands, operation of the Command and Control system, scientific research, common logistics, PfP activities. Military budget is also used for the financing of NATO-led peace operations in Bosnia (SFOR) and Kosovo (KFOR).

The NATO Infrastructure Committee implements NATO Security Investment Programme (SIP). National contributions to this part of the common funds is decided by the North Atlantic Council. Under this programme NATO finances the establishment of major infrastructure elements within NATO countries when such infrastructure is necessary for NATO defence purposes and is beyond the needs of the country in which it is located. As examples of such infrastructure elements could be mentioned military airfields, fuel pipeline, fuel storage facilities, major communication and information systems, radar sites. NATO countries can decide in which investment projects they are interested to participate.

Table 2

CONTRIBUTIONS OF THE NATO COUNTRIES TO THE CIVILIAN AND MILITARY  
BUDGETS IN 1998

Country	Civil budget		Military budget (headquarters, agencies, programmes)		Military Budget (AWACS)	
	%	USD	%	USD	%	USD
Belgium	2.76	4.33	3.29	15.62	3.38	6.96
Canada	5.60	8.79	6.47	30.68	9.42	19.37
Denmark	1.59	2.50	1.95	9.23	2.00	4.11
France	16.50	25.91	6.44	30.54	0.00	0.00
Germany	15.54	24.40	17.98	85.29	28.10	57.81
Greece	0.38	0.60	0.44	2.08	0.62	1.27
Iceland	0.05	0.08	0.05	0.25	0.00	0.00
Italy	5.75	9.03	6.83	32.40	7.26	14.93
Luxembourg	0.08	0.12	0.10	0.47	0.11	0.22
Netherlands	2.75	4.32	3.29	15.60	3.74	7.70
Norway	1.11	1.74	1.34	6.37	1.46	3.00
Portugal	0.63	0.99	0.72	3.42	0.69	1.42
Spain	3.50	5.49	1.07	5.06	0.00	0.00
Turkey	1.59	2.50	1.84	8.71	1.62	3.34
United Kingdom	18.82	29.55	20.30	96.27	0.12	0.26
United States	23.35	36.67	27.89	132.24	41.48	85.34
<b>TOTAL: NATO</b>	100	157.02	100	474.23	100	205.73

Source: NATO Handbook, NATO Office of Information and Press, 1998

## CHAPTER 2 BALTIC INTEGRATION INTO NATO

### 2.1. Membership criteria

The discussion concerning the possible membership of the three Baltic States in NATO revolves around two closely interrelated lines of the argument: “why the Balts are seeking NATO membership?” and “why NATO should accept them into the club?”.

It is much easier to deal with the former. In all three countries all major political parties vigorously support NATO membership. Differently from the debate on EU membership, which goes in parallel and is no less intense, NATO integration has no serious opposition inside the three states. None of the groups in the societies feel that their interests may be seriously threatened by the country’s accession to the Alliance. Even the sizeable Russian minorities in Estonia and Latvia<sup>vi</sup>, where one could expected to find the fiercest opposition to NATO membership, according to opinion poles, are either evenly divided on the issue or even are in favour of NATO membership<sup>vii</sup>.

Such public attitude may look rather surprising since, differently from the EU membership, NATO accession in the Baltic societies is invariably associated with increased expenditures for defence purposes. The Study on NATO Enlargement is also unequivocal on the issue, stating that: “it will be important to ensure that potential new members are fully aware that they face considerable financial obligations when joining the Alliance<sup>viii</sup>”. The more important and valuable is the political consensus in the Baltic societies to pay the price of NATO membership. In principle, this explicit political agreement in the three countries is a sufficient answer to those asking: “why do you need NATO membership?” The Balts are doing so because their political elites and their societies regard membership in NATO being the best option from the available to safeguard their national interests.

The dimension of NATO enlargement debate “why NATO should accept the Baltic States?” is much more complicated. If one disregards the moral and the emotional sides of the issue, one has to recognise that NATO nations (in theory every NATO nation) has the same legitimate right not to

accept the Baltic States and other candidates into the Alliance just as the Baltic States have a right to strive for it. The Balts need to make strong and consistent argument to persuade NATO states that Baltic membership in NATO also serves the interests of the Alliance.

NATO has chosen the so called “open door” policy in its enlargement strategy, which means that practically any country wishing to become NATO member and meeting membership requirements will be considered and may be admitted. It does not promise membership to any, but raises hope to every eligible aspirant country. The requirements to the potential members as well as the general strategy and principles of NATO opening have been defined in “The Study on NATO Enlargement”. The Study was issued in September 1995 as a NATO response to a dozen of membership applications. Having stated that “...there is no fixed or rigid list of criteria for inviting new members to join the Alliance” it, nevertheless, lists “expectations” of the Alliance with respect to the candidate countries.

However, even if an aspirant meets all the formal expectations (some of them are difficult to measure because of their nature), it would not be a sufficient basis to expect invitation from the Alliance. There are other, not formal and even more subjective criteria which aspirants have to meet. In brief, positive decision can be expected only if all, or at least majority, of NATO members will decide that the inclusion of one or another country is in their national interest.

The debate on “why NATO should admit the Baltic States” in its essence is a debate on the costs of NATO enlargement to the Baltic States in their broadest sense. The positive outcome of the debate would have persuaded NATO decision makers that admission of the Baltic countries, in general, would bring more benefits than additional costs and troubles.

Now that the Baltic States are meeting practically all the formal expectations, their task is to persuade the nineteen that the costs (in their broadest sense) of their membership in NATO are acceptable. This is quite a task, given the fact that in international politics security related costs are normally measured taking the “worst case scenario”. It is easy to guess what first comes to minds of NATO decision makers when one asks them to think about the worst of the possible scenarios of Baltic accession to NATO.

Inevitably, those scenarios revolve around confrontation of one or another sort with Russia which has been provoked by the Baltic admission to NATO. The pessimists in their predictions may include even open armed conflict between Russia and the West. If that indeed were the case, this would *a priori* mean prohibitive cost of NATO enlargement to the Baltic States. In this situation, the main task of the Baltic countries in their NATO policy should be to persuade NATO decision makers (having achieved that in reality) that scenarios involving prohibitive costs are not plausible scenarios.

## **2.2. Preparations for NATO membership**

The Baltic States have, on multiple occasions, officially expressed their willingness to join the North Atlantic Alliance. They have formally applied for NATO membership in 1994. Their NATO policy as well as the main directions of foreign and security policy have not changed since then. Estonia, Latvia and Lithuania are among the most active participants of the NATO PfP programme and Planning and Review Process (PARP). The individual character of the PfP programme permits to address needs for military co-operation of each individual Partner. The PARP is closely related to the PfP but has a narrower focus on interoperability issues. Both PfP and PARP are the main tools in the practical preparations of the three Baltic States for NATO membership. At the political level, the Baltic States actively participate in the work of the Euro-Atlantic Partnership Council (EAPC), which was established in 1997 to replace the North Atlantic Co-operation Council (NACC) and holds regular meetings at different levels. In addition to the mentioned formats, all three Baltic countries conduct intensified dialogue with NATO in the so called 19+1 format, which was established for the countries aspiring for NATO membership (currently, 9 nations). Naturally, those countries need and therefore seek to establish closer and more membership-oriented co-operation with the Alliance.

Other means of preparation for NATO membership, which may not seem as obvious as co-operation within PfP and PARP, are close bilateral co-operation between the Baltic States and a large number of Western countries.

Currently, the BALTSEA (Baltic Security Assistance) forum, which is an umbrella structure for co-ordination of bilateral assistance to the three Baltic States, includes 17 nations. Last but not least, Estonia, Latvia and Lithuania are regular participants of international operations. Only Lithuania had more than 600 soldiers serving in international peace operations since August 1994<sup>ix</sup>. The Baltic States attach priority to participation in NATO-led operations. Active participation in international missions is important sign to NATO that the Baltic States are determined to be not merely consumers of security but also to actively contribute to the new NATO missions.

### **CHAPTER 3 DEFINING NATO ENLARGEMENT COSTS**

In the discussions on the financial issues related to NATO enlargement, the widely used term “costs of NATO enlargement” could be understood in two different senses - the broad and the narrow. It is very important to make a distinction between the two in order to be clear which one is discussed.

The costs of NATO enlargement in their broad sense could be called “political” costs. They embrace all real and perceived positive and negative implications associated with the admission of new members into the Alliance. The sum of positive and negative elements, which include military-strategic, economic, cultural and even psychological factors, will determine whether one or another candidate will or will not be invited to join the Alliance. Decisions on NATO enlargement are exclusively political in character. NATO enlargement costs in their broad sense could not be express in terms of money (even though the term “costs” are usually with financial expenditure). They can only be defined in terms “acceptable” or “not acceptable”.

The costs of NATO enlargement in their narrow sense financial expenditure related to military and technical integration of the new member into the collective defence system. These costs are first of all related to the investments, which have to be made into the defence forces and defence infrastructure of the new members to bring them to the level of NATO forces and to integrate them into Alliance structures. Such costs include procurement

of weapons and equipment, military training, preparation of military infrastructure and meeting other specific objectives defined by NATO military planners. These enlargement costs are far from being decisive in the enlargement process but they have caught greater public attention as they can be expressed in the easily understandable terms of money. Therefore one is asking about the costs of NATO enlargement one normally expects a rather short answer in numbers rather than a long lecture about Russian sensitivities, spread of democratic values or relationship between NATO membership and history of the post communist countries.

### **3.1. Costs of NATO enlargement in their broad sense**

What were the arguments, which have ultimately determined that the Czech Republic, Hungary and Poland have been accepted into NATO? Perhaps the most exhausting list of the benefits of having those three countries in was elaborated in the US Department of State to the US Congress <sup>x</sup>. The Report was presented to the Senate in April 1997, prior to the Madrid Summit (July 1997) as the US Government position on NATO enlargement. It is important to note that this Report presents not only the benefits of NATO enlargement to the Central and Eastern Europe, but also the risks (or costs) of delaying or stopping the enlargement process. By stressing that the new members are likely to contribute to the Alliance more than to take from it, the Report makes the conclusion that the costs of such NATO enlargement are acceptable even if the step may require NATO investments into the Armed Forces of the new members.

Bellow is a list of the expected gains which NATO membership would provide to the new members from the Central and Eastern Europe and of the advantages provided to the Alliance by those new members as seen from the DoD perspective.

- **Democratic reforms and stability.** Prospects of NATO membership has prompted the adoption laws to provide greater civilian control over the military, expanded freedom for civil society and enacted other measures essential to the success of democracy in the region. Support for NATO and its enlargement has become a unifying point among divergent political parties in many of these states and has helped to

marginalise extreme factions, while strengthening centrist parties and coalitions. As was the case over past decades with existing NATO allies, inclusion in the Alliance will place new members within a community of security and strong political norms that will provide both the structure and incentive to consolidate their democratic advances.

- **Stronger collective defence and ability to address new security challenges.** Collective defence remains imperative for European and transatlantic security and central to American engagement in Europe. Admitting new states to the Alliance will create a larger circle of like-minded nations committed to defending each other from these and other threats and to working together to build a more stable Europe.
- **Improved relations among Central and East European states.** Growing co-operation with NATO and the desire to join the Alliance have provided a powerful impetus for resolving past disputes among Central and East European states. In recent years, there has been an unprecedented series of agreements concluded among these states and between these states and individual NATO allies, which help ensure stable borders, promote inter-state co-operation and address mutual concerns on the treatment of ethnic minorities.
- **Burden sharing and contributions to NATO missions.** NATO candidate countries are making a significant contribution to European security through their participation in the NATO-led Implementation Force (IFOR), which implemented the military aspects of the Dayton Peace Accords in Bosnia and Herzegovina, and its successor, the Stabilisation Force (SFOR). NATO membership will better enable the new allies to restructure their armed forces so that they can participate in the full spectrum of current and new Alliance missions including both Article V missions and other kinds of missions both within and outside of the NATO region.
- **Broader European stability.** Historically, when the security status of Central and Eastern Europe has been left unclear, the resulting uncertainty has exerted a strong and dangerously destabilising influence for the whole of Europe. In the wake of such events, states to both the East and West of Europe's centre have suffered. By fostering stability and confidence, NATO enlargement will advance the longer-term security interests not only of those states but also of the United States, Western Europe, Russia, Ukraine and others throughout the region.
- **Prosperity.** As NATO enlargement helps resolve uncertainties about Central and Eastern Europe's place in an integrated Europe, it will also foster a more stable climate for economic reform, trade and investment. Already, Central and Eastern Europe includes many of the continent's fastest-growing economies, and many of these states have demonstrated great political will in transforming stagnant command economies into vibrant market showcases. U.S. direct investment in

the region currently exceeds \$8 billion. NATO enlargement, coupled with the anticipated enlargement of the European Union, will help this record of success continue to grow.

- **A stronger Europe as a partner for the United States.** As part of a broader strategy, NATO enlargement will help foster Europe's democratic, economic and security integration. In turn, a Europe that is more closely knit together as a coherent political, economic and strategic entity will be a far more capable security partner for the United States. A Europe more secure in its own borders will be more willing and able to assist the United States in meeting challenges to shared interests, including those that extend beyond Europe's immediate borders.

When someone in the Baltic States reads all these arguments, the natural question which comes up to one's mind is "aren't all them equally valid to support Baltic bid for NATO membership?". Moreover, one would argue that, given the geopolitical situation of the three Baltic States and their historical experience, benefits of the NATO membership would be felt much more strongly in Estonia, Latvia and Lithuania than in the Central European countries. Thus, the irony of the first round of NATO enlargement process was that the countries that NATO security guarantees were extended to the applicants that needed them the least.

What are the chances for the Baltic States to be invited to join NATO in 2002, given that new invitations will be issued at the NATO Summit that year? To answer this question we have to analyse the factors, which make the Baltic case so "special" in the context of NATO enlargement. Firstly, the Baltic States are relatively small and happen not to have any natural boundaries to their neighbours in the East. Therefore, their capabilities to raise viable defence against external aggression are in the best case considered in the West as dubious. Second, and probably the most important concern of NATO in its policy of enlargement to the East is Russia. Earnest discussions about the possible Baltic membership in NATO are not yet acceptable even for Russia's so-called reformers and pro-western politicians. The less moderate implicitly or explicitly declare Baltic membership in NATO as a *casus belli*, stressing that, in this case, Russia will have a right to take appropriate steps to counter this aggressive NATO move.

Therefore even if NATO has declared that it will not allow Russia to veto NATO enlargement process, it prefers to treat the Baltic issue with special care. Even if the current Russia's military strength is only a fraction of that of the former Warsaw Pact and it can hardly use its military muscle in its policy with the West, it is still a great nuclear power and is therefore enjoys exceptional status. It is feared that Baltic membership in NATO may result in unwelcome changes in the Russia's political landscape, bringing to power the extremists and nationalists and further aggravating Russia's relations with NATO. Those relations, after NATO bombings of Serbia and Russian campaign in Chechnya, are far from being friendly while practical co-operation is down to very minimum.

In sum, the so called "Russian factor" constitutes the main part of costs of Baltic membership in NATO. One of the most ardent critics of NATO enlargement Michael Mandelbaum supports this view by saying that: "the fear of an angry Russian reaction is the only reason that the Baltic States, whose claims are far stronger than those of the Central Europeans, are not being invited to join the Alliance<sup>xii</sup>".

Maintaining at least some kind of security co-operation with Russia is considered highly important to the West. Therefore too serious aggravation of relations with Russia over the Baltic membership in NATO is too high a cost. Even the slightest chance of military confrontation practically means a prohibitive cost, which, *de facto* means Russian veto on the Baltic membership in NATO. The US State Department has recommended in its Report to admit the Czech Republic, Hungary and Poland only after it has made the bold assumption that "Realistic threat estimates show that any direct conventional threat to new members is unlikely for the foreseeable future and would take many years to develop, if at all". In other words, the US State Department has concluded that Russia is unable or does not intend to undertake any active steps to prevent the accession of those countries to NATO. The time that has passed since the Czech Republic, Hungary and Poland were invited to join the Alliance vindicate the correctness of this assumption. The Baltic States may hardly expect to get such an invitation before the Alliance makes similar conclusion concerning their membership in NATO.

### **3.2. Costs of NATO enlargement in their narrow sense**

After the political decision has been made to admit a new country to NATO, the Alliance has to concentrate on the military and other technical aspects of integrating the new member into the Alliance's defence structures and plans. All those problems can be solved in a reasonable period of time if the necessary resources are allocated and there are methods developed to estimate those resources. Perhaps because those estimates can be expressed in the easily understandable money terms, the costs of enlarging NATO are often understood in this, narrow, sense. A parliamentarian from a country would normally formulate the question in the following way: "how much of taxpayers money will be used for integration of a new members" rather than look into the issue from a broader geopolitical or moral perspective. The rest of this paper will be dedicated for the analysis of those financial costs of NATO enlargement to the Baltic States.

The costs of integration of any new member to the Alliance will consist of the following components:

- strategy chosen for the defence of the NATO Alliance;
- force and infrastructure requirements for the implementation of the chosen strategy;
- cost-sharing principles for covering enlargement costs;

After the decision was made in Madrid in July 1997, NATO started its study on the costs of admitting new members. NATO had to answer those three questions. For security reasons the study itself is a confidential document, only its conclusions were presented to the public. Most importantly, the study concluded that all costs related to the admission of Poland, Czech Republic and Hungary will comprise 15 billion US dollars, extended in a ten-year period.

Since the said NATO study is not a public document, this paper will explore in more detail the other three major analytical works on the costs of NATO enlargement. Those studies were prepared prior to the NATO Summit

in Madrid and therefore have served as the main points of reference in the debate preceding the first round of NATO enlargement. Those three studies are named after the institutions, which have prepared them: US Department of Defence<sup>xii</sup>, US Congressional Budget Office<sup>xiii</sup> and RAND Corporation<sup>xiv</sup>. The comparison of methods used and conclusions made by these Studies should help to better understand the problem of military integration of new members into the Alliance and the difficulties in getting reliable estimates of the associated costs. It is especially important to bear in mind that NATO enlargement takes place in parallel with an even more fundamental change of the Alliance itself – its evolution from the rigorous collective defence union of the Cold War period to an outward looking organisation with a much larger scope of tasks. The functioning of the new NATO, including its defence planning, new strategic objectives and resource issues are important to understand in order to put the Studies on the costs of NATO enlargement into a broader context.

### **3.3. NATO defence planning process**

Normally, already in the process of developing defence plans, the Allies decide on how they will share the expenses, which requirements the existing defence system meets, which capabilities are most lacking and how the identified shortcomings could be eliminated.

NATO Strategic Concept is the main political document of the Alliance, defining its role, direction and tasks. In 1991, soon after the end of the Cold War, in Rome and, in 1999 in Washington, NATO has approved its new Strategic Concept, which has replaced the strategy of deterrence of the Warsaw Pact with a new set of tasks, concentrating on crisis management and conflict prevention. The document also identifies the main elements of the future military structures. According to the NATO Strategic Concept approved at the Washington Summit in 1999, the main features of new NATO forces will be<sup>xv</sup>:

- (1) smaller, more mobile and flexible forces that can counter multifaceted risks, possibly outside the NATO area;
- (2) fewer troops stationed away from their home countries;
- (3) reduced readiness levels for many active units;
- (4) emphasis on building up forces in a crisis;
- (5) reduced reliance on nuclear weapons; and
- (6) immediate and rapid reaction forces, main defence forces (including multinational corps), and augmentation forces.

Although NATO has not defined exactly the type, the number of equipment or amount of required training, it has encouraged its members to invest in transport, air refuelling, and reconnaissance aircraft and improved command and control equipment, among other items.

In the process of NATO force planning there are two distinct but closely related phases: firstly, NATO formulates tasks for the armed forces of each NATO nation, then they respond to those tasks by completing NATO Defence Planning Questionnaire (DPQ). Tasks for NATO forces are reviewed and updated every two years, taking into account the developments in the security environment of the Alliance.

Major NATO Commands define the objectives to the armed forces of the states whose defence the particular Command is responsible for. Each country usually has over one hundred of such objectives. NATO conducts consultations with each member concerning those objectives until they reach an agreement. It is obvious that that NATO can not in a short period of time establish new military units or to acquire major military equipment. However, NATO defence planners are in a position to influence the directions of development and specialisation of the armed forces of the Allies.

By providing answers to the Defence Questionnaire, each NATO country also informs the others about the extent to which it has implemented its earlier commitments and undertakes commitments for the coming years, including a five-year development defence development perspective. Having done the analysis of the national responses, NATO military leadership presents its general conclusions in which it describes the development plans of every member and assesses its ability to carry out NATO tasks. After all

NATO members approve those conclusions, they become a common understanding of the Alliance concerning the strong and weak sides of each member and their input into NATO military structure. In the process of analysing Defence Planning Questionnaires NATO identifies shortfalls in functional areas such as medical support, transport, equipment etc. Prior to admitting new members NATO will have to determine what forces are necessary for defence of the new entrants. Suggestions on the changes in structure and responsibilities will have to be discussed and agreed among the Allies.

The other document on which the Alliance will have to come up to a unanimous decision in the process of NATO enlargement will have to determine how much NATO will have to invest from the common funds into equipment and military infrastructure of the new members. Such equipment and infrastructure is primarily designated for receiving allied reinforcements in the times of crisis and war. In the process of planning of these investments the main attention is paid to the development of communication system between the national military staffs and NATO Commands and integration of the air defence systems. This document will have to explain how these projects will be financed and whether the available resources will be sufficient or additional common funds will be necessary.

A yet another document will be devoted to examining the defence capabilities of the new members, first and foremost, their major deficiencies. NATO does not finance elimination of shortfalls of the national forces as this is considered to be a national responsibility. Therefore, the tasks set in this document will serve as guidelines for long-term defence development and procurement plans in the new members of NATO.

### **3.4. The Main Assumptions of NATO Enlargement Studies**

When the DoD, CBO and RAND Studies on the costs of NATO enlargement were completed, the decisions on the issues determining the costs of NATO enlargement have not been made. Neither the group of countries which would be admitted has been identified nor the role of the new members in the enlarged Alliance was clear. Also, there was little certainty

about the effect, which the admission of new members may have on the European security environment. For this reason, a number of important assumptions had to be made before starting each of those studies and those assumptions have influenced the findings of those studies.

For example, the US Defence Department has made the following assumptions:

- A small group of unspecified Central European countries would join NATO in the first trench of enlargement.
- NATO's existing strategic concept would serve as the foundation for meeting the defence requirements that result from enlargement.
- In the existing strategic environment, there would be no need to station or permanently forward-deploy substantial NATO forces on the territories of new members. There would be regular training and other co-operation between the forces of current and new members on their territory.
- Costs for a mature collective defence capability are incurred over 13 years, from 1997 through 2009.
- Standard NATO cost-sharing rules would be applied for new defence arrangements -- i.e., individual NATO nations pay for the maintenance and modernisation of their own national forces while costs for infrastructure are shared where they qualify for common funding.
- Some portion of the estimated costs (including the direct enlargement costs) has already been, or is currently being, incurred. For example, military officers from potential new members are already receiving English language training, and programs are underway in several potential new member countries to acquire NATO-interoperable air traffic control capabilities.

Basing on these assumptions, the Department of Defence estimated that NATO enlargement would cost between 27 and 35 billion dollars, which will have to be paid in the period 1997-2009. Those expenses will fall into the following categories:

- about \$8,000 million to \$10,000 million for improvements in current NATO members' regional reinforcement capabilities, such as developing mobile logistics and other combat support capabilities;
- about \$10,000 million to \$13,000 million for restructuring and modernising new members' militaries (for example, selectively upgrading self-defence capabilities);
- about \$9,000 million to \$12,000 million for costs directly attributable to NATO enlargement (for example, costs of ensuring that current and new members' forces are interoperable and capable of combined NATO operations and of upgrading or constructing facilities to receive NATO reinforcements)<sup>xvi</sup>.

According to the DoD study, approximately one half of the costs would be covered by the new entrants, while the other half, in one or another way, by the sixteen NATO members. Those resources will be necessary first to develop *initial* and later *mature* capabilities.

*Initial capabilities* define the main requirements, which the Alliance has to meet in order to be able to act in concert in the implementation of Article 5 of the Washington Treaty. Establishment of initial capabilities requires to achieve interoperability with NATO in the key areas and to strengthen military capabilities in certain fields. This phase has to be implemented in the course of two years after the country became NATO member. The main attention during those two years will be given to not expensive but highly effective investments, which will be directed to enhance interoperability and, most importantly, self-defence capabilities. In this phase part of the costs will be covered from the common NATO funds. However, the main part of expenses will have to be made by the new members themselves.

This approach indicates that the DoD considers the risk of aggression against the new members being rather low and therefore suggests providing security guarantee to these countries even before they achieve those initial capabilities.

Development of *mature capabilities* is the next and a more advanced stage in the preparation of new members for Allied missions. It will start with the accession and will continue until 2009 when integration of new members

has to be completed. The new members will continue strengthening interoperability of their Armed Forces with NATO and will work on improving other areas related to participation in Alliance activities, using their national and common funds to that end. During this phase the new NATO members will replace stockpiles of old equipment, continue reducing and restructuring their Armed Forces, seek to increase their ability to operate alongside NATO forces. At the same time, the old members of NATO will carry on modernisation of their Armed Forces, which should increase the mobility of their military units, their capability to deploy and to sustain in a mission area both in the implementation of collective defence operations and non-Article 5 missions.

### 3.5. Comparative Analysis of NATO Enlargement Cost Studies.

The findings of DoD, CBO and RAND studies are estimated in the table below.

*Table 3*

**Cost Estimates of NATO Expansion<sup>xvii</sup>**

According to....	Time frame	New members include	Options	Cost
Department of Defence	1997-2009	Small, unspecified number	Restructuring forces of new members, plus enhancing alliance ability to intervene in new member states, plus direct enlargement	\$27-35 billion
Congressional Budget office	1996-2006	Visegrad states (Poland, Hungary, Czech Republic, Slovakia)	Restructuring forces of new members and increasing power projection capabilities of current members	\$60.6 billion
			Above restructuring, plus further enhancement of power projection capabilities	\$109.3 billion
			Above restructuring and enhancement, plus propositioning of equipment and stationing limited number of NATO forces in new member states	\$124.7 billion

RAND	10-15 years	Visegrad states	Improving forces of new members	\$14-20 billion
			Improving forces, plus power projection of allied forces	\$25-52 billion
			Improving forces, plus power projection of allied forces, plus stationing limited number of NATO forces in new member states	\$70-110 billion

CBO and RAND have made calculations for a number of possible Alliance strategies ranging from minimal support to self-defence efforts to deployment of NATO troops on the territory of the new member states. At the same time, these studies notice that in the absence of large-scale threats to the new NATO countries, the Alliance is more likely to choose one of the less expensive options. One even could argue that due to the lack of compelling reasons to spend money on the new countries' defence, NATO enlargement will cost to the Alliance as much as NATO will decide to spend for the purpose.

Several factors have caused the differences in the estimates made the DoD, CBO and RAND experts.

According to the US General Accounting Office (GAO)<sup>xviii</sup>, The CBO estimates are significantly higher than those of the DoD for the following reasons:

-- DOD assumed reinforcements of 4 divisions and 6 wings, whereas CBO assumed force of 11 2/3 divisions and 11 1/2 wings and a much larger infrastructure for this force in the new member states.

- CBO's modernisation costs are much higher than DOD's and include the purchase of 350 new aircraft and 1,150 new tanks for the new member states. DOD assumed that about 25 percent of the new member states' ground forces would be modernised through upgrades and that each nation would procure a single squadron of refurbished Western combat aircraft.

- CBO assumed much higher training costs, \$23,000 million, which include annual, large-scale combined exercises. DOD included \$2,000 million to \$4,000 million for training.

- CBO included the purchase of Patriot air defence missiles at a cost of \$8,700 million, which is considerably higher than DOD's assumed purchase of refurbished I-HAWK type missiles at \$1,900 million to \$2,600 million.

- CBO's infrastructure costs were much higher than DOD's and included new construction, such as extending the NATO fuel pipeline, which CBO assumed would meet U.S. standards. DOD assumed planned refurbishment of existing facilities that would meet minimal wartime standards.

- RAND's cost estimate is somewhat higher than DOD's, although both were based on similar threat assessments. First, its reinforcement package was larger - 5 divisions and 10 wings - and therefore infrastructure costs were higher. Second, it assumed new members would purchase the more expensive Patriot air-defence system rather than the refurbished I-HAWKs. Finally, it assumed greater training costs than did DOD. The author of the RAND study stated that if he had used DOD's assumptions, the cost range would have been almost identical to DOD's.

## **CHAPTER 4 THE COSTS OF NATO ENLARGEMENT TO THE BALTIC STATES**

The questions addressed in the previous chapters are, each in its own way, important to the understanding of the context and of the methods in which costs estimates of NATO enlargement are done. It is important to stress once again that the question of whether one or another candidate country will be accepted to NATO or not is purely political. The expenditures related to the extension of security guarantees to the new Allies countries have played minor role during the first round of NATO enlargement.

The main cost of Baltic membership in NATO in the eyes of the West is its possible negative impact on NATO – Russia relations, which, according to pessimistic scenarios could lead even to an open confrontation between Russia and NATO. These costs can not be expressed in money terms. They could hardly be offset by the very powerful Armed Forces developed in the Baltic States, or even by the determination of the Baltic countries to cover all financial expenditures related to their accession to NATO. In the eyes of the West, the price of Baltic membership in NATO which can be expressed in terms of money, constitute only a very small part of the overall price of admitting the Balts,

This does not suggest that the three Baltic States should not work on strengthening their military capabilities or stop developing NATO interoperability of their Armed Forces. These efforts have benefits of their own, irrespectively of whether the Baltic States will ultimately be admitted to NATO or not. The aspiration to become NATO member and the practical steps taken to that end allow concentrating efforts on specific and well defined objectives. It helps to promote military co-operation with other countries, (future allies), to receive assistance and to actively contribute to the strengthening of security in Europe. Most importantly, the process of preparation for NATO membership, and close co-operation developed in the result, are important security enhancing factors in the case of the three Baltic States. Active military co-operation with NATO gradually anchors in the consciousness and subconsciousness of the Western politicians the image of the three Baltic countries being an integral part of the democratic Europe. This intangible element is of paramount importance to the three Baltic States as it constitutes the major difference between the Czech Republic, Hungary and Poland, who were invited to join NATO, and Estonia, Latvia and Lithuania, who were left out.

Still, when all the arguments about the political nature of the whole business are used, one remains curious “what could be the financial costs of Baltic membership in NATO?” Such estimates can be made with respect to the technical part of integration of the Armed Forces of Estonia, Latvia and Lithuania into the Alliance, the rest of the Chapter will be devoted to making these estimates.

Making financial calculations on the costs of NATO enlargement sounds as a complex and rather tricky task. It should not be like that, as, in the end, it is a sum of expenditures necessary to achieve the required level of equipment, training, military infrastructure, etc. Techniques for making such calculations exist and were applied by the authors of the mentioned studies on the costs of NATO enlargement. The trick is to determine the “required level” for the Armed Forces of the new members as well as for Allied support to the new members. NATO military planners are doing that for each NATO member on a regular basis and, thus, should be in a position to do so with respect to the candidates. The problem here is again political. The availability of such information to the candidates could frustrate them by establishing too high requirements for their economies to handle. Another risk could be that candidates, rushing to meet the military requirements, could damage other sectors of the national economies, trying to do too much in a too short period of time. Finally, such information could pose a risk to NATO if one or more candidates would achieve all the requirements before NATO is politically prepared to admit it. Thus, the determination of the “required level” was the major area where all studies on the costs of NATO enlargement have to make assumptions. As was illustrated in the previous Chapter where three Studies on the costs of NATO enlargement were compared, the difference in assumptions of the “required level” were the reasons for practically all major differences in the estimates.

This paper has made the following four assumptions:

- (1) Baltic membership in NATO will not result in increased threats to their security and therefore will not require making expenditures beyond the levels provided by their long-term defence forces' development plans;
- (2) At the time of admission to NATO of Lithuania, Latvia and Estonia the Alliance will use the same cost-sharing principles;
- (3) At the time of their admission to NATO the Armed Forces of Lithuania, Latvia and Estonia will be at the comparable level of readiness with those of the Czech Republic,

Hungary and Poland in 1999, when these countries officially became the members of the Alliance.

Having made these assumptions, one may start with the easiest – contributions of Estonia, Latvia and Lithuania into the common budget i.e. civil and military budgets and NATO Security Investment Programme. This contribution will depend on the size of the Gross Domestic Product and defence budget. In Lithuania, according to the Law on the Strategy of Financing National Defence System, in 2001 defence expenditure will reach 2 per cent from the GDP. If the Lithuanian economy will grow as forecasted, in 2001 its defence budget will be approximately 1 billion Lithuanian Litas (LTL) or 250 million US dollars. If Estonia and Latvia will be increasing their defence budget to reach the same level, the sum of their defence budget will be close to that of Lithuania with Latvian share being in the area of 60-65 per cent.

As was mentioned earlier in this paper, NATO countries spend approximately 0.5 per cent of their defence expenditures as their contribution to the common NATO budget. Thus, Lithuanian contribution to the NATO common budget would be in the area of 1-1,5 million USD. Similar expenditures will be required for posting officers and civil servants to NATO HQ and major commands. Lithuania should plan to contribute 30-40 officers and civil servants to work in different NATO staffs. Latvia and Estonia should be ready to provide similar number combined.

The other important category of expenditures will be related to development of interoperability between the Armed Forces of the Baltic States and those of NATO. It was a major challenge for the Czech Republic, Hungary and Poland, former Warsaw Pact countries, to restructure their forces and to ensure their NATO interoperability. However, one can anticipate that in this respect integration of the Armed Forces of the three Baltic States should be much easier.

Differently from the other NATO candidates, the Baltic States have started creating their Armed Forces from scratch in the beginning of 1990s. From the very early stage they aspired to create Western-type Armed Forces. Close security and defence co-operation with the Western countries and the use of NATO standards whenever possible, were characteristic to the Baltic

States from the beginning of establishment of their defence structures and forces. It is also important to note that for light infantry units, which constitute the bulk of the Armed Forces in Estonia, Latvia and Lithuania, interoperability requirements are generally low. The key areas in this respect are NATO compatible Command, Control and Communication systems and procedures, English language, defence planning and doctrine. These were given primary attention in each of the militaries of the three Baltic States through acquisition of modern NATO communications equipment, intensive English language training and active participation in NATO PfP exercises where NATO standard procedures are used. Thus, the main challenge, which the three Baltic States are facing is not to reform their armed forces and to adapt them to the NATO requirements, as in the case of the Czech Republic, Hungary and Poland but rather to continue their development and strengthening in close co-operation with NATO and its members.

On the other hand, the creation of the armed forces from scratch is also a weakness. The military units of the Armed Forces of the three Baltic States are still lacking military equipment and weapons, which makes them less capable than respective units in the NATO countries. The main shortcomings are in such areas armed vehicles, air defence weapons and military aircraft, which are mentioned among priority areas in the Studies on the costs of NATO enlargement. However, these shortages could be easily eliminated if the NATO countries, all of which are significantly cutting their armed forces, would offer their excess defence equipment to the Baltic countries. How many and what type of equipment and weapons the Baltic States will have to procure to meet the “required level” will, again, be determined by NATO defence planners, when developing the strategies for defending the Baltic States against external aggression.

The bold but realistic assumption made in the beginning of this Chapter that, at the time when the Baltic States are invited to join NATO, the level of readiness of their Armed Forces will be comparable to that of the Czech, Hungarian and Polish forces at the time of these countries’ accession, allows us to apply some of the methodologies used in the DoD, CBO and RAND studies. For example, RAND Corporation has estimated that NATO enlargement will cost 21 US dollar for each citizen of the Czech Republic,

Hungary and Poland per year.<sup>xix</sup> In this way, annual cost for Lithuania would be 78 million, for Latvia 52,5 million, for Estonia 31.5 million US dollars. These are rather significant but still affordable figures, if one considers that, for example, Lithuanian defence budget in the foreseeable future will be in the area of 250 million US dollars.

Another method for making cost estimates is provided by the DoD Study and its assumption that two large and two small European countries will be admitted to the Alliance. The DoD study maintains that in this case NATO enlargement would cost between 27 and 35 million US dollars in the period of 13 years. Since only three states were invited in the first round of NATO enlargement, one could assume that the costs of NATO enlargement to the Baltic States would be similar to those of the fourth country for which the estimates have been made but which was not admitted. If there is a direct correlation between the size of the population and the costs of NATO enlargement as the RAND experts suggest, then the three Baltic States, home to 7,7 million people, would own approximately one-eighth of the sum, i.e. between 3,3 and 4,3 billion US dollars, or at least 250 million per year. According to the mentioned studies, approximately one half of those costs, 125 million per year, would have to be covered by the new members themselves and the other half by NATO.

Making such calculations is a rather interesting exercise. However, for the number of reasons presented in this paper, they inspire little confidence and deserve to be received with a dose of scepticism. In the authors view, the following factors are likely to determine how much the Baltic States can spend as their contribution to the NATO enlargement costs:

- (1) The Baltic States seek to raise their defence expenditure to the average level of NATO states – i.e. approximately 2 per cent from their GDP. This demonstrates the determination of the Baltic States to be equal partner within the Alliance. On the other hand, this attempt to be equal partner in terms of defence spending requires making painful cuts in other sectors of the society – healthcare, education, culture etc, which is not easy in peacetime. This leads to

the conclusion that irrespectively of the cost estimates provided by different studies, the Baltic States will be hardly able to raise their defence spending beyond the currently planned levels. Currently, other sectors in their societies are at least as important and they crave for budget resources even more.

- (2) The Baltic States would have to spend similar amount of resources on defence even if they would not aspire to become members of NATO. Which in principle means that the costs which, allegedly, will be incurred due to NATO enlargement, would have to be made anyway if the Balts attempt to establish credible national defence forces. Thus, it can be argued that NATO enlargement will not require any additional costs, but the same resources will be used for slightly different purposes. If this logic is correct, then there will be no additional costs due to the fact of Baltic accession to NATO.
- (3) The estimates of the costs of NATO enlargement to the Baltic States should take into account the ongoing defence cuts and restructuring of armed forces in most NATO and Partner countries (like Sweden and Switzerland). Many of those countries are offering, free of charge or on highly favourable terms, excess defence equipment and weapons to the Baltic States. Since the lack of equipment was identified as one of the major cost-driving factor in the case of the three Baltic countries, this factor could significantly reduce those costs.

When NATO makes the political decision to admit the Baltic States, it will have to have ready economically based plans of preparation for their defence in the case of aggression. Taking into consideration the current favourable security environment in this part of Europe and the experience from the first round of NATO enlargement, it seems that there is no need to plan stationing of NATO troops in the Baltic States. Support from the air and mobile reinforcements on the same level as for Poland should be adequate

NATO support. Therefore, the costs of Baltic admission to NATO are likely to be in the less expensive end of the possible defence options.

Deployment of NATO troops in the Baltic States is unlikely and, indeed, unnecessary option. NATO's support should first of all be provided in terms of air support, establishment of control in the Baltic Sea and mobile reinforcements. If need be, NATO could move its land forces stationed in Germany and Poland. In this defence option the Baltic States should create defence infrastructure to be able to receive NATO reinforcements as well as to prepare plans and capabilities to defend the key infrastructure elements until the reinforcements arrive.

As was mentioned above, the new NATO Strategic Concept calls for development of mobile and rapidly deployable forces. The implementation of this concept will also prepare NATO to render military support the Baltic States with minimal assistance from the Baltic States themselves. Expenditures related to the preparation of the NATO forces for the new task can not be counted as NATO enlargement costs, unless those forces are specifically dedicated to the defence of the territories of the new Allies.

## **Conclusions**

In conclusion to what has been said in this paper on the costs of Estonian, Latvian and Lithuanian membership in NATO, the following observations could be made:

Firstly, in the absence of serious external military threat to NATO, with admission of new members NATO will not require additional resources. In fact, practically all NATO countries have drastically cut their defence expenditure after the Cold War and some continue doing so regardless of the NATO enlargement process. On the other hand, if the NATO candidates start facing major military threats, NATO will definitely become affected and will have to react by enhancing defence effort or even by becoming involved into the regulation of the conflict.

The national defence development programmes of the NATO states will hardly be affected by the admission of new members as the implementation of the new NATO Strategic Concept requires development of

more mobile and self-sustainable forces, which is very much in line with military requirements of the enlarged Alliance. Accordingly, additional expenses should not be incurred by the new members as the resources they are spending for getting prepared for NATO membership would be spent on their national self-defence building programmes. The only area where important redistribution of resources may take place is the common NATO budget, in particular the NATO Security Investment Programme. It is very likely that significant portion of those resources will be diverted to the new member states in order to prepare those countries (who have become front-line states in the Alliance) for joint operations.

Thus, NATO adaptation to the needs of the enlarged Alliance will take place through the implementation of the new Strategic Concept and the concentration of investments made from the common NATO budget to the preparation of the necessary military infrastructure in the territory of the new NATO member states. In the current European security context, where major military threats are absent, those costs will not be high.

The second conclusion is that all attempts to express the costs of NATO membership in terms of money deserve to be received with caution and even scepticism. Even if theoretically possible, these estimates are based on assumptions as to the nature of threats, “sufficient” means to counter them and, what is even more risky, on the developments in the security environment in the future. Moreover, part of militarily sensitive information necessary for preparation of this kind of studies is not releasable to the authors of the studies.

Thirdly, one should always separate the costs of NATO enlargement in their narrow (financial) sense from the decision on NATO enlargement, which will always be based on political argument and assessment of the broadest package of costs. So far these decisions have been made at the top level during NATO Summits and separately from any kind of assessments on military and technical aspects of the issue.

Fourthly, if one assesses the financial costs of NATO enlargement to the Baltic States in accordance with the methodologies and principles overviewed in this paper, one could make a conclusion that these costs are substantial but still affordable to the defence budgets of Estonia, Latvia and

Lithuania. However, this assessment is based on the premise that the Baltic States will maintain the current effort of increasing defence budgets to the average NATO levels.

Lastly, one could say that in its military preparations for NATO membership the Baltic states are exemplary NATO candidates. They have made firm political determination to become members of NATO, they have developed plans how to prepare their Armed Forces for the membership in the Alliance and have allocated resources to finance this endeavour. Moreover, each of them conducts individual dialogue with NATO and its member states, co-ordinating the use of those resources, seeking to achieve NATO interoperability and to contribute to NATO-led operations. In this way, the Baltic States already now using significant part of their resources for NATO membership related purposes and thus already now are paying the price of NATO membership.

## Endnotes

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- <sup>i</sup> Charles J. Hitch, Roland N. Mc.Kean "The Economics of Defence in the Nuclear Age", RAND 1960, p. 47.
- <sup>ii</sup> Ibid.: p.47.
- <sup>iii</sup> "The Eisenhower Tax Program," U.S. News and World Report, May 29, 1953, p.98.
- <sup>iv</sup> "The Chance for Peace," an address reprinted in The Department of State bulletin, April 27, 1953, p. 600.
- <sup>v</sup> Charles J. Hitch, Roland N. Mc.Kean "The Economics of Defence in the Nuclear Age", 1960 RAND Corporation Research Study originally published by Harvard University.
- <sup>vi</sup> The Russian minority in Lithuania is comprises about 8 per cent of the total population.
- <sup>vii</sup> Read for example opinion polls in Estonia in <http://www.vm.ee/eng/nato/index.htm>
- <sup>viii</sup> "Study of NATO Enlargement", September 1995, NATO HQ, Brussels, [www.nato.org](http://www.nato.org);
- <sup>ix</sup> Ministry of Foreign Affairs of Lithuania: [www.urm.lt](http://www.urm.lt)
- <sup>x</sup> Report to the Congress on the Enlargement of the North Atlantic Treaty Organisation: Rationale, Benefits, Costs and Implications, Released by the Bureau of European and Canadian Affairs, U.S. Department of State, February 24, 1997  
[http://www.state.gov/www/regions/eur/9702nato\\_report.html](http://www.state.gov/www/regions/eur/9702nato_report.html),
- <sup>xi</sup> Mandelbaum, Michael; "NATO Expansion: A Bridge to Nineteenth Century", June 1997, Centre for Political and Strategic Studies;
- <sup>xii</sup> Report to the Congress On the Military Requirements and Costs of NATO Enlargement" February 1998 <http://www.defencelink.mil/pubs/nato/>
- <sup>xiii</sup> The costs of NATO of Expanding the NATO Alliance" (Washington, DC: Congressional Budget Office, March, 1996).
- <sup>xiv</sup> Ronald D. Asmus, Richard L. Kugler, and Stephen Larrabee, "What will NATO Enlargement cost?", Survival, Vol. 38, no. 3, Autumn, 1996;
- <sup>xv</sup> General Accounting Office On Costs Of NATO Enlargement, October 23, 1997 <http://www.usis-israel.org.il/publish/press/security/archive/1997/october/ds21024.htm>
- <sup>xvi</sup> General Accounting Office on Costs of NATO Enlargement, October 23, 1997, <http://www.usis-israel.org.il/publish/press/security/archive/1997/october/ds21024.htm>
- <sup>xvii</sup> Foreign policy in Focus, "In Focus: The Hidden Costs of NATO Expansion", Volume 2, Number 35, May 1997 <http://www.foreignpolicy-infocus.org/briefs/vol2/v2n35nat.html>
- <sup>xviii</sup> General Accounting Office on Costs of NATO Enlargement, October 23, 1997, <http://www.usis-israel.org.il/publish/press/security/archive/1997/october/ds21024.htm>
- <sup>xix</sup> Richard L. Kugler; "Costs of NATO Enlargement", Strategic Forum 128;