

# Prospects of a Transatlantic Arsenal of Democracy

Despite the ambitious calls for increased investment in the Euro-Atlantic defense industrial base, significant political and practical challenges persist, necessitating greater strategic alignment.

By Gorana Grgić

Since the beginning of Russia's full-scale war against Ukraine in 2022, deficiencies in the defense industrial base across the Euro-Atlantic region have proven a major impediment to Western aid efforts. Once most of the political objections and domestic impediments to providing military aid to Ukraine were overcome, it became increasingly obvious that even the most capable NATO allies and partners have struggled to meet the demands of the Ukrainian battlefield. Sharpening strategic competition, the acuteness of the Russian threat to Europe, and the ongoing war in Ukraine – which currently can be best described as a war of attrition – have led both NATO and the EU to take the calls to strengthen their defense industrial base even more seriously.

Yet despite no lack of ambition and lofty rhetoric, most notably contained in the call for building up the “transatlantic arsenal of democracy,” there are significant political and practical challenges ahead. Some analysts despair that it all might be too little, too late. They argue that if the risk of worldwide warfare remains high in the coming years, Euro-Atlantic allies and partners will need to rely on the present (and lacking) supplies of weaponry and existing production lines.<sup>1</sup> Beyond that, the current blueprints and strategies offer visions which, if not managed well, carry

the potential of causing rifts among allies and partners. Consequently, there is an urgent need for Euro-Atlantic states and institutions to align their strategies to achieve coherent and unified goals.

## Redefining the Arsenal of Democracy

The term “arsenal of democracy” originates from Franklin D. Roosevelt's Fireside Chat on 29 December 1940. This speech, delivered nearly a year before the United States entered World War II, promised the considerable power of

### Key Points

- Current strategies for strengthening the Euro-Atlantic defense industry could cause rifts among allies and partners if not managed well.
- In the short to medium-term, delivering on urgent military needs will outweigh long-term goals for addressing imbalances and enhancing intra-European collaboration.
- The EU's role as a critical market and regulatory actor is essential, especially in signaling future defense requirements to the private sector.
- NATO should utilize its standards-setting role and defense planning process to complement the EU's efforts.

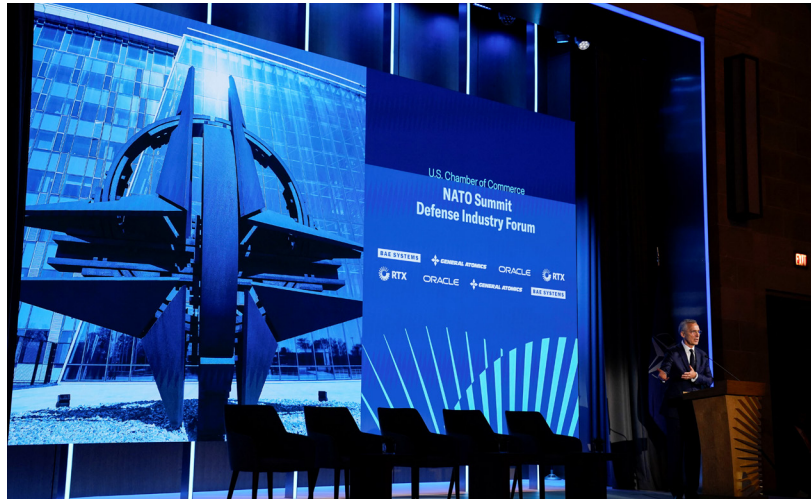
US industry would be used to provide the materiel needed for the Allied war effort, positioning the US as the arsenal of democracy. At this year's NATO Summit in Washington, US Deputy Secretary of Defense Kathleen Hicks argued the term should be redefined to encompass the whole of NATO, highlighting the importance of expanding the transatlantic defense industry to further the organization's deterrence and defense objectives. In her keynote speech, she emphasized the need for large-scale, multinational procurement, secure supply chains, and rapid adoption of new technologies. The Deputy Secretary's speech also advocated for increased international defense cooperation among NATO allies and with non-NATO partners.

The concept of a transatlantic arsenal of democracy can also be viewed as a somewhat delayed reaction to the growing "arsenal of autocracy." NATO allies and their partners need to reckon with the fact that the Russian regime has mobilized the entirety of the country's economy for war. Beyond the sweeping domestic policy changes, the Russian government continues to acquire weapons from Iran and North Korea, as well as dual-use materials, such as weapons components, equipment, and raw materials from China in order to sustain its war against Ukraine.

Arguably, enduring strength and cooperation among NATO partners confers a significant capability advantage that these burgeoning autocratic partnerships cannot rival. Yet institutional checks and balances within democratic settings will act as a brake on the economic and military reordering required to confront these increasingly aligned autocratic powers. Given the scale of this reordering, the challenge is likely to remain for some time to come.

### Boosting the European Arsenal of Democracy

Within the transatlantic defense community, three observations amount to truisms: the European defense industrial base is insufficiently developed and integrated; Europe relies heavily on the US for defense; and consecutive US administrations have implemented policies that, while outwardly critical of this imbalance, have in fact perpetuated it. Following the Cold War, European defense suffered from nearly 25 years of underfunding. This was exacerbated by the 2008 economic crash and eurozone crisis. Granted, European countries have been making significant efforts to invest in defense since Russia's illegal annexation of Crimea in 2014. European military spending surged to 552 billion EUR in 2023, a 16 per cent increase from 2022 and a 62 per cent rise since 2014.<sup>2</sup> On the whole, Europeans struggle to meet arms and equipment demands from Ukraine and depend on the US to defend their own continent.



NATO Secretary-General Jens Stoltenberg delivers a keynote speech during the NATO Summit in Washington, D.C., 9 July 2024. *Elizabeth Frantz / Reuters*

Over the past twenty years, Europe has also lost ground in the global defense market, as US and Chinese companies have capitalized on market growth more effectively. The current deficiencies in the European defense industrial base result from a mix of internal and external factors, highlighting the need for a more integrated and developed European defense strategy within the broader context of the transatlantic alliance.

There is growing recognition and political will to address the problem of chronic underinvestment in European defense. In her statement to the European Parliament in July 2024, European Commission President Ursula von der Leyen highlighted the need for 500 billion EUR in defense investments over the next decade. Especially given that it is still unclear how much will be allocated to aid Ukraine, this figure underscores the significant financial challenge facing the bloc.

Despite increased defense spending by EU member states, there remains a substantial gap compared to US defense expenditures. The European Commission proposed the European Defence Industry Programme to strengthen the military-industrial complex, but additional financing is essential. France and Germany support using Eurobonds to bolster defense funding, but this is opposed by more frugal members like the Netherlands. Other financing suggestions include adjusting the European Investment Bank's policies, utilizing profits from frozen Russian assets, and ensuring Environmental, Social, and Governance criteria support defense investments.

Industrial rivalries and differing military priorities have historically hindered Europe's coordination on weapons production. This was less problematic in the years following the Cold War, but Russia's invasion of Ukraine has changed the calculus. Successful past projects like the Eurofighter show potential for collaboration, but the problem

is now gaining urgency. The EU's most recent Coordinated Annual Review on Defence report stressed that defense cooperation and increased spending are essential. Current projects such as the European Patrol Corvette, led by Fincantieri with partners from France, Spain, and Greece; the Future Air Combat System, a Franco-German initiative; and a joint venture between Germany's Rheinmetall and Italy's Leonardo that aims to consolidate the defense vehicle sector are all steps in the right direction. Nevertheless, Western European countries clearly dominate these initiatives, and more effort is needed to unify the European defense industry in earnest and reduce market fragmentation.

Relatedly, European states have historically struggled to structure intra-European hierarchies, often adhering to the *juste retour* principle where each EU member state prioritizes securing the best possible individual financial position from the Union's budget, often at the expense of broader collective interests. This approach has undermined cooperation and increased costs. Von der Leyen has acknowledged this issue in her agenda for her second term as President of the European Commission and pledged to create "a true European Defence Union."

### Historical Hurdles in Transatlantic Cooperation

One cannot address the deficiencies in the European defense industrial base without acknowledging the dominant role of the US as a leader of NATO and as a first-tier arms producer, far surpassing European second-tier producers in both scope and scale. Traditionally, the US has promoted and sometimes forcefully asserted the superiority of its defense systems, leading some European allies to quip that NATO's Article 5 should not be taken to mean Article F35. The dynamic between the US and its European allies has been shaped by infamous episodes such as Madeleine Albright's "3D" speech about NATO's role in European security architecture and the Trump administration's characterization of Permanent Structured Cooperation (PESCO) as a "poison pill," expressing concerns about being excluded from the multi-billion euro defense fund. However, under the Biden administration, there has been a shift towards a more supportive stance on transatlantic defense industrial efforts, with the US showing greater openness to European defense integration compared to its historical approach.

Though NATO has not always supported European defense cooperation, this has begun to change over the past decade as NATO and the EU increasingly cooperate and coordinate. The two organizations' collaboration stepped up with their first joint declaration in 2016 that called for "a stronger defence

industry and greater defence research and industrial cooperation within Europe and across the Atlantic." Cooperative efforts deepened again in 2018. That year, the Joint Declaration explicitly referred to and welcomed the EU's efforts to bolster European security and defense through PESCO and the European Defence Fund (EDF).

Most recently, the 2023 Joint Declaration continued this trajectory of enhanced cooperation, building on the previous agreements and reflecting ongoing developments in European security. Following the commitments made at the Vilnius summit in 2023 with the Defense Production Action Plan, NATO allies endorsed a new NATO Industrial Capacity Expansion Pledge at this year's summit in Washington to boost the production of weapons and ammunition. The pledge explicitly referred to enhancing cooperation with the EU.

### Coordinating Transatlantic Visions

There are several key issues to note when looking to the future of the transatlantic defense industrial base. In the near to medium-term, the urgent need to deliver weapons and materiel to Ukraine will be prioritized over lofty aspirations for addressing decades-long imbalances and targets for intra-European collaboration. This will only reaffirm US dominance in arms exports, especially for immediate needs. This could create friction with the European Commission's European Defense Industrial Strategy, which aims to have 50 per cent of the military procurement budget spent on European-produced items by 2030.

In the context of transatlantic relations more broadly, there is significant uncertainty surrounding the outcome of the 2024 US presidential elections. If Donald Trump prevails in November, it is hard to see how under the "America First" slogan the US and EU could cooperate in

### Further Reading

Sophia Besch, "**Understanding the EU's New Defense Industrial Strategy,**" *Emisary*, Carnegie Endowment for International Peace, 8 March 2024. Analyzes the EU's new defense industrial strategy, highlighting its objectives, challenges, and impacts on European defense capabilities.

Daniel Fiott, "**In every crisis an opportunity? European Union integration in defence and the War on Ukraine,**" *Journal of European Integration* 45.3 (2023), pp. 447–462.

Explores how the war on Ukraine has served as a catalyst for deeper EU integration in defense, detailing both opportunities and obstacles.

Lucas Hellemeier / Kaija Schilde, "**Markets in Defense of Europe: Providing Public Goods in European Defense,**" *EconPol Forum*, CESifo, 25.4 (2024).

Discusses how the EU can work to reduce inefficiencies in the defense market.

defense production, let alone imagine the US supporting EU defense industrial integration at the expense of its own arms export interests. This would only add to the list of domestic-level issues hindering transatlantic defense cooperation and greater European autonomy. For instance, there has traditionally been apprehension in the US Congress about potential domestic job losses in the case of any production shifts. Additionally, longstanding issues with export controls complicate transatlantic cooperation as they create barriers to sharing technology and components, affecting the efficiency and integration of defense production efforts.

Moving forward, there should be more clarity around the roles that the EU and NATO will play in strengthening the European defense industrial base. The EU's role as a critical market and regulatory actor is essential. The innovative use of the European Peace Facility (EPF) is an example of how old ways of doing things can be repurposed and adapted to the change in circumstances. Since February 2022, through the use of EPF and contributions from individual member states, the EU has provided 33 billion EUR in military support to Ukraine, which is nearly a quarter of the total aid the Union has provided to Kyiv as of March 2024.<sup>3</sup> In the same period, the United States has provided approximately 55.3 billion USD in military assistance to Ukraine, which is over 40 per cent of its total assistance expenditures.<sup>4</sup>

The EU can drive future defense capabilities through initiatives like PESCO and EDF, provided they are appropriately funded. However, one should also bear in mind that better resourcing does not necessarily translate into greater cooperation. Paradoxically, empirical records show that since 2014, higher defense budgets incentivized countries to funnel funding into domestic production as they saw military projects as generators of domestic jobs.<sup>5</sup> The Union's regulatory and industrial policy instruments could therefore be used to incentivize European defense industries to cooperate and also to encourage Western European defense companies to expand their supply chains and production into Eastern Europe. This would further integrate European supply chains and boost demand for European defense equipment.

Similarly, NATO should utilize its standards-setting role and use its defense planning process to complement the EU's efforts. This involves aligning defense strategies and

planning across allies to ensure that transatlantic cooperation is effectively integrated and that defense capabilities are synchronized. NATO's role has also expanded as of late to support technological innovation, such as through its defense innovation accelerator (DIANA), which is a complementary effort to the Hub for European Defence Innovation within the European Defence Agency (EDA). Being that both initiatives aim to collaborate with public and private partners to advance defense technologies, NATO and EDA should continue to work to prevent duplication.

Relatedly, there is a critical need to improve how states signal their future defense requirements to the private sector. Industry is more likely to invest in expanded production and defense innovation when they receive clear signals about future demand and risk assurance. Current wartime supply chain pressures underscore the importance of a strategic reset in this area. The EU in particular should strengthen and enforce single market rules to counteract state protectionism in defense while offering regulatory incentives, such as R&D funding or tax breaks.

Shoring up the transatlantic arsenal of democracy will not be an easy feat by any means. The past two years have laid bare the stubbornness of some perennial issues in defense investment and cooperation. These have only been aggravated by the global protectionist turn. Yet, in standing up to the authoritarian challenge, democracies can only prevail if they resist the siren call of turning inward and instead find a way to coordinate their efforts.

#### Selected sources

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