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“It’s the Economy, Stupid!” and the Integration of EU Defence Policy

In the face of Russia’s war against Ukraine, Germany was not the only one to undergo “Zeitenwende” in Europe. The European Union (EU), as a whole, also witnessed an unprecedented surge in its determination to bolster its security and defence efforts. Using collective funds, EU countries, for instance, have been providing lethal arms to Ukraine and have committed to joint procurement of ammunition and missiles to assist Kyiv. Furthermore, the EU Commissioner for Internal Market has pro-actively carried to the European capitals the message about the need for the “war economy mode.” To what extent does recent progress in EU defence policy represent a fundamental shift in the EU’s self-perception and its approach to external policy? More concretely, can we realistically describe a stronger and more robust EU defence policy as being firmly rooted in a shared political and strategic vision? The paper examines relevant transformations, including recent developments, and argues that they are closely intertwined with the economic rationale, which is empirically distinct from a politico-strategic vision. This has implications for EU-NATO cooperation.

Introduction

Germany was not the only one to undergo a “Zeitenwende” in Europe, in response to Russia’s war on Ukraine (Biscop, 2023; Umland, 2022). The European Union (EU), as a whole, also appears to have witnessed an unprecedented surge in its determination to bolster its security and defence efforts. Using collective funds, EU countries, for instance, have been providing lethal arms to Ukraine and have committed to joint procurement of ammunition and missiles to further assist Kyiv. Moreover, the EU Commissioner for Internal Market has pro-actively carried to the European capitals the message about the need for

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the “war economy mode” (Roussi, 2023). Until recently, such developments would have been hardly conceivable given the EU’s consensus-based “soft” approach to common defence and security. These episodes align with previous conclusions on EU defence advancements, such as the European Defence Fund, as unprecedented (e.g., Haroche, 2020). Thus, the question arises regarding the extent to which progress in EU defence represents a fundamental shift in the Union’s self-perception and its approach to external policy. Can we genuinely characterise what appears to be a more consolidated EU defence policy as being motivated by political and strategic considerations?

The theories employed to examine contemporary EU defence, notably new intergovernmentalism and supranationalism, often focus on member states, EU institutions and their interactions as a power play producing political repercussions. This research has systematically overlooked the role of a more comprehensive cross-actor rationale. This paper argues that this rationale is strongly interconnected with economic issues, which are distinct from politico-strategic concerns. They thus lie outside the realm of defence politics (see Martins & Mawdsley, 2021).

Generally, the article provides an analysis of contemporary EU defence policy within a case-study setting. More specifically, it encompasses a critical review of empirical accounts of EU defence developments and an examination of a number of additional instances pertaining to this policy, supported by EU documents and defence-related data. In contrast to much of the recent work, which tends to concentrate on individual EU-level defence initiatives (Haroche, 2020; Håkansson, 2021, 2023; Hoeffler, 2012), the selected methodological option facilitates a more holistic approach toward EU defence policy. In particular, it enriches our understanding of its common rationale, as it considers different individual instances within one analytical framework. The article is thus able to account for the European Commission’s (Commission) augmented role, which predominantly stems from its institutional competencies related to EU economic governance, as well as for member states’ increased permissiveness toward defence integration.

The article supports an alternative perspective on EU defence initiatives diverging from the predominant explanations put forth by scholars of new intergovernmentalism and supranationalism. A better understanding of common defence issues is relevant to fully appreciate the EU’s dynamics in the context of EU-NATO cooperation. Considering the expressed concerns that EU efforts to provide solutions to common defence-related issues, which traditionally fall within NATO’s remit, may potentially affect alliance functioning (if not cohesion), acquiring a comprehensive understanding of the relevant developments appears essential. A deeper insight into these matters

enables a more consistent appreciation of the implications they entail.

The paper is structured as follows. The first section examines the main theoretical approaches to analysing EU defence. Section two offers an overview of contemporary EU defence advancements. The third section analyses the economic rationale as an alternative approach to explaining a more integrated EU defence policy. Finally, conclusions follow.

1. The State of Play of Research on EU Defence Integration

EU defence integration, here understood as an increasing institutionalisation of EU-level decision-making in the field and an enhanced implementation of relevant policy practices, has been predominantly studied as emanating from actions or positions of defined actors. These are member states, on the one hand, and the Commission (or EU institutions more generally), on the other hand. Such an actor-based perspective has much to offer, particularly in theoretical terms, as both new intergovernmentalism and supranationalism have enriched EU studies. However, this perspective tends to focus on high(er) instead of low(er) politics due to the close association between defence and the notion of national sovereignty (Hoeffler, 2012). Shifting analytical approaches provides more focus on the continuity and coherence of military integration, which is inextricably linked to the economic rationale.

Scholars have sought to analyse EU-level dynamics through two main theoretical lenses: new intergovernmentalism and supranationalism. The first approach highlights the importance of national governments, potentially overshadowing EU institutions, while the second approach advocates for a reverse perspective, prioritising the role of EU institutions over national governments. Empirical studies have offered evidence supporting both perspectives.

1.1. New Intergovernmentalism

The theory of “new intergovernmentalism” (Bickerton et al., 2015; Fabbrini & Puetter, 2016; Puetter, 2012) contends that EU member states remain in control of the integration dynamics in areas of high politics, such as defence. This approach countervailed those empirical accounts that previously highlighted EU institutions’ prevalence in policy integration (Sandholtz

& Stone Sweet, 1998; Schmidt, 2016; Stone Sweet et al., 2001). According to Fiott (2023, p. 449), “new intergovernmentalism points to how EU Member States increasingly develop *de novo* agencies to control the political impulses of institutions such as the Commission.” This theoretical approach, which underscores heightened interactions among member state capitals and their resulting inclination to seek consensus and adopt shared solutions, supports the notion that member states have the capacity to “steer EU policy” (Fiott, 2023, p. 448). As a consequence, integration is possible; however, it is characterised by specific governance dynamics and structure.

Scholarship focused on EU defence has traditionally emphasized the challenge of national sovereignty as the primary obstacle to the Union’s effectiveness in this policy field (Fiott, 2023; Hoefler, 2012; Kuokštūtė, 2020; Purza, 2018). Notably, EU member states exhibit a common reluctance to systematically pool their military forces. This hesitance stems from the implication that such a decision would involve partially relinquishing their military command and control over their troops (see also Hoefler, 2012). The argument that the pooling of military forces at the EU level has occurred through military missions and operations (Haroche, 2017) becomes less meaningful when one considers that they have occurred only on an *ad hoc* basis. Moreover, they have largely lacked military robustness, which is associated specifically with a full-fledged defence policy (Tardy, 2018), centred primarily on territorial defence (Håkansson, 2023) as a state’s core capacity.

The intergovernmental scenario tends to confirm the idea that member states closely safeguard decision-making on defence issues (Barbé & Morillas, 2019; Fiott, 2023), which is consistent with the notion of defence as “a ‘least likely’ case for *supra-national* integration” (Blauberger & Weis, 2013, p. 1120).¹ National governments have consistently prioritised retaining their influence in the defence sector, even in the face of challenging events such as Russia’s war on Ukraine, a context in which theory might have anticipated greater centralisation of defence efforts among EU member states (Genschel et al., 2023). Yet, member states have been acting in an ever more coordinated way, for instance, through, the European Peace Facility (EPF), or within the framework of deliberations on the Strategic Compass, which has been recognized as the EU’s “first-ever defence strategy” (Fiott, 2023, p. 447).

Other research accounting for politically sensitive exchanges between capitals and EU institutions provide more evidence of member states’ steadfast position. Maurer and Wright (2021) analyse, for instance, whether, notably with the establishment of the European External Actions Service (EEAS), the Political and Security Committee (PSC), an intergovernmental body, has lost some of its previous institutional power over deciding and controlling foreign policy. On

the one hand, the authors contend that the PSC has partially ceded its politico-institutional grounds as a “strategic agenda-setter” (Maurer & Wright, 2021, p. 856). On the other hand, the capacity of member states does not appear to be limited, but rather, it has been shifted to the European Council, which speaks to the point that member states maintain their control over politico-strategic matters, while committing to coordination and consensus-building. Another study (Reykers, 2019) has also looked at the PSC and whether its role as one of the most significant locus of national interests has been challenged after the establishment, in 2017, of the Military Planning and Conduct Capability (MPCC). The MPCC is an EU structure (“agent”) holding powers delegated by member states (“principal”), specifically, those of “the strategic command of EU non-executive missions” (Reykers, 2019, p. 783). However, the author finds that the PSC’s control capacity essentially remained unchallenged.

1.2. Supranationalism

However, the alternative supranational scenario has also been confirmed by scholarship. Notably, the Commission’s role has been recognised as driving EU defence integration (Blauberger & Weiss, 2013; Haroche, 2020; Håkansson, 2021; see also Martins & Mawdsley, 2021), to the extent that the EU’s executive body has managed to increase its capacities to intervene in this policy area of highly political nature.

The case of the European Defence Fund (EDF), an EU financial arm to finance cooperative defence research and development incorporated in the current EU long-term budget (2021– 2027), has been of particular interest. In his analysis of the fund, Haroche (2020, p.1), for example, directly challenges explanations of “the evolution of EU governance” provided by new intergovernmentalism. For the author, the development of the EDF project was accompanied by the Commission’s activism in defence matters, which contradicts new intergovernmentalism stipulating that EU institutions would refrain from expanding their influence. A thorough analysis of the dynamics leading up to the establishment of the fund reveals the significant role played by the Commission in shaping relevant EU governance (Haroche, 2020; Sabatino, 2022), which is part of the power play to weigh in on decision-making (e.g., who has the right to intervene in discussions, or, more importantly, what the decision-making procedure is). The Commission thus succeeded in introducing comitology rules in deliberations on defence (Haroche, 2020; Håkansson, 2021). Such a move was facilitated by the EDF being part of the EU budget, a scenario under which the Community method applies, thereby

permitting the Commission's initiative.

Sabatino (2022) further analyses the establishment of the EDF as evidence of strengthened supranationalism in the governance of EU defence policy. Until recently, "mutually beneficial win-win" defence cooperation between member states happened outside the EU, due to *ad hoc* multilateral cooperative arrangements, such as the one based on the 1996 Letter of Intent for harmonising rules that applied in the national defence market (Castellacci et al., 2021; Hoeffler, 2012; Sabatino, 2022). Since the EDF's incorporation into the EU budget, the Commission has formally adopted the responsibility of promoting cooperative research and capability development projects between member states, thus replacing the capitals, as well as the European Defence Agency (EDA), an intergovernmental body (Haroche, 2020).

Håkansson (2021) also highlights the diminishing role of member states in EU-level defence cooperation and, as a result, questions the explanatory power of intergovernmental accounts. According to the author, the Commission's role was transformed when it was authorised to assume (direct) effective responsibilities to weigh in on military policy measures relevant to dedicated research and capability. Furthermore, a new Directorate-General, the one for Defence Industry and Space (DEFIS), was established, *inter alia*, to implement the EDF (Håkansson, 2021), which is a testimony to the Commission's emerging new pool of expertise in the defence field.

New intergovernmentalism and supranationalism focus on power dynamics characterised by a systematic struggle for influence and control over a policy domain between member states and EU institutions. This imbues the relevant policy with a notable political dimension. Furthermore, as both approaches acknowledge the role of integration, EU policy advancements equally come up as political in nature (Barbé & Morillas, 2019; Chovančík & Krpec, 2023). However, we know from a substantial body of defence economics literature that defence has a significant economic aspect. One of the most prominent issues has arguably been the issue of whether defence spending generates economic spillovers. Conclusions on the robustness of the link between defence spending and, in particular, economic growth have varied, as has the direction of the relationship between the two. It is understood that other key elements, such as distinct historical periods, geographies, and political or alliance regimes, might play a role in defining this relationship (Saba & Ngepah, 2022; Utrero-González et al., 2019). Besides, it has been recently suggested that the use of disaggregated data on defence spending offers a more effective approach to unravelling the influences of these expenditures within the realm of national political economy (e.g., Becker & Dunne, 2023; Kollias et al., 2020).

Providing an exhaustive review of this literature is beyond the scope of this article. Nevertheless, referring to it underscores two crucial points. First, considering the breadth and significance of the defence economics literature, it is possible that research on defence integration may have overemphasised the political dimension. Relatedly, considering the findings on the potential of defence spending to upset economic growth (e.g., Becker & Dunne, 2023; d'Agostino et al., 2019; Pieroni, 2009), including among NATO/EU countries, or adversely affect other political economic trends, such as unemployment (Kollias et al., 2020), the EU level could emerge as a factor capable of mitigating undesirable effects. Defence thus has the potential to appear as no less an economic than a political issue. Yet, scholarship on EU defence policy frequently depicts EU defence initiatives as progressively assuming political or even strategic significance, which is discussed in the following section.

2. Significant Transformations in EU Defence Policy

EU-level advancements in the defence field have been widely recognised as significant and politically transformative developments. For instance, the EDF has been recognised as “a game changer” (Ianakiev, 2019; Sabatino, 2022) in making EU defence policy finally matter. In the context of Russia’s war against Ukraine, it has been argued that “Brussels ripped up its playbook” with the decision to allocate significant funds to Kyiv from the EPF, an EU off-budget instrument, which the Commission’s president called “a watershed moment” (Foy, 2023). Still, others describe the most recent developments in common defence policy as more generally testifying to the “pro-integrational drive [which is] the strongest in the history of the EU” (Chovančík & Krpec, 2023, p. 2).

To underscore such advancements, it is necessary to contextualise EU defence policy within a historical framework. Since its inception in 1999, the most politically prominent moments of the Common Security and Defence Policy (CSDP) were military missions and operations. However, they lacked military robustness and had the primary focus on crisis management (Palm & Crum, 2019), indicating member states’ reluctance to fully commit to utilising the EU as an effective platform of conventional defence. Force aggregation for the military missions and operations was nowhere near a systematic policy practice; besides, the majority of the CSDP’s attention was devoted, in the 2000s, to the former French colonies, which did not generate a sense of ownership of this policy in EU capitals (Haroche, 2017).

The renaissance of defence initiatives in the EU started in the 2010s.

Already in 2013, significant attention was dedicated to defence matters at the highest level. Notably, the European Council discussed defence issues in a comprehensive manner (European Council, 2013), which was unprecedented (Håkansson, 2021). It is worth noting that the Conclusions of the European Council (2013) initiated discussions within the EU on strategic autonomy insofar as the document made an explicit reference to this still-debated concept.

Since 2016, EU defence policy has experienced significant “integration results” (Chovančík & Krpec, 2023, p. 1), gaining momentum and progressing rapidly, including in the context of Russia’s war on Ukraine. The most widely discussed results that have garnered significant attention among scholars notably include the PESCO, the MPCC, the EDF, and the EPF. The latter two, in particular, represent significant developments as they deviate from the long-term EU-level consensus on defence policy. Indeed, with the EDF, it was decided to start allocating money from the EU budget to cross-border defence research and to co-finance capability development. The lack of precedence² refers to the EU-wide understanding based on a specific interpretation of Article 41.2 of the Treaty of the EU (TEU). The article prevented, in practice, common funds from systematically covering any “expenditure arising from operations having military or defence implications” (see also Haroche, 2020, p. 10).

The EDF was not the end, though. In 2022, a further development occurred with the initiation of discussions on utilising EU funds to facilitate joint defence procurement, aiming to “fill the most urgent and critical gaps” (European Commission, 2022). This extends beyond the research and development stages to the acquisition of tangible military capabilities, further reinforcing the unprecedented nature of this series of advancements. The initiative, already in 2022, grew into the Commission’s proposal for a regulation establishing the European Defence Industry Reinforcement through the Common Procurement Act (EDIRPA).³

Moreover, it has been argued that the EU’s self-understanding as an exclusively soft power came to its end notably with the decision to fund, from the EPF, the Ukrainian army’s needs, including through the provision of lethal arms (Fiott, 2023; Foy, 2023). In its spirit and letter, the European project had avoided any involvement in military conflict,⁴ focusing on the promotion of trade and other peaceful forms of cooperation. The EPF’s salience in the EU’s arsenal in terms of concrete outputs produced in support of Ukraine’s defence effort has revolutionised the decade-long tradition. In terms of total bilateral commitments to Ukraine, for instance, the EPF funds have amounted to around 60 per cent of Germany’s commitment, which is the most significant

among EU member states; compared to France's commitment, the EPF funds have been twice as high.⁵

If only military commitments are considered, the EPF funds have gone beyond Berlin's (by 50 per cent). Moreover, the EPF's role is important in yet another regard – it was envisaged by the EEAS leadership as a “collective umbrella” created by the instrument within the EU to encourage national governments in their military support for Ukraine (Foy, 2023).

These developments allow for interpreting EU defence policy as increasingly becoming politically- and even strategically-oriented. However, the political salience of these initiatives, their notable acceleration in contrast to the lack of significant momentum in the past, and the political messaging surrounding them (see Foy, 2023) tend to divert the researcher's attention from another potential dynamic of integration – the one which concerns policy aspects belonging to low(er) instead of high(er) politics. The paper questions the prevailing notion that EU defence integration is primarily political. Instead, it proposes the argument that an economic rationale is equally (if not more) pertinent, given its long-lasting nature and, therefore, the presence of relevant institutional elements. Consequently, the path of defence integration emerges as inherently linked to a rationale beyond defence alone. As the paper contends, the key aspect of this alternative rationale can be summed up as “It's the economy, stupid!”

3. The Economic Rationale as a Driver of Defence Integration

An “imaginary” based on the primacy of innovation across economic activities, including the defence industry, as the vehicle for economic growth has been a decade-long vision held by European countries (and the US) for the future (Martins & Mawdsley, 2021). The technology-industry nexus was primarily associated with the defence sector during the Cold War in particular; although less apparent, this association has continued to uphold its significance during the 21st century.⁶ However, as global competition in the defence sector intensifies, characterised by geopolitical tensions and ongoing industrial and technological advancements in other countries, coupled with diminishing national investments from EU member states, another crucial aspect of the European defence sector has emerged: the need for ever more efficient utilisation of the available investments.

Therefore, the innovation and industrial policies, which are part of

the internal market (see Martins & Mawdsley, 2021, p. 1458) and have much-added value to showcase, became a natural and, indeed, logical reference, particularly in the eyes of the Commission, for Europe's overall attempt to strengthen the European defence technological and industrial base (EDTIB). The improvement of competitiveness, innovation and effectiveness more generally throughout the various stages of the European defence market, including research, development, and, most recently, capability acquisition, predominantly relies on the pursuit of efficiency gains. Despite being frequently overlooked in current EU defence initiatives, these efficiency gains play an important role as a significant driving force behind EU defence-related advancements.

3.1. Persistent Vulnerability of European Defence Base

Geopolitical shifts, notably the US pivot towards East Asia, Brexit, Russia's aggression and, eventually, Russia's war against Ukraine, have dominated the analysis of EU defence as exogenous influences driving policy integration (Barbé & Morillas, 2019; Chovančík & Krpec, 2023; Sabatino, 2022; Tocci, 2018). Genschel et al. (2023) go as far as framing the EU's defence policy response to Russia's war as potentially signifying policy centralisation and a federalist path. However, the Great Recession offers an equally if not more important and, indeed, a largely direct explanation for transformations in EU defence policy.⁷ Occurring prior to most of the major geopolitical changes, the crisis prompted rapid budgetary reductions by member states, impacting cooperative defence research projects as well (Haroche, 2020). The issue at hand extended beyond common EU-level "dysfunctionalities of intergovernmental cooperation" (Haroche, 2020, p. 860), as it promised greater challenges. That is, we know from previous research that economic crises tend to lead to long-term deviations in the relationship between the economy and the military budget (Cappella Zielinski et al., 2017, p. 791). In other words, while governments are often quick to cut defence budgets in times of austerity, the same level of generosity towards defence does not typically arise during periods of growth. Thus, investments had to be found, including thanks to efficiency gains in defence spending.

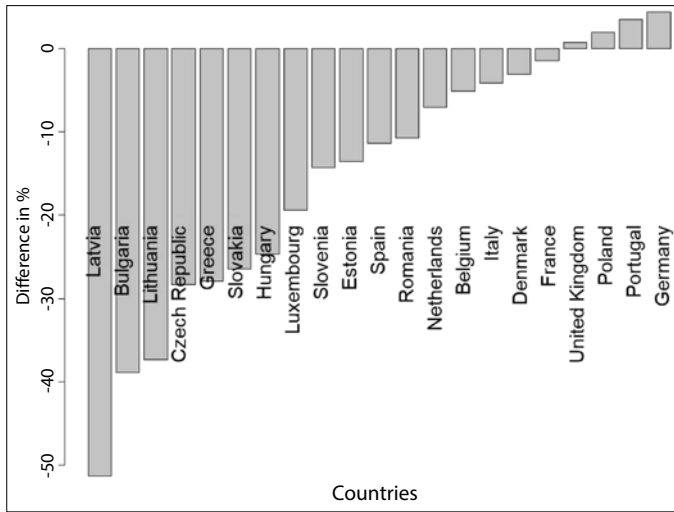
Regarding the effects of the recession, Figure 1 shows the change (in percentage) in EU member states' total defence spending (measured in absolute terms, in millions of constant 2020 USD; SIPRI, 2022) when comparing 2011 to 2007. The figure offers a brief visual representation of the trend in defence spending among EU member states during the specified

time frame, indicating a general downward trajectory. While several countries experienced marginal increases in their military expenditures, like Germany, which saw a rise of approximately 4%, a closer examination of annual variations⁸ highlights more fine-grained national challenges in managing defence budgets (e.g., Germany decreased its spending from 2010 to 2011). Moreover, the remaining non-European NATO allies recorded larger increases than any EU member state.⁹

Additionally, Figure 2 represents the change (in percentage points) in relative defence spending on equipment during the same period. The data also indicate an overall downward trend, primarily due to national budgetary and financial constraints during the recession. The equipment category holds great significance, as it indicates member states' commitment to research and development (R&D) in the defence sector, thus contributing to a more robust and modernized defence.¹⁰ Furthermore, as regards more general trends of investment in R&D by EU companies, they have been losing their overall share on the global scale, largely due to non-European countries' better performance (European Commission, n.d.).

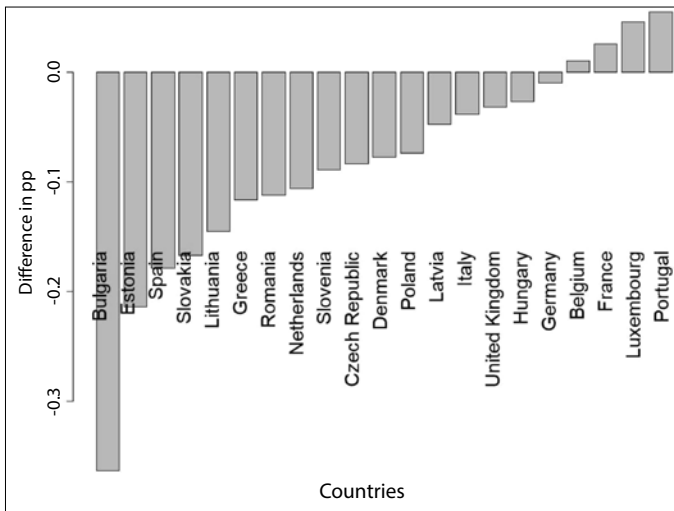
The European defence market has been known for its significant fragmentation "along purely national lines" (European Commission, 2004) as a consequence of insufficient cooperation in arms production and acquisition (e.g., Sabatino, 2022). While there is recognition that, after the end of the Cold War, "Europe was developing an increasingly collaborative approach to defence procurement" (PwC, 2005, p. 12), largely via cooperative programmes, sufficient consolidation and, therefore, market gains in efficiency did not materialise. This lack of consolidation, with an ensuing ever more constrained availability of adequate levels of investments, in particular in R&D (e.g., Kluth, 2018; Pugnet, 2023), negatively impacted the performance of Europe's defence industry. This is evidenced, for example, by the evolution of the global market of the rankings of European defence industries as opposed to the American ones. Whereas, in 2003, four out of 10 top defence companies in terms of annual revenue were European (PwC, 2005, p. 15), in 2019, only one remained on the list.¹¹ The number of American defence companies increased from six to seven.

Figure 1. **Change in Defence Spending of EU Member States (in percentage): Comparing 2011 to 2007**



Notes: The differences represent the change (in percentage) in total military expenditures (in absolute terms, in millions of constant 2020 USD) when comparing defence spending in 2011 to that in 2007. Data come from SIPRI.

Figure 2. **Change in Relative Defence Spending on Equipment (In Percentage Points): Comparing 2011 To 2007**



Notes: The differences represent the change (in percentage points) in defence spending on equipment as a share of GDP when comparing defence expenditures in 2011 to those in 2007. Data come from Becker et al. (forthcoming).

Given the pre-existing challenges and the post-crisis context, in 2013, the Commission published a communication dedicated to the European defence sector and the market-related issues that challenged its viability (European Commission, 2013). The Communication, *inter alia*, once again drew attention to the challenge of fragmentation of the European defence market along the national borders (European Commission, 2013). The fragmentation within the European defence sector hampers fair and equal competition, leading to the duplication of expenses and hindering resource allocation to address investment gaps, this fragmentation being closely tied to the notion of self-sufficiency (Kluth, 2018). Additionally, the lack of transparency, the dominance of national political preferences in equipment procurement, and the overall lack of international competitiveness further exacerbate these challenges.

Relative to the previous communications on defence (1996, 1997, 2003, 2007), the 2013 document's concern with Europe's defence market also took on a political aspect – the latter's state of affairs was linked to the notion of “strategic autonomy” and recognised the EU's potential to “implement structural changes” in this regard (European Commission, 2013, p. 3-4). This political dimension did not, however, take precedence over the following overarching idea premised on a causal relationship of primarily economic nature: A better-performing EDTIB, one equipped with ample resources and the capability to wield them efficiently, stands as a fundamental prerequisite for bolstering European defence (EEAS, 2016). This notion closely aligns with the broader argument that “outputs can[not] be achieved without inputs” (Becker, 2017, p. 132).

3.2. The Economic Rationale as a Comprehensive Basis for Defence Integration

The economic rationale can be analysed from both a temporal and cross-sectional perspective. The first approach examines the Commission's endeavours to expand its governance methods into the defence domain, while the second delves into motives of different actors, including member states.

3.2.1. Continuity of the Commission's Efforts

Although there was a noticeable shift in tone in the Commission's Communication in 2013, it was not the first time that the EU executive had drawn member states' attention to the complex defence situation. Two defence-related directives, a directive on defence procurement (2009/81/EC) and a directive on

transfers (2009/43/EC), served as an initial breakthrough for the Commission in its attempt to push for the defence market integration, thus seeking to position the market at the core of national defence industrial strategies (Hoeffler, 2012). While the latter directive promoted standard harmonisation, including the simplification of rules, the first aimed at ensuring the liberalisation in defence procurement (European Commission, 2016, p. 2). Limiting exemptions to the single market rules (e.g., offset clauses) was key. The intention was for the protectionist approach dominant in arms procurement to transition into an “EU-wide competitive” logic (Peters, 2022).

The directives’ progress fell short of expectations (Håkansson, 2023; Ianakiev, 2019; Ioannides, 2020), though. Insufficient inter-state cooperation, including the lack of transparency on defence contracts, persisted, which did not help to alleviate pressing problems in the defence field, such as capability duplication or ensuing limited resource availability. National governments’ lack of commitment to implementing the directives followed their earlier opposition to the adoption of these legal instruments (Hoeffler, 2012).

The EDF introduced a different approach. While the fund retained its overarching objective of fostering cross-border cooperation as a pivotal means to achieve efficiency gains in the market (e.g., resource pooling), it chose to replace legal incentives with financial mechanisms (Ianakiev, 2019). By putting “money on the table” (Haroche, 2020, p. 9), the Commission substantiated its commitment and, yet again, underscored the economic rationale, for instance, directly linking defence research with value generation, employment, and effects on the EU’s overall competitiveness. While the extent of the EDF, in the sense that it also proposed the capability development “window,” surprised some defence market players, including member states (Haroche, 2020), this move was only logical based on a functional and, in fact, economic point of view. In other words, the fund’s logic conforms to the “diptych” of R&D and aligns with the European Defence Industrial Development Programme (EDIDP), an equivalent pilot project (2019–2020), which was specifically focused on fostering the industry’s competitive and innovative edge.

The emergence of the EDF was not a sudden development, though. Notwithstanding its pilot projects,¹² the fund has been closely linked to the civilian European Security Research Programme (ESRP) (European Commission, 2014), established in 2007. Indeed, the issue of insufficient investments in security-related research played a significant role in the discussions surrounding the ESRP, as this deficiency and the ensuing risk of Europe losing its innovative and competitive advantage became increasingly evident following Washington’s heightened funding for security policy in the aftermath of the 9/11 terrorist attacks (Martins & Mawdsley, 2021). The

ESRP primarily had an industrial focus and consistently acted as a functional “bridge into funding defence research” (Martins & Mawdsley, 2021, p. 1466).

The EDF is functionally similar to the ESRP in the following manner. It aims at fostering cross-national cooperation, providing financial incentives for different actors, including the private sector, based on public tenders (Martins & Mawdsley, 2021). Yet, significantly, the EDF has been recognised as even more industrially-oriented than the ESRP. While one of the latter’s objectives was to improve security in the EU, “the EDF is formally presented as an industrial policy” and is very much concerned with “the EU’s wide economic, innovation and industrial outlook” (Martins & Mawdsley, 2021, p. 1467). It largely draws its legal basis from Article 173 TFEU, a provision under the title “Industry.”¹³

Another similarity between the ESRP and the EDF lies in their approach to defence industrial interests. The first instrument was significantly influenced by industrial interest groups; similarly, the preparatory work for the EDF’s establishment equally involved substantial participation from defence industry representatives, particularly through the engagement in the format of the Group of Personalities; this involvement even made the fund be perceived as “another stage of the defence industrial lobby’s capture of the system” (Martins & Mawdsley, 2021, p. 1465). Such involvement supports the EDF’s industrial angle, which, in fact, had become the Commission’s preferred approach to initiating policy measures on defence matters (Martins & Mawdsley, 2021). The solidity of such an approach and, therefore, the EU executive’s commitment to pursuing it has been attested by accounts of the influence of relevant EU rule-making on defence firms (Schilde, 2023). Specifically, the way the latter are likely to perceive relative uncertainty of the defence market has been affected by EU-level governance, with important consequences on their industrial strategies (Schilde, 2023).

In a significant sense, the EDF, which builds on previous EU-level developments in the security and defence field, repositions the defence industry at the forefront of technological advancements and strengthens the belief in its positive spillover effects on other socio-economic sectors. There are thus conceptual grounds to consider it as closely intertwined with “imaginaries of innovation and industrial governance,” a perspective primarily stemming from techno-functional considerations of economic nature (Martins & Mawdsley, 2021, p. 1460).

3.2.2. A Cross-actor Perspective

Importantly, for the “imaginaries” to have a meaningful impact at the empirical level, they must be collectively embraced from a comprehensive, cross-actor perspective. The extant literature is still limited in accounting for this aspect. While some research has delved into the preferences of defence industrial interests (Castellacci et al., 2014; see also Martins & Mawdsley, 2021), the interaction between the Commission and national governments has predominantly been analysed to underscore their differences rather than their similarities. However, the need for investments in defence and the pursuit of efficiencies in the European defence sector have become an indispensable focal point of convergence between member states and the Commission. Economic considerations, rather than political or strategic motives, primarily drive this convergence, which also suggests a necessarily closer alignment of European capitals’ preferences with those of national defence industrial interests.

Indeed, EU member states, particularly the largest ones, have faced structural challenges such as intensified global competition and diminishing shares of arms exports (Håkansson, 2021; Kluth, 2018). These challenges have the potential to systematically constrain the funds available for investment in defence. The post-Great Recession context is telling. It was in 2013 that the European Council approved the *first* high-level initiative explicitly pledging funds for defence research, a preparatory action on CSDP-related research,¹⁴ thus setting the stage for a shift in the previously mentioned consensus on the non-financing of defence-related activities from the EU budget. As the preparatory action evolved into the Preparatory Action on Defence Research (PADR) in 2017, which served as one of the precursor programs to the EDF, EU funding for defence R&D promised greater availability of targeted financial support for different categories of stakeholders. Despite the challenges the fund must address to effectively respond to criticism, including concerns raised by industrial interests (e.g., Tani, 2022), it also offers the prospect of systematic financing, in contrast to the EDA’s *ad hoc* funding opportunities (EDA, n.d.).

An important point to emphasise here is that the aforementioned general trend of convergence between the Commission and European capitals does not, however, imply homogeneity of member states’ preferences. European countries clearly differ in terms of their defence market sizes, defence industrial policy regimes, or the strength of their defence industrial bases (Castellacci et al., 2014; Hoefler, 2012). These differences can result in varying degrees of economic rationale influencing their defence-related considerations.¹⁵ For instance, when keeping defence policy regimes constant, larger EU member

states are often categorized as a group that has shown greater interest in the Commission's efforts to enhance the European defence market (Castellacci et al., 2014; Kluth, 2018). Given that larger countries are often home to big defence industrial interests, they may be expected to be less resistant to the liberalisation of the defence market due to the industry's relatively greater involvement in international activity; being thus more directly affected by cross-border liberalisation, companies will anticipate the changes and adapt their strategies to focus on longer-term expectations, such as new export opportunities (Castellacci et al., 2014; Hoeffler, 2012). Moreover, larger EU member states typically have greater resources at their disposal, enabling them to offer political representation and lobbying support to their national defence firms, particularly in the context of contract allocation (Calcara et al., 2018; Castellacci et al., 2014). Hence, even traditionally protectionist countries like France may see the value in opening their defence markets, especially when it comes to lower-technology production, with the goal of expanding their share in high-end technology exports.

Stressing large(r) member states' preferences aligns with the understanding that their support is crucial for a significant EU policy change to materialise (Béraud-Sudreau & Pannier, 2021; Hoeffler, 2012). However, it is equally important to include smaller states and, more specifically, small and medium-sized enterprises (SMEs) operating in the defence sector when considering the explanation based on the economic rationale. In fact, the availability of defence-related funds introduces a distinct set of incentives. In the past, SMEs had concerns that the directive-based liberalisation of defence contracts might lead to their marginalisation by larger corporations; this concern stemmed partly from the political support larger corporations enjoyed, potentially shielding them from EU regulations (Castellacci et al., 2014). Notably, one of the EDF's main objectives is not only "to stimulate the participation of SMEs," but to better integrate them into defence supply chains (European Commission, n.d.). In this regard, the Commission has devised targeted measures, such as dedicated calls aimed specifically at SMEs (only SME consortia are allowed to apply) or capacity building to increase SMEs' responsiveness to calls for projects (European Commission, n.d.).

A more fine-grained analysis of heterogeneity in the relationship between member states and/or defence industrial interests and their potential alignment with the economic rationale remains outside the scope of the present article. Yet, a cursory examination of this matter underscores the significance of innovative financial incentives in EU defence, which have the potential to pique interest among various stakeholders. Furthermore, this discussion highlights a theoretical contribution: the economic perspective

has the potential of providing a more nuanced understanding of member states' positions, in contrast to both supranational and intergovernmental perspectives (Martins & Mawdsley, 2021, pp. 1464–1465), which often depict national governments as uniformly protective of their national interests, including their defence sectors.

More generally, member states' limited political interest in EU defence policy is notably evident in the lack of progress toward establishing a robust EU military capacity. Despite Russia's war, which provided a significant opportunity to push toward defence centralisation (Genschel et al., 2023), relevant discussions have remained peripheral. The absence of a substantive politico-strategic ambition, such as a commitment to forming "permanent multinational force packages," remains notable; furthermore, it poses the risk of generating insufficiently impactful "small-scale national capabilities that are too insignificant to make a difference for the defence of Europe" (Biscop, 2023, p. 2). Also, the EDF's budget for 2021 to 2027 amounts to almost €8 bn, which stands in contrast to the EU collective commitment of nearly €700 bn (2021–2026) in the form of the Recovery and Resilience Facility initiated during the COVID-19 pandemic crisis.

Lastly, efforts to justify the EPF as an expression of member states' political or strategic interests also appear hardly tenable. The EPF can be argued to be a predominantly financial instrument. In fact, it was developed to solve a specific functional problem in the CSDP arsenal, as there were gaps observed in the equipment needed to ensure higher effectiveness of military missions and operations (Bergmann & Müller, 2021; Kuokštytė, 2023). Indeed, certain countries have even been eager to capitalise on the EPF by seeking larger-than-appropriate compensations in return for the equipment provided to Kyiv, thereby undermining their commitment to providing military support to Ukraine (Vela & Camut, 2023). Furthermore, in terms of the EPF's budget, which has notably been utilised to provide support to Ukraine, its scale appears relatively modest when compared to the military assistance provided by the US. In connection to supporting Kyiv, two other recent initiatives may be mentioned: the EDIRPA and the Act in Support of Ammunition Production (ASAP). These initiatives serve as short-term instruments that derive significant value from joint procurement, a long-standing potential solution for enhancing the effectiveness of the European defence market.

Conclusion

The European integration of defence has been mainly analysed as political. Contrary to this common appreciation of EU defence integration as political in nature, either prompted by member states or EU institutions, the article argues for an alternative perspective. It contends that relevant developments have been closely intertwined with a rationale of a non-political nature (see Martins & Mawdsley, 2021).

To gain a deeper understanding of the driving forces behind recent defence initiatives, it is crucial to seriously consider the economic rationale at play. More concretely, an ever more pressing need for investments in defence and the pursuit of efficiencies in the European defence sector have become the focal point of convergence between member states and the Commission. While previously, notably before the 2008–2009 crisis, the EU executive had already tried to approach defence policy, its efforts were unsuccessful. However, in the 2010s, national governments grappled with an ever-increasing need for additional funds. Persistent defence market inefficiencies, budgetary reductions, accelerated increases in costs pertaining to technology innovation, and geopolitical tensions made European capitals want additional functional policy solutions.

This trend matched the Western “imaginary”, which was “institutionalized in some EU networks, particularly in the European Commission” and regarded defence technologies as being indispensable for industrial innovation, as well as economic growth more generally (Martins & Mawdsley, 2021, p. 1459). After years of defence being treated as a secondary policy, the EDF, in particular, has successfully brought the defence industry back to the forefront of technological advancements. Furthermore, the fund not only reinforces the belief in the defence industry’s positive spillover effects on other socio-economic sectors but also revitalises its position within the broader innovation landscape (see also Martins & Mawdsley, 2021). If one agrees with Charles Michel, the European Council’s president, that the EU has “a real capacity for influence and power” (Foy, 2023), one also has to agree that this capacity comes from the block’s economic potential.

The economic dimension of defence integration has not received adequate attention in research on EU defence. Yet, it provides, in fact, a more comprehensive (cross-actor) understanding of EU-level defence policy evolution. The article thus suggests a systematic trend of convergence between member states and the Commission. These two actor categories appear to lean more toward cooperative problem-solving in the defence field than previously anticipated.

Lastly, the paper reveals a more complex reality that characterises “inputs” (Becker, 2017) as underpinning any effort aimed at strengthening

defence. Increasing national resources, notably to achieve the NATO objective of 2 per cent, remains indispensable. However, in the debate on collective security, other policy means (Becker et al., 2023), such as policy coordination, co-financing, and overall efficiency gains, have not been sufficiently factored in. Although challenges persist, from an economic standpoint, EU-NATO cooperation may be perceived as, indeed, complementary. This stands in contrast to the implications often drawn from politico-strategic reasoning.

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Notes

1 Own emphasis.

2 The two pilot initiatives, the Preparatory Action on Defence Research (PADR) and the EU Defence Industrial Development Programme (EDIDP) were not yet part of a *systematic* effort to finance defence-related activities.

3 At the moment of writing, discussions on the EDIRPA were to enter the phase of interinstitutional negotiations.

4 Art. 41.2 of the TEU (see also Foy, 2023).

5 Based on the information provided by the Kiel Institute for the World Economy (Foy, 2023); the data on commitments correspond to those from January 2022 to January 2023, and to 2 February 2023 in the EPF case (€3.6bn).

6 Yet to a differing degree (Martins & Mawdsley, 2021, p. 1464).

7 This is not to say that exogenous politico-strategic shocks did not matter. Yet their prominence seems less straightforward than in the case, e.g., of the civilian European Security Research Programme (2004) and its direct connection with the 9/11 attacks (Håkansson, 2021).

8 Not reported.

9 Canada increased by 5.22%, Norway by 7.00%, Turkey by 7.54%, and the US by 17.61% (based on SIPRI data).

10 As a reminder, in 2014, NATO allies agreed to spend 20% of their defence expenditures on equipment, which encompasses relevant research and development.

11 This one was UK's BAE Systems (Statista, 2022).

12 The PADR and the EDIDP.

13 Some other articles invoked also concern the title "research and technological development and space" (Martins & Mawdsley, 2021, p. 1467).

14 To become the PADR in 2017. As a reminder, the PADR was one of the pilot initiatives leading to the EDF.

15 The author thanks one of the reviewers for highlighting this point.