

Professor Georgi Penchev

Topic: Threat Proximity and Defence Spending in NATO-EU Member States, 1995-2023

The study examines the factors influencing military spending among NATO and EU member states from 1995 to 2023, with a particular focus on the impact of nearby conflicts. A continuous measure of threat proximity for each country is developed using the UCDP Georeferenced Event Dataset. This measure accounts for conflict fatalities, weighted by spatial decay with distance.

Bandwidth of 500 km, restricting the analysis to land-contiguous events to capture credible territorial threats. This measure is embedded in a spatial panel framework that accounts for interdependence in cross-country defence spending using block-diagonal queen-contiguity weight matrices.

Baseline two-way fixed-effects models confirm that threat proximity is a significant positive predictor of defence spending across all specifications. The primary spatial autoregressive (SAR) model yields a threat coefficient of 0.090 (SE = 0.023, $p < 0.001$) and a spatial lag parameter of 0.177 (SE = 0.039, $p < 0.001$), indicating both direct threat responsiveness and cross-country correlation in spending. Fiscal deficit emerges as a robust negative predictor (coef = -0.023, $p < 0.001$), consistent with budgetary constraint theories of defence allocation.

A persistence-versus-diffusion decomposition shows that the spatial lag largely disappears after controlling for lagged defence spending and reverses sign in first differences, suggesting that the observed cross-country correlation reflects spending inertia rather than genuine strategic diffusion. Structural break analysis identifies significant breaks in 2003 and 2022, with the four-regime specification preferred on AIC and BIC criteria. The government's EU integration position exhibits a significant sign reversal pre- and post-2014, consistent with the politicisation of European security following the annexation of Crimea.

Great Britain is identified as a structural outlier, reflecting the incompatibility of island-nation geography with measures of land-border threats. These findings have implications for burden-sharing assessments and for modelling alliance defence demand.