



**CHARLES UNIVERSITY**

**The role of the national Military-Industrial Complex in the establishment of the European Defence Market: The Case Study of Italy**

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## **Abstract**

This thesis deals with the issue of European defence industrial fragmentation and evaluates the role of defence industries in the development of a European Defence Market (EDM). More precisely, this dissertation argues that industrial nationalistic pressure has hampered the path of defence integration, with the intention of preserving the monopolistic market environment of defence manufacturing and to protect the financial security of national commissions. While the issue of the European Defence Market has already been acknowledged by the literature as one of the main obstacles for the achievement of a Common Security and Defence Policy (CSDP), this thesis identifies the industrial sector - and not the political will - as the main stumbling block for the establishment of a European Defence Market. In these regards, national defence industries have used their influence in domestic Military-Industrial Complexes (MICs) to directly inform EU Member States' positions on the defence industrial integration process. This thesis presents a scenario based on the hypothesis that the more uncompetitive the national defence manufacturing base, the stronger the reluctance of the Military-Industrial Complex to allow the opening of the market. In this sense, the case study of Italy demonstrates that weaker industrial complexes have hindered the path of defence integration with the intention of preserving their very existence. This thesis has made use of direct interviews and empirical findings to present the reader with a more comprehensive portrayal of the current EU industrial framework. Today, European defence manufacturing fragmentation remains one of the weaknesses of the Union and threatens to put Brussels out of action over the next few decades, preventing the EU from gaining its rightful place as a global actor at the international level.

## **Introduction**

This thesis begins with an assumption. The European Union (EU) has so far maintained a soft power approach to its foreign policy, favouring diplomacy over a more muscular strategy. To date, defence remains the national public sector less controlled by European institutions (Locatelli, 2010). While the currency, national borders and common legislation are important achievements of the European integration project, the EU defence industry continues to be fragmented into 28 different pieces. Governments continue to prefer an internal military production rather than a more meticulous cost/benefit calculus of international procurement collaboration, aggravating the financial burden of Member States for military expenditure (Sanders, 1990). This autarchic mindset has led to the establishment of a close relationship between the government and the defence industry, resulting in a hibernation of the European defence industrial integration process, which remains today highly needed (Briani, 2013).

This dissertation puts forward the following research question: why has the European Union been unable to integrate at the defence industrial level?

In real terms, a European platform for defence purposes would result in several benefits for the Union. First, it would strengthen European military production while allowing a more limited burden on national defence expenditure (Drent and Zandee, 2016). Second, it would lead to military interoperability, growing competitiveness of European firms and reinforcement of the industrial production (Briani, 2013; Independent Study Team, Date Unknown; Cooper, 1985). Finally, it would enhance European political cohesion (Ballester, 2013). However, despite these advantages, this project has not materialised even after the important events of the Iron Curtain's fall and the 2008 economic crisis. This thesis presents a possible argumentation to this shortfall, demonstrating that the path of European

Defence Industrial integration has been hindered by internal complexes of synergies between Member States' governments and their national industries.

This dissertation's main argumentation relies on the supposition that governments are subject to a series of influences coming from different groups of interests. This assumption takes inspiration from a more liberal approach to International Relations (Dunne et al, 2016) and urges the literature to analyse the role of the industrial sphere in the national decision-making. It is with this intent that this thesis looks at the Military-Industrial Complex.

The Military-Industrial Complex (MIC) is an abstract concept, here intended as the set of synergies among the three main defence actors of the State: the army, the government and the defence industry (Aspaturian, 1972). These connections have evolved over time and are direct consequences of the protectionist national defence market, which has so far remained the principal industrial reference point of European Ministry of Defences (MoDs).

According to this thesis, the Military-Industrial Complex shapes governmental decisions. As far as the European Defence Market is concerned, this thesis will demonstrate that the industry, through the above-mentioned synergies with the central government, has exercised pressure to maintain defence procurement a national concern. This was done to avoid the possibility of losing domestic funds and secure investments. In these regards, this thesis puts forward one hypothesis: the weaker the competitiveness of the defence firm, the stronger the governmental and industrial reluctance to open up the market.

This hypothesis is central in understanding the internal industrial dynamics of Member States. It relies on the idea that medium and small defence industrial companies have much to lose from an enhanced foreign competition. A strengthened European Defence Market could lead to job and technical losses for uncompetitive defence firms, following the imperatives of the capitalist market. If demonstrated, this hypothesis could prove that industrial

protectionism continues to be the focal point of governments, even within the liberal EU framework.

There is an important distinction to make between the European Union and single Member States. In this thesis, boundaries between the two are clear and defined. States continue to be the central reference in the International Relations and the ultimate possessors of the national sovereignty. In order to provide the reader with a practical example of governments' central role, this thesis will consider the case study of Italy and its main defence procurement entity: Leonardo Spa.

Case study methods allow the literature to understand the *why* and *how* of contemporary events and are meant to provide a closer insight of phenomena which have so far been underexamined (Travers, 2001). The use of case studies when approaching delicate issues can present numerous benefits. For instance, they can enhance internal validity, providing the right groundwork for theoretical analysis (Blatter et al, 2012). It for this reason that this thesis follows an explanatory case study approach to methodological research. More precisely, among the three main categories of case studies (exploratory, descriptive and explanatory) (Yin, 1984), this thesis has made use of the latter one, with the intent of closely analysing a case in order to explain a decided phenomenon in data (Zainal, 2007). Given the delicacy of the matter, to concentrate on a specific empirical explanatory investigation allowed this research to collect more tangible and concrete empirical evidence (compared to larger-N studies) (Blatter et al, 2012).

Yet, there are limitations and criticisms to single case study analysis. Many have emphasised the low liability of the data, questioning the researcher subjectivity (Berg and Lune, 2010). This arguably follows a broader critique to the lack of methodologic precision and systemic procedure. This thesis acknowledges these shortfalls and, in order to avoid them, has structured its case study on a three-level empirical analysis. It has cross-examined the data,

calibrating existing literature's findings with official documents of Italy's Ministries and governmental institutions. Moreover, this thesis has conducted 5 personal interviews with Italian governmental representatives and academics. They are intended to provide the reader with a more personal experience of industrial influence in the world of governmental decision-making. Interviews constitute the finest inside-view data, this thesis' author was able to find. They have been conducted in a timeframe of 2 months (January-February 2018) in Rome (Italy).

In order to answer the research question, this thesis will be divided into three main parts. The first chapter provides a background of the issue and presents the definition of the European Defence Market and the Military-Industrial Complex. This is a theoretical part and lays the groundwork for a more substantial discussion on defence procurement. The second chapter focuses on the Italian case and the role of Leonardo Spa. Finally, the third section presents the conclusions of the research and states the findings.

This thesis' author is aware of the delicacy of the topic. In fact, it might be audacious to address it completely in a master's work. This dissertation approaches the issue with humility and attempts to provide the literature (and the reader) with an innovative perspective on the European Defence Integration and with a more inside-view, which relies predominantly on the added value of direct and personal interviews.

## Chapter One

### A European defence industrial integration: A theoretical framework

#### Introduction

Today, Europe's defence industrial framework is characterised by a structural fragmentation. Since the end of the Second World War, countries pursued paths of military production based on national defence establishments (De la Brosse, 2017). For decades, this autarchic mindset of defence procurement has favoured the consolidation of national military businesses and the creation of strong bonds between the industrial and governmental worlds (Biscop, 2013).

The reason that should let the reader be concerned of this unstable situation is twofold and dates back to the evanescence of the Union of Soviet Socialist Republics (USSR). In fact, with the end of the Cold War, two main financial and political trends gained momentum. On the one hand, the dissolution of the permanent threat resulted in the collapse of the moral and empirical justification for maintaining countries' enormous internal procurement establishments (Adams et al, 1999). As a consequence, countries started cutting their defence budgets (Inbar, 1998). On the other hand, while countries were reducing their military expenditure, the armaments costs continued to rise sharply (Schmitt, 2003). Pulled together, these factors created an issue of *structural disarmament*, meaning that a greater amount of financial asset was needed to buy less equipment (Drown, 1990). This financially unsustainable situation, that arose with from fall of the Iron Curtain, should have logically brought to a common European industrial strategy for defence companies. Considering the need for maintaining a low-budget approach to defence procurement, this development should have encouraged the establishment of a European Defence Market (EDM), intended as a platform for military purposes based on an environment which favours a cost/benefit calculus on

defence procurement (Missiroli, 2017). This has not happened (Walker and Gummer, 1993).

The literature has already acknowledged this structural shortfall and the paradox which stands behind this situation. Analysts have attempted to give an answer to the European reluctance to continue the path of integration to reach also spheres of national sovereignty traditionally considered of strict domestic concern (Britz, 2010). 'Sovereignty', in this thesis, is considered the supreme and ultimate authority of a State (Frigot and Bonadonna, 2016). In these regards, the literature has traditionally recognised the lack of political interest as the main motive behind the inexistence of a more integrated European industrial landscape (Sandler, 2008). Security aspects of the issue have for decades represented the central focal point of the literature. Very often, issues of national sovereignty have been mentioned in an attempt to justify the autarchic approach of Member States to defence procurement (Gabriel and Weiner, 2010). This has followed a more realist conception of International Relations based on 'autarky' or 'self-sufficiency' (Barrinha, 2010).

Conventionally, academics have seen in governments and leaders the real culprits behind the inexistence of a European platform for defence purposes. This is a traditional approach to International Relations (IR), which tends to look at States as independent and unitary actors hardly informed by any internal dynamics, but rather following designed paths of behaviour when confronted with challenges (Moravcsik, 1997; Guay, 1996). Following this logic, States have maintained a national sovereignty over defence procurement because of their willingness to preserve military superiority over the enemies and because of a certain external anarchic and untrustworthy international geopolitical climate.

This realist approach to the issue surely rises some fair and interesting points. As a matter of principle, European countries have indeed maintained a degree of distrust among each other, even after the creation of the European Union

(Griessmann, Date Unknown). However, this thesis will demonstrate that this justification has been a rhetoric shield covering the effective issue surrounding the European defence industry. In fact, data shows that the closer one gets to the discussion over the strategic independence of the defence procurement, the more apparent the clash of bureaucratic and traditional interests becomes (Kenny, 2006). By acknowledging the State as unitary actors, we fail to recognise the important internal dynamics of national decision-making processes. Industries, groups of pressure and national social and political interests are relegated to the margins of the discussion, leaving the mere will of leaders or governments as the only points of reference.

Therefore, this thesis aims to examine the relationship between the central government and the defence industry through the lens of another theoretical approach to IR: Liberalism. The latter is a school of thought which accentuates cooperation among States and criticizes what it is perceived as a realist overemphasis on security and defence (Burchill et al, 2009; Ikenberry, 2009). Liberalism underlines the role of internal bureaucratic and financial institutions and dismisses the realist conception of the State as a unitary player, which acts according to pre-determined behavioural paths. Rather, liberalists concern themselves with power overridden by economic considerations (Walt, 1998). In these terms, States are not ‘natural entities’, but political systems created and composed by men:

*“Let us remember, then, in the first place, that political institutions (however the proposition may be at times ignored) are the work of men—owe their origin and their whole existence to human will. [...] In every stage of their existence they are made what they are by human voluntary agency.”*  
(Mill, 1861; 2)

In the attempt to analyse the issue of defence procurement through the lens of Liberalism, this dissertation considers Military-Industrial Complexes (MICs)

as the theoretical constructions behind the autarchic aspects of Member States' defence procurement. MICs will be intended, in their broadest sense, as the convergence of synergies among national military representatives, political elites and industrial figures (Aspaturian, 1972). By analysing their structure and role, this thesis will argue that the strong relationship among national armies, industry and governments at the domestic level inevitably informs the national decision-making process. In other words, this thesis makes use of the theoretical concept of the Military-Industrial Complex in order to explain the internal dynamics of national defence procurement. This thesis presents to the reader a different narrative which analyses industrial interests and their role in the development of a European defence procurement platform.

This chapter will be divided into two parts. The first will look at the European Defence Market, its definition and the benefits and constraints the literature has recognised. The second, on the other hand, will introduce the notion of Military-Industrial Complex, following the definition given by President D. Eisenhower.

### The European Defence Market at the dawn of the 21st Century

It is difficult to find a common definition of the European Defence Market. The latter, in fact, continues to be a theoretically accepted not, yet practically unclear. Arguably, this situation has resulted in frustration and incomprehension at both the academic and government levels, and it is responsible for an increased level of political scepticism among Member States (MS), as well as being behind a European failure to pursue an integration of defence of any sorts (Maulny, 2014).

Although this thesis does not intend to be descriptive, nor to give any long historical narrative of the matter, it is evident that, without an academically established definition, a work of analysis can hardly be achieved. The

European military manufacturing process is a complex mechanism that requires a brief, yet inevitable, description of its components to avoid academic confusion. This thesis attempts to give a possible interpretation of it, basing its approach on the assumption that, whilst it is possible to agree on cooperation at the civilian level, common defence is a thorny subject on which EU Member States fail to achieve a joint understanding (Barrinha, 2010).

As a universal process, the European Defence procurement can be defined as the part of the public procurement interested in the production of military equipment to the benefit of armed forces and military branches of EU Member States (Heuninckx, 2017). Central feature of this process is the National Defence Industry (NDI), which supplies the army with the bulk of equipment necessary to fulfil military goals identified by the central authority (EDA, 2007; Personal Interview with former General De Leonibus). The industry production is based on a defence production chain which is the physical process behind the assembly of national security-related products, which may be of hard or soft nature (Makowski, 2010). Defence procurement can happen also through ‘off-the-shelf’ purchases, as in the case of countries with an inadequate national defence manufacturing base (Marrone, 2012). As it is possible to consider the European defence industry as the set of all Member States’ defence industries, this thesis considers a ‘European’ defence cooperation the aggregation of European military capabilities within the framework of the European integration process (Haroche, 2017).

Under these premises, this thesis acknowledges the European Defence Market (EDM) as an open supranational platform for European and international military businesses (Maulny, 2014). The concept of the European Defence Market has a political nature because it is linked to the idea of a more consolidated European defence integration (Personal Interview with Mr. Massimo Artini, former Italian Vice-president of the Chamber of Deputies’ Defence Commission). The idea of the European Defence Market has ancient

origins and was originally designed by European institutions, mainly the Commission (EC), before the development of the European Security and Defence Policy (ESDP) (Becker-Along, 2010). The development of an EDM would allow defence contractors to compete on defence procurement, creating an environment by which commissions are awarded on the base of industries' effective capabilities and economic considerations (Becker-Along, 2010). The activities of an ideal European Defence Market range from the designing to the production of military infrastructure, supply and general devices (Missiroli, 2017). The resulting products vary from both 'hard material' (products directly related to the security and national interest of a State) and 'soft material' (goods that can be used both for civilian and military purposes, such as cross-country vehicles, transport aircrafts and rescue ships) (Trybus, 1998).

Although this scenario could sound appealing to the reader and a hypothetical European taxpayer, the reality is far from being so. Today, defence procurement continues to remain predominantly in the hands of national governments (European Commission, 2015). According to the European Defence Agency (EDA), 80% of State's defence procurement remains constrained within national boundaries (EDA, 2014). According to recent studies, this trend has remained constant since 2010 (De La Brosse, 2017). The inexistence of an internal competitive environment in the production of armaments demonstrates that domestic military manufactures are still benefiting from a certain degree of independence from the traditional rules of the market (De Vore, 2014). In these regards, the nature of the defence market deserves mention.

As far as the actual structure of the defence market is concerned, the government conventionally acts as the unique buyer, creating a climate of monopsony in profound contrast with the conventional laws of capitalism (Hartley, 1998). In fact, to ensure the competitive nature of the system, a free

market would traditionally require multiple buying actors and investors. On the contrary, defence equipment markets of single Member States are almost exclusively ‘demand-driven’ and not ‘supply-driven’; national orders play a pivotal role in the maintenance of the procurement structure, contrary to the case of civilian goods (Heunickx, 2015). The political nature of defence procurement has made it hard for defence to ever become a ‘normal’ industry; many have argued that it will always remain under governmental influence (Adams et al, 1999).

The market’s monopolistic nature has substantially impacted the internal dynamics of EU Member States. With regards to national supply commissions, it is interesting to take into account two important financial and political trends, which arose from the rubble of the Cold War. The first is the decreasing interests in security-related affairs. The second is the rise in the armaments costs. These two factors have created an unbearable financial and political environment for EU chancelleries (Bekkers et al, 2009).

#### *Decreasing military expenditure*

The post-1945 environment did not offer the right spirit of military integration among Member States. Rather, it created for the first time in history in a peace period, the customary need for a large world armament industry (Dunlap, 2011). Plus, it helped the reaffirmation of national defence industries at the expenses of a more broadly affirmed supranational procurement platform (Dagget, 2010). In those years, Europe became a prime centre of arms export and equipment production (Mohanty, 2004). The literature agrees on the fact that the Cold War political climate exacerbated most of traditional constraints to the use of national resources (Bitzinger, 2003). Countries were interested in preserving a national dimension of politics, especially with regards to defence procurement (Walker and Gummer, 1993). In other words, military production

remained nationally-oriented even under the new European integration sentiment (Giegerich et al, 2008).

The conflictual political framework of the Cold War encouraged the establishment of an environment of geopolitical mistrust and military tensions also at the European level, which prompted the European hesitance to open up a strategic market (traditionally linked to national security) (Sanders, 1990).

The preservation of a realist approach to International Relations in those years is demonstrated by the massive build-up and growing demands for sophisticated arsenals, the European defence industry experienced in the 1945-1992 period (Mohanty, 2004). Domestic defence industries became points of reference for national governments, with defence spending consuming often more than 5% of national GDPs (Letham, 2003). An emblematic example, yet not directly linked to the European case, is the United States. In the latest years of the Second World War, Washington's defence expenditure was consuming two-third of the national budget with the objective of financing the expansion of the heavy industry (Kahn, 2017). The situation changed drastically with the end of the bipolar confrontation.

As mentioned above, the end of the Cold War changed the international landscape- and consequently the European threat perception - more than any other geopolitical events before (Williamson, 1993; Howorth et al, 1997). This can be seen by the defence share of the GDP of European and Western nations after 1989, which reflected their respective perception of external and internal danger (Smith, 2009). The vast Western arms industry, nurtured for decades by geopolitical imperatives, experienced an unprecedented contraction, which had never been seen even at the end of the Korean, Vietnam or the Second World War (Wulf, 1993). In these terms, there were two major trends: world defence budgets were cut, and military programs were slowed down, to address the new international environment (Neuman, 2006). The following years were featured by a decrease in military expenditure (Kiss, 1997). States

found themselves suddenly with an important military production overcapacity due to the evanescence of the common threat (Pianta and Perani, 1991). In short, the decade following the Evil Empire's collapse, which ended with the tragic events of World Trade Centre's terrorist attacks, was characterised by a decreasing interest in European and security affairs (Pazner, 2009).

Under these geopolitical premises, EU Member States increasingly followed a hands-off policy of privatization of the defence industry, which remained yet insufficiently developed (Besancenot and Vranceanu, 2006). It became clear that the dissolution of the permanent threat had resulted in the collapse of the moral and empirical justification to maintain Member States' internal procurement establishments (Inbar, 1998). Gradually, European chancelleries took advantage of the *peace dividends* of the post-Cold War. The latter are the international theoretical approach to security issues experience after 1992; a process of decreasing military expenditure progressively diverged investments on civilian budget to reinforce the then crumbling national economics and support the financial recovery on the long run (Knight et al, 1996).

At the European level, the reason for this strong military cut was twofold. On the one hand, the economic hardships and financial developments of Member States in the late 1990s and early 2000s prompted governments and leaders to take measures to reduce public spending (Britz, 2004). In those years, the European Union experienced the important steps of the Single European Act (SEA) in 1986 and the introduction of the Single Currency. These two events created an innovative economic and political set of synergies among European governments and companies (Drown, 1990). These political and financial developments triggered a process of downward pressure on defence spending and urged Member States to tighten their fiscal belt with the aim of achieving euro membership (Giegerich et al, 2008). The second motive to reduce military expenditure in the European Continent related to the public reluctance to the idea of armed conflicts at the end of the bipolar era (Cooper, 1985). This

disinclination of the public opinion determinedly influenced governments' decision-making processes on defence expenditure (Hoffman, 2000; Berling and Ekmann, 2006). These financial trends highly impacted the defence industrial sector of the EU (Anthony, 1994). A reshaping of the European military industries gained impetus in the late 1980s, as a result of the dissolution of the Warsaw Pact and the marked political transformations of Western Europe (Pianta and Perani, 1991:).

In short, the end of the Cold War period triggered a process of military industrial restructure in the Old Continent. The European Union was one of the strongest world actors to enjoy the *peace dividends*. In general terms, with the fall of the Iron Curtain, the production of hard defence material was no longer considered a top national priority (Matlary and Osteoud, 2007). NATO European Member States reduced their overall defence spending by 35% in the latest years of the Cold War (Giegerich et al, 2008). In real terms, the post-1989 world's overall military spending (which includes R&D, equipment procurement, maintenance and military personnel) fell by more than a third, from ca. US\$1,300bn to US\$722bn (Mohanty, 2004). As argued above, this issue mostly concerned European governments, resulting in a further 18% widening of the military gap between the EU and the United States of America (USA) (Crollen, 2003).

#### *Rise in arms costs*

However, this phenomenon of decreasing military spending, which had financial as well as political dimensions, was not accompanied by a parallel process of shrinking arms costs (Drown, 1990). The Cold War competition not only for quantity but also quality of military equipment worldwide had been a massive factor behind the rise in armaments' costs during the years of the bipolar confrontation (Meijhe, 2010). According to studies, for decades the increase in the production costs for military products can be calculated to up to

7%-10% per annum, with peaks in specific sectors such as tactical aircraft combats (Kirkpatrick, 2004). This trend continues to be present today. The developing costs of new generation weapons are increasing more rapidly than military expenditure, resulting in the above explicated issue of structural disarmament. One of the most important signals of this issue appeared in the late 1980s when European countries experienced lower rates of weaponry acquisition, in spite of an increased public investment (Struys, 2004).

There might be multiple financial, historical, political and social explanations for this rise of costs for military equipment witnessed in the late 1980s. This thesis acknowledges two of them. The first one is the changes in the nature of warfare thanks to the arrival of military innovation, modifications of national industrial structures and the Revolution of Military Affairs (RMA) (Matthews and Treddenick, 2001). In fact, with time, military doctrine has become technology-intensive and budget-consuming, requiring, for planning, deploying and executive reasons, high-rank equipment and a greater portion of the defence expenditure (King, 2011). In other words, the more advanced and sophisticated the weaponry, the more budget consuming it is (Ikegami, 2013). Secondly, the very oligopolistic nature of the market contributes also to the phenomenon of rising costs in armaments. Low productive and high prices are inevitable outcomes in an imperfect market, whose pivotal features are both the State's domination of procurement and the presence of an almost inexistent competitiveness (Caldwell and Howard, 2014).

Over the last few decades, these developments have made military equipment self-sufficiency for most European Member States increasingly unbearable also considering the financial hardships most EU chancelleries had to deal with after the 2008 economic crackdown (Bond, 2014). Nowadays, no single Member State can achieve alone the required level of security and defence procurement (Ballester, 2013). This situation encouraged massive economies to seek for international collaboration or increased arms trade; this trend could

be seen even before the end of the Cold War (Adams et al, 1999). These high costs had a profound impact on the social, political and economic fabric of the society. Public reservations about arms acquisition and, in general, for defence procurement were inevitable consequences of a world without an impellent threat but with important economic challenges (Trybus, 2014).

These trends of European decreasing budgets ended with the tragic events of 9/11 (Von Wogau et al, 2004). Terrorist attacks in Europe and the War on Terror made clear that Brussels was as exposed and vulnerable as anyone else to threats posed by international terrorism (Vesancenot and Vrancenu, 2006). As a consequence, readjustments of national defence budgets became a priority (Eurostat, 2018). Yet, weaponry costs did not decrease nor decelerate, and military expenditure struggled to keep step with skyrocketing arms prices. Over the years it has become clear that it is impossible for Member States to guarantee alone their own survival (Irish Department of Defence, 2013). It is becoming a common axiom that:

*The choice is no longer between acquiring a military capability on a national basis or through multinational cooperation: the choice is between acquiring it through multinational cooperation or not acquiring it at all.*  
(Marrone, 2012; 10)

The experience of the post-Cold War environment has demonstrated the importance of increasing the pattern of European industrial specialization by design, which is intended as a more coordinated scheme of business restructuring at the European level (Ciriling, 2013). In fact, after the 2008 financial crisis, European Member States implemented an uncoordinated defence cut of national manufacturing bases, sharing little information with other European partners and creating confusion and lack of coordination (Marrone, 2012). In these terms, industrial consolidation and merging could be seen as possible antidotes to the European inefficient defence market.

Following this line of reasoning, economic constraints, internal political instability and the numerous monetary crisis have made defence integration a necessity for the whole of Europe (Larive, 2014). Although this will be further developed below, it is important to state that it is becoming increasingly impossible, for Member States, to maintain an autarchic national procurement, due to financial and social imperatives.

### The European Defence Market: benefits and constraints according to the literature

This thesis has already briefly mentioned the importance of creating a cohesive European Defence Market. This has not happened yet, but there are clear advantages coming from such a possible development (Nones and Marta, 2007). It is important to state them before continuing the analysis on current European defence dynamics. This will justify to the reader the urgency of this instance and present them with all data required for a meaningful analysis.

As revealed above, the benefits of the EDM would not merely be financial but cover a broad range of social and political dynamics. According to studies, a deeper system of cooperation at the defence industrial level would strengthen the Union's social cohesiveness and foster inter-European collaboration in the research, development and manufacturing of military equipment (Eurogroup, 1975). This has been long-established by the American experience. In fact, data confirms that the path of US defence industrial merging of the 1980s and 1990s is not merely leading to a higher proportion of capital investment on defence programmes compared to the European Union, but it has also guaranteed a greater expenditure on national Research and Development (R&D) that ensures future technological advancement (EDA, 2007). In this

way, the United States have secured future technological supremacy and competitiveness over foreign investors and competitors.

This thesis has identified three main benefits coming from a more consolidated European Defence Market. First, a healthy competitive defence industrial environment would most probably result in financial gains and reduced economic wastes for European taxpayers (O' Donnell, 2009). More specifically, governments could save an important amount of public investment in defence production and redirect funds to reinforce ailing national economies. In fact, a fragmented and nationally protected defence industry leads to duplication, equipment redundancy and scarce R&D resources (Hall et al, 1986: 245). According to the European Parliament, an increased EU defence industrial cooperation could lead to a 26 billion euros profit (Salm, 2016). A market based on competitiveness for military procurement at the European level can help Member States to reach the required economies of scale to foster the production chain and lower units' costs while maintaining an overall low defence expenditure budget (James, 2003).

Moreover, according to the literature, the creation of a European Defence Market will have a spill-over effect into other financial sectors of European States' economies. According to estimates, by creating a more stable defence market and, consequently, a more regulated system of European public contracts, the defence sector of the Union would annually benefit of an estimated savings of 5-10 billion euros (Perani, 1996). The current fragmented nature gives the Union a clear industrial disadvantage compared to American or Asian competitors (European Commission, 2017).

Second, according to the literature, a European Defence Market will not only result in substantial economic benefits, but it will also have important repercussions for the technological advancement of the Union (Trybus, 2014). By pooling expertise and skills together, the EU could acquire the necessary

technical capabilities to compete as a unique actor with international industrial players (European commission, 2008). EU defence shortfalls would be fixed, also in light of the growing American incapability to militarily supply the Union to the same extent as during the Cold War (Ballester, 2013). Arguably, by reducing duplication and creating centres of military industrial specialization through the whole Continent, governments could take advantage of the longer productions run, while optimising the production capacity (EUISS Task Force, 2005). In the long term, such an environment would create a better value for money, enforcing the trust among States and reducing costs for participating actors (Cooper, 1985; Darnis et al, 2007). This, as explained above, can already be seen in the USA experience.

Third, the establishment of a common platform for defence production can also have a positive impact on the European foreign policy and military capability (Howorth, 2007). European armed forces would be strengthened, ensuring EU ability to act independently (Lazarou and Barzoukas, 2017). Therefore, in addition to financial advantages, the European Union could benefit from an improved operational armed capability. EU Member States would be better prepared to pursue common military operations (Von Wogau, 2004). Finally, a more coherent procurement platform could help the Union withstand the costs of military infrastructures, equipment and personnel, which are likely to continue to rise (Population Council, 2006; James, 2004), while also strengthening the European sentiment, and military and political cohesion (Trybus, 2005).

Military advantages of greater commonality and standardization of armaments have already been demonstrated through successful cooperation in the past (Cooper, 1985), although they have sometimes failed because of different military requirements, opposing military traditions or financial instances. Differences in risk perception are also pivotal issues (Kollias, 2004). Nonetheless, in spite of the great number of obstacles and difficulties, this

integration path seems the only one possible, should the EU desire to foster its international stand, also in light of current menaces coming from outside and within (Von Wogau, 2004).

All these financial and political phenomena would logically lead the reader to believe that a sort of European industrial merging would have been promoted especially in times of austerity or perceived peace, as at the end of the Cold War. Considering all the financial, political and social benefits such a project would result in, it would make sense, in the rational eyes of an economist or a citizen, to encourage it. In fact, for years there has been a broad consensus, both among governments and in the literature, that there is no alternative but to promote European industrial cooperation (Darnis et al, 2007). Yet, even if governments are aware of these benefits and economic phenomena, a European Defence Market has not materialised (Cirlig, 2013).

On the contrary, in spite of all that is mentioned above, most equipment procurement continues to be produced at the national level (Salm, 2016). In today's world, leaders have maintained, through national rhetoric, focus on the importance to maintain a national industry and protect domestic technologies from foreign intervention (Genschel and Jachtenfuchs, 2013). In fact, the globalization phenomena have not affected equally the civil market (which experienced a process of liberalization) and the defence manufacturing sector, which has preserved its market exclusivity (Burtler, 2007). Although both industry and government have realized that arms collaboration and procurement could bring about important financial benefits, national protection has always remained a central feature of defence procurement. Defence industries have always been regarded, in essence, as manifestation of national sovereignty (Adams et al, 1999). This paradox of modern times has already been acknowledged by the literature, which over time has recognised possible obstacles to the establishment of a European Defence Market.

National constraints to the European Defence Market: a literature prospect

It is undeniable that there has been an important process of industrial concentration within the European Union, especially in the 1990s. However, this process has predominantly remained constrained at the national level, hampering the project of a more supranational defence platform (Biscop, 2013). European industries consolidated around National Champions, reinforcing the above explained monopolistic nature of the market (James, 2002). In this thesis, National Champions are intended as those companies, which help the central government to promote strategic aims, obtaining in return financial benefits, easier access to contract bidding or general advantages over foreign competitors (Graceffo, 2017). The merging has therefore remained internal, while industrial strategies have developed following distinctive paths. In fact, Member States have traditionally had two different political approaches to defence procurement and European integration (Franke, 2017). The literature tends to divide Member States' industrial strategies in those having a direct control over their defence industry (as in France and Italy), and those more inclined to competition and free market imperatives (e.g. the United Kingdom) (Britz, 2010).

The high-degree of governmental protection of national defence industries might be due to different political, historical cultural and economic factors. According to the conventional debate, due to its very nature, high politics (intended as that section of politics concerned with issues of geopolitical grandeur and prestige) could hardly have a collaborative character (Forster, 1997). This, also considering its links with the problem of national survival and security, has made high politics a central feature of EU governments' agendas. In fact, defence procurement has traditionally been linked to the idea of military sovereignty, which is defined as the government's capacity to possess (and maintain) an independent arms production (Hoeffler, 2012).

This conventional line of reasoning tends to underline the role of the State, which is seen as the central actor in an unstable anarchic system, following a more traditional realist approach to the study of International Relations (Burchill et al, 2009). In this sense, State centrism gains a pivotal role, alongside theoretical discussions of nations' *Raison d'état* and security from foreign aggression (Waltz, 1990). According to the conventional debate, therefore, defence-related industries have for decades been guarded within national borders, as their presence was perceived as an existential condition for the national survival (Barringa, 2010). Having internal control over national defence industries was considered as important as having a strong military arsenal, and not having complete sovereignty over national defence and security was like not having authority at all (Trybus, 2005). In this sense, a self-sufficient armed force is required to obtain international status and geopolitical power (Smith, 2009). It is therefore in the interest of the State to avoid the opening up of the defence market because of internal political dynamics (Trybus, 2014).

To protect national borders and ensure the security of their citizens, States require military capabilities, which combine factors of production (they may range from single unities to more advanced capabilities) aimed to respond to military contingencies and threat scenarios (Markowski et al, 2010). The above-explicated military advancements of the Revolution of Military Affairs (RMA) have made clear to governments that a complete control over an advanced weaponry production is fundamental for strategic purposes and to ensure the achievement of necessary military requirements while maintaining also supremacy on the battlefield (Anthony et al, 1994). For these reasons, maintaining a national capability to produce and provide armed forces with up-to-date equipment and key technologies has traditionally been regarded as the pivotal objective of States. Such capacity will be intended in this thesis as national Security of Supply (SoS) (Heuninckx, 2008). This process links the

two actors of the central government and the army. While the latter identifies the operational requirements necessary for the achievement of national interests, the government is the actor who has to provide the army with equipment and grants commissions for this objective (Personal Interview with former Brig. General Luigi De Leonibus).

According to the literature on the matter, over the centuries the Security of Supply has maintained a central influence in the decision-making process, pushing governments towards national production rather than foreign import (Smith, 2009). This underlines the importance of ensuring the stability of the supply chain (Longer-Term Security of Supply) to withstand a possible situation of crisis, during which States can experience an increasing need for military production (Heunickx, 2008). Therefore, the reason behind the governmental reluctance to give up such capability is twofold. On the one hand, there has been a lack of governmental willingness to give up a certain political autonomy, also within a developing environment of progressive European integration (Barrinha, 2010). Traditionally, States fear that other countries may not observe their supply agreements in times of conflict and, ultimately, prefer to rely on domestic industrial bases (Smith, 2009). On the other hand, the conventional autarchic mindset on defence procurement has also been informed by a latent distrust among States (Fiott, 2014) and the fear of benefiting external powers at the expense of national technical know-how (an issue better known as '*Security Assurance*') (Sanders, 1990).

Currently, even within the European Union there is still an important degree of political suspicion. In general terms, it can be said that States contend for influence and global prestige creating a climate of *cooperative rivalry* (Matlary and Osterud, 2007). The European integration project notwithstanding, national interests and personal gains continue to be at the core of Member States' strategies and agendas, in an approach to defence procurement and national security, which more closely matches a zero-sum

game. In other words, given the delicacy of the matter, national establishments have traditionally refrained from depending on other actors, choosing to favour national companies and internal manufacture over external competition. This has prompted nations to ensure domestic industrial strategies, defined here as the national instruments to maintain sovereignty over production, also through protectionism (Hoeffler, 2012).

In addition to that, also the industrial and foreign strategies of the European Member States are different (sometimes even opposing). For instance, several European States favour a state-controlled (or at least heavily-influenced) industry of defence, like France or Poland. On the other hand, others may prefer a more liberal approach where military manufacturers are more privatised (Bartels et al, 2017). The existence of a parallel system of privately-owned companies in countries like Britain and Germany, alongside state-controlled complexes in France, Spain and Italy, is one of the main obstacles to pan-European industrial consolidation (Adams et al, 1999). Likewise, EU foreign policies may also differ. Some MS prefer a stronger relationship with the United States (Atlanticist powers), whilst other a more Europe-focused foreign policy (e.g. France) (Frontini, 2013; Howorth, 2017; Sardellone 2016). In general terms, it can be said that the closer one reaches the core concept of sovereignty and independency over defence procurement, the more it is possible to see clashes in national traditions and interests (Brian, 2006).

In these terms, Member States' diverging interests and geopolitical postures can represent important obstacles to the materialization of a common view on collaborative European military programmes (Simoncelli, 2017). The European history of armament cooperation has taught us that governments have found difficult to bridge the gap among States' national strategies and interests, between the largest armaments producers and the small third-tier countries, whose national priorities are comprehensibly different (James, 2003). Arguably, this could create confusion in the definition of a Common

Defence Industrial Policy, also with regards to the future of the United States and the European transatlantic industrial alliance (American Chamber of Commerce to the European Union, 2016).

However, the above-explained traditional approach arguably minimizes the role of Member States' internal dynamics in the definition of defence procurement. The issue of economic influence in defence protectionism has already been partially addressed in the literature. Yet, it is this thesis' author's belief that the discussion over national sovereignty and Security of Supply has often been used as a rhetorical discourse, because of a traditional tendency to rely on a more realist approach to IR analysis. Not adequately acknowledging the role of internal military and business actors in the definition of countries' defence procurement, means being unable to recognise the real issue behind European defence procurement. More generally, it means portraying a fallacious picture of the situation.

This thesis believes that it is impossible to explain the issue of the European industrial fragmentation without effectively taking into consideration the role of the principal actor in the matter: The Military-Industrial Complex. More specifically, this dissertation will focus on the defence industry and its influence in the definition of Member States' defence procurement policies. The reason behind this thesis' choice to concentrate on the industry-government relationship is due to the fact that the army's role in foreign policy (especially in the Italian one) has already been widely addressed (Tosato and Taufer, 2016; Ministero della Difesa, 2015). It remains imperative to strengthen the literature's understanding on the industry and its role in the abstract concept of a Military-Industrial Complex.

European governments feel the need to promote defence integration, either because of the feeling of being incomplete without a defence dimension or because of the ultimate realization of being militarily dependent on the United States, especially in the aftermath of the Yugoslavian and Kosovo crisis

(Gordon, 2000; Cirlig, 2013). Armaments collaboration is a procedure that can already be found in the earliest 1950s, when Western European powers acknowledged it as the only possible mean to procure armaments and ensure a certain level of defence-industrial national control (De Vore, 2011). As such, data confirms that blaming merely the European governments for not having pursued a European defence industrial integration is misleading at the least. Instead, this thesis suggests widening the discussion, by placing a special emphasis on the role of EU National Champions. According to this thesis' argumentation, the emphasis should move away from the mere European governmental sphere to englobe the industrial level.

This shift in the focal point of the discussion does not intend to minimize the governmental role. In fact, European industries alone cannot put forward executive procedure. Rather, this dissertation highlights a more intrinsic and abstract issue, which deals with internal economic and military actor's influences in the decision-making process. In this sense, businesses operate and inform the official national profile through their role in the Military-Industrial Complex (MIC).

### The Military-industrial Complex

The Military-Industrial Complex (MIC) is an abstract concept and shall not be intended as an actual existing entity. Its nature and growth were due to a political trend that has allowed, over time, the decision-making power to remain steadily in the hands of military, political and economic institutions (Mills, 1958). According to the literature, the MIC is a self-standing system, which includes the actions and priorities of various groups and individuals coming from both the civilian and military sectors and the private and public level (Dunne and Skons, 2011). This gradual process of power concentration has eroded the supranational course of European defence integration and has strengthened the internal dynamics of traditional defence procurement.

Building on this historical assumption, the Military-Industrial Complex can be more broadly defined as the system resulting from the increasing close relationship among the national government, the business corporations and the military sector (Smart, 2016). A triangular system shapes the structure of the Military-Industrial Complex and sanctions a close liaison between these three main defence actors whose influence in the decision-making process results therefore equivalent (Smith, 2009).

At the top of this triangle there is the government, namely the central authority dictating the national foreign policy. As also stated above, it is this actor who ultimately takes the decision in the field of defence and security. This thesis does not intend to undermine this assumption, but rather to emphasise the substantial influence coming from the other two components.

The second figure in the triangle is the army, intended as the set of all of those armed forces assigned to the protection of the country (Steinbach, Date Unknown). Defence procurement is strictly related to the role of the army, as it is aimed to obtain the whole range of required operational and military capabilities (Marrone, 2012). Defence necessitates military capabilities, aimed to respond to military contingencies and threat scenarios (Britz, 2004). In this sense, a defence product is not diverse from a commercial one, but it is rather meant to be the solution of a specific operational problem (Anthony et al, 1994). In other words, it can be said that the link between the army and the defence industry is the one of supporting the national technological advancement, creating the foundation for a domestic industrial base (Tosato and Taufer, 2016). The increasing complex requirements of the modern warfare have prompted the army, and therefore the national industrial base, to look for sophisticated armament and to invest on technological development. This business and operational link is at the base of the two actors' relationship and constitutes an important factor for industrial development, especially within the framework of heavy industry and precision mechanic (Tosato and

Taufer, 2016). The defence industry is the final actor. This figure is the entity involved in the production of military equipment (Letham, 2003). Its role is of central importance in this dissertation's discussion of and can explain the uncertain path of European defence industrial integration witnessed to this point.

This abstract triangular system helps this thesis support the central point that the industrial willingness and military interests shape and directly influence the governmental decision-making process (Trybus, 2014; Kluth, 2017). In this sense, single Member State's Military-Industrial Complexes ensure a close cooperation and set of synergies among the three national actors, informing ultimate governmental decisions (Sarkensian, 1972) It can be said that there has not been, since the end of the Second World War, an economy or a political system in the world without an influential military establishment, strongly correlated with finance and politics (Mills, 1958).

By asserting that the Military-Industrial Complex creates important bonds between the industry, the state and the army, this thesis is also implying that this synergy influences the decisions each one of the MIC actors takes. Economic, political and technological factors result interconnected in Member States' internal dynamics and all have a shared impact on defence policies (Trybus, 2014). In this sense, arms producers' interests remain among the primary sources of pressures for domestic protectionism (Moravcsik, 1991). Whilst the State answers to a widespread need for security, and therefore the imperative of equipping their armed forces and military personnel, controlling at the same time the internal repercussions for job-related issues and technological advancement, the industry has defined scopes and objectives which seek profits at the global industrial level (Byrne, 2010). The State assumes financial and operational risks with the military industry throughout all phases of the planning, development and realization of the arms system and guarantees to investments for a later production through national commissions

(Piovesana, 2017b). This ensures a close collaboration between the two actors. In this sense, industries play a central role in the shaping of national security policies. They have the desire to maintain an environment, within which operate and endorse individualistic interests.

Following this line of reasoning, the industry of armaments and defence has had an important decisional and financial weight in the national decision-making process. This follows a Keynesian approach to economics, which tends to see the sector of arms production as a potential catalyser for industrialization and stimulation of economic development (Latham et al, 1995). On this assumption, heavy industry can hardly be regarded as an independent sector, but rather part of a complex internal industrial system, which sees important synergies between first contractors and secondary companies and overflows in civilian technological advancement (Krause, 1992). Defence industry would improve general facilities and technical know-how while creating high-skilled occupations, professions at the service of the State and potential modernization of other strategical sectors of national economy, as steel and shipbuilding (Bitzinger, 2003). As a matter of principle, through direct and indirect employment, the defence sector favours national growth, creating strong bounds between the country's social fabric and the government itself (Clark, 1994). By losing assets and productivity capabilities in the arms industry, financial and social repercussions in the civil sector would also be possible (Clark, 1994). Under these premises, the National Defence Industry appears a vital asset in case of emergency (Miller, 1952) and central for any European Ministries of Defence in times of financial distress (Smith, 2009). Technical industrial loss would not be a mere geopolitical or strategic concern but would also impact the deep social fabric of the country, influencing in turn the industry, the public opinion and the government.

This provides the industry with an important political and social leverage to substantially affect the public sector (Fevolden and Tvetbraten, 2016). Dual

technologies (products that can be used both for civilian and military purposes (Maulny, 2014)) are emblematic of this instance and demonstrate the important impact of the military-industrial sector even in civilian markets, thereby creating the possibility of financial domino-effects should national defence markets lose competitiveness and profits (Appleby and Foster, 1993). It follows that having a competitive market is a vital priority of the national executive branch, in order to avoid monetary depression, capital distress and support technological advancement (Ledbetter, 2011). It is for this role of the heavy industry on the civilian market and economic stability of the country that the defence industry has had an important influence over governmental decisions. According to this thesis' argumentation, this influence is exercised through the intrinsic dynamics of the Military-Industrial Complex.

Although it is true that the origins of the MIC root back to the Second World War (Wehrle. E, 2011), the literature traditionally acknowledges the President Dwight David Eisenhower's 1961 farewell speech as the moment when the term was first publicly adopted. More precisely, the 34th President of the United States openly warned the American population against what he saw as a progressive empowering of the USA industrial sector of defence, on the wave of exaggerated claims concerning Soviet military superiority over the United States (President Eisenhower's farewell speech, 1961). He was concerned that a possible future exploitation of the fight against the USSR could have provided, on the long run, the moral and practical military justification to subvert the American established order in favour of a more restricted elite and their military and financial purposes (LedBetter, 2011). This instance must be analysed within the Cold War geopolitical framework.

Under the bipolar confrontation, Eisenhower's concern was twofold. The first regarded possible inflation-related hardships, as those experienced under the Truman administration (1945-1953). These would have threatened the Western economy and resulted in the *de facto* victory of Moscow (Alic, 2014).

In such a scenario, the Soviet Union would not have had to confront militarily the United States on the battlefield but would have just had to wait for the enemy's ultimate financial crackdown (Alic, 2014). The second motive was more political. President Eisenhower worried that the extreme sense of instability, fear and vulnerability caused by the bipolar system would have steered the path to a redefinition of the internal balance of power in favour of a more powerful military sector on the ground of security-related issues (Janiewski, 2011). In these terms, according to the outgoing President, there was an increasing need for stricter control over both a possible misplaced influence of a certain section of the nation and the general military expenditure (Janiewski, 2011). This is the main topic of this dissertation, which attempts to understand the influences of secondary actors to the governmental decision-making process. This issue is of central relevance, also considering that one of the main objectives of a national policy on arms production is to reduce the impact of military power on the handling of foreign policy matters (Holsts, 1984). Having an influence on decision of national defence procurement can substantially alter the check of balances of a democratic State and, in the European case, hamper the supranational project of integration.

As far as the effective threat of the Military-Industrial Complex is concerned, this discussion goes well beyond the very scope of this thesis. Yet, it provides some interesting points of discussion and demonstrates the still novelty of this argument. According to some analysts, the present global environment is far from what Eisenhower feared as a political establishment being at the mercy of industrial interests. This could also be demonstrated by the fact that current defence investments are far from reaching those of the Cold War (World Bank Data, 2016). On the contrary, others argue that the Military-Industrial Complex did not disappear with the evanescence of the common enemy, but simply reorganized itself, targeting new enemies (or 'rogue states') and keeping high the attention of the public opinion on security issues (Hartlung, 1999). With no intention of creating an excessively descriptive narrative of the

issue, this thesis' discussion demonstrates the validity of the point. Third actors' influence on defence procurement are real and significant. Over the next few chapters, it will be this dissertation's objective to demonstrate why the synergies between the National Champion and the central authority are the major stumbling blocks to the pursuance of the European defence integration. In this sense, the triangular shape of the MIC demonstrates that the share of responsibility among the three actors is, if not equal, often underestimated.

### Conclusions

The Military-Industrial Complex (MIC) is an abstract entity, which encompasses a close relationship between three main actors of a country: the government, the army and the defence industry. Its influence and role within national decision-making is the core theme of this thesis. The latter will focus predominantly on the influence of the defence industry over governmental decisions. In fact, contrary to what expected, with the collapse of the Iron Curtain national procurement did not become a European concern, but rather it remained restricted within national boundaries. While National Champions became the first point of reference of European governments for defence procurement, the growth and consolidation of Military-Industrial Complexes within each Member State had profound impacts on the process of European defence integration. Growing synergies between governments and industry put back on the European agenda the centrality of internal dynamics.

It is undeniable that governments shape the foreign direction of countries and dictate the national military requirements and needs. They take the ultimate decisions, especially within the framework of security and defence procurement. Yet, by underestimating the role of the industry, the reader may fall into the trap of a fallacious image of the current situation. While governments take decision, their interests are not exogenous. Rather, it can be

argued that they are the result of the merging of interests and synergies perpetuated within the Military-Industrial Complex.

This issue can be better understood by taking into consideration a case study. This thesis has chosen Italy as its main case study and has put forward a hypothesis: the weaker the defence firms' competitiveness, the stronger the MIC reluctance to open the defence market. This hypothesis rests on the above-explicated dynamics, according to which industrial interests have an important influence on the government's decision-making process. The weaker the industrial willingness to compete internationally, the more plausible it is that the country will be if not against, at least sceptical in proceeding on the path of European defence industrial integration.

Italy is surely a good case study of this above-mentioned phenomenon. Despite its participation in the European soft power integration process (currency, free movement, Single Market), the country continues to hesitate in a possible defence industrial integration. In fact, the country's national defence procurement relies predominantly on indigenous production, notwithstanding the participation on some international projects. This instance can be explained through many lenses. Yet, this thesis uses the abstract conception of a Military-Industrial Complex in order to explain the Italian reluctance to pursue a European defence integration of hard power. In this sense, Italy's National Champion (Leonardo Spa)'s relative weakness at the European level could be at the foundation of the country's unwillingness to continue down the path of defence integration. In short, unsure of its capability to compete with other European contractors, Leonardo has encouraged a nationalistic defence approach to defence procurement, with the intent to maintain commissions and orders within national borders and avoid the interruption of investments' flow.

## Chapter Two

### The Italian case: Leonardo Spa and the European Defence Market

#### Introduction

In the first chapter of this thesis, it has been underlined that governments are not the only actors responsible for the fragmentation of the European Union's industrial landscape. Industries play a role in the national decision-making, because of their role in the abstract entity of the Military-Industrial Complex. In this sense, it might be argued that the defence industry has aimed to maintain a certain degree of nationalism with the intention of keeping military commissions within national borders. In fact, given governments' hesitance to increase their dependency on others (Chappel 2016), national defence procurement has often been considered a necessary evil in the framework of defence market and industrial development (also at the cost of products' lower quality) (Sandler, 2008). Italy has followed this European process of autarchic defence procurement. It can be argued, this was done to strengthen Italy's military and political independence.

Since 1945, the Italian Republic's foreign policy has always balanced trends of Atlanticism and Europeanism, in order to maximise its status in the global arena and exploit its strategic geopolitical position in the Mediterranean (Romano, 2009). In the post-1989 period, the Italian defence industry made important steps in the establishment of a National Champion, moving from a constellation of domestic small and medium enterprises (SMEs) to a unique national company (Anthony et al, 1994). This process of industrial consolidation inevitably resulted in the creation of important synergies between the executive branch of the country and its industrial sector, favouring a climate of manufacturing nationalistic interests (Biscop, 2013).

The reason behind the identification of Italy as a main case study is twofold. First, its foreign policy towards Europe is an interesting mix of nationalistic pressure and Europeanistic necessity. In its foreign policy, Italy has shown paths of political discontinuity from centre-right coalitions and centre-left parties, following two different approaches to international relations (neo-Atlanticism and bilateralism for the centre-right and neo-Europeanism and multilateralism for the centre-left) (Carbone, 2007). For instance, the Italian left-wing governments of Lamberto Dini (1995-1996) and Romano Prodi (1996-1998) worked intensively to secure a role of prestige for the Italian Republic in the Union and in the Eurozone (Romano, 2009). Being a founding member and a Euro holder was meant to help the country fostering its position in Europe and its perception as a collaborative partner. On the contrary, in 2001, the Berlusconi government withdrew from the European airbus consortium, showing a preference for Atlantic defence procurement cooperation (Carbone, 2007).

As far as the defence industry is concerned, Italy remained sceptical to open the defence market to international competition, continuing to prefer its National Champion (Leonardo S.p.a) for defence procurement (Artega, 2016). The reader shall not forget that, industrially speaking, Italy had one of the most State-controlled economies of the Western World (Romano, 2009). Its process of industrialization was characterised by a rise of big businesses in a framework of 'governments and families', i.e. between government-owned companies and private strategies (Chandler and Amatori, 1997). While the country was ready to compromise on a European soft power integration, defence procurement continued to remain steadily under State control. This has led, in many occasions, crucial decisions on defence and security (as in the case of the aeronautics sector) to be pointed towards the United States of America rather than Europe (Romano, 2009).

The strong nationalistic nature of the Italian defence market does not imply that Italy has never been interested in defence cooperation or joint military industrial programs, but rather that has encouraged only a more strengthened intergovernmental approach to defence procurement (Italian Ministry of Defence, 2016). While this issue might appear confusing at first glance, by analysing the intricate relationship between the Italian MoD and Leonardo S.p.a, it will be easier for the reader to understand the matter on question.

The second motive behind the choice of Italy as a main case study is connected to the first and deals with the actual competitiveness of Leonardo in the international market. As it will be better developed below, the Italian National Champion's inability to compete with foreign industrial companies has been an important driver in the maintenance of a more protectionist defence environment. This illustrates the validity of this thesis' hypothesis: the weaker the defence industrial sector, the stronger the State's reluctance to open up to external competition. Should this hypothesis be confirmed, it will be clear that the European Defence Market has not been an issue of mere intergovernmental distrust, but rather a problem of industrial convenience. In short, the Italian case study is the perfect instance to understand the issue of military production in a country with a medium-size defence manufacturing capability and still under heavy financial pressure. The issue gains additional importance, when considering the possible benefits, a more competitive defence market could have led to for the Italian economy that suffered since the very establishment of the Single Currency from a structural weakness (Giegerich et al 2008).

The chapter will evolve from a more theoretical discussion over the Italian defence system, to the practical difficulties of the Italian decision-makers. The chapter will address the role of the Italian National Champion in the decision-making process. It will make use of private interviews with representatives of the Italian executive and academia to support the findings. Unfortunately, no

representatives of Leonardo granted any meetings. Leonardo's stance will, therefore, be evaluated according to the study of the company's production strategy, the literature on the matter, and consequent evaluations of the case.

### The Italian internal structure and defence industrial policy

Because of its structural internal problems and limited influence in global affairs, Italy has traditionally been seen as a medium-size power in the international chessboard (Andreatta, 2001; Vigezzi, 1982). Throughout the Cold War, the country has managed to maintain a marginal profile in the international relations, ensuring its security without bearing the financial costs of it (Howorth et al, 1997; Croci, 2008). Evidence suggests, that the efficiency of the Italian armed forces during the Cold War was lower than most NATO and European partners (Battistelli and Devoto, 1974). Throughout the period following the Nazi *Kapitulation*, the Italian government attempted to reconstruct the lost trust with the Western powers, rebuild the country and preserve an influence over the Mediterranean (Spinelli, 2015). It did so by conveniently alternating instances of pro-Atlanticism and pro-Europeanism (Romano, 2009). This reflected also a different industrial stance the nation had, compared to other European political actors. In fact, following the end of the Second World War the Italian defence industry substantially differed from those of the victorious allies, both in terms of size and productive capacity (De Vestel, 1995). This issue obliged the Italian central establishment to seek for alternative industrial and political strategies. In such a complex geopolitical and industrial framework, Italy has often acted according to national interests, being at the same time an important supporter of European integration and a committed Atlanticist (Calcara, 2017).

Notwithstanding Italy's current political uncertainties (Politi, 2016b), there is little doubt that Europe continues to remain the Italian pivotal point of reference when it comes to defence and security affairs (Bitondo et al, 2017).

Traditionally, Italy has been central in the creation of important European defence institutions, as the European Defence Agency (EDA), fundamental pillar of the European defence procurement (Calcara, 2017). Italy has contributed to a great extent to the redefinition of the European Defence (Bitondo et al, 2017). Yet, in spite of this, the country has maintained a degree of protectionism with regards to its National Champion (Personal Interview with Mr. Massimo Artini, former Italian Vice-president of the Chamber of Deputies' Defence Commission).

Arguably, this instance suggests the prevalence of national interests over the more perceived abstract European rhetoric. The country's political ambivalence on European foreign politics and defence procurement can be analysed in the AugustaWestland issue. Although Italy is substantially aligned to the position of the European Union on the Brexit issue, it is also interested in maintaining a good relationship with the United Kingdom on defence; this situation reflects both the important industrial synergies between Rome and London as well as the strong influence, industrial interests have on foreign policy (Marrone, 2017). In these latter regards, the Italian defence industry has taken in serious consideration the issue of almost ten thousand workers on British soil (Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program).

Therefore, analysing the governmental sphere is hardly enough to understand the issue of the European Defence Market. It would be more correct to take into account the Italian industrial defence competitiveness with regards to other European companies. More precisely, it will be argued that industrial consideration has slowed down the process of opening the defence market, fearing possible negative repercussions to its internal profit (Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). In this chapter, it will be argued that Rome's national industry found increasingly difficult to encourage a deregulation of the market not

merely for strategic or political considerations, but out of fear of worsening its already unstable internal industrial and financial environment. In fact, prolonged production reallocation could have detrimental effects on industries' long-term competitiveness (Frontini, 2013).

The Italian Republic has followed the geopolitical and industrial phenomena of foreign and industrial policies' revaluations, the European continent experienced after the collapse of the Soviet Empire (Wulf, 1993; Matlary and Osterud, 2007). Industrially speaking, the end of Bipolarism revolutionised the industrial paradigm, especially at the defence level, considering that the previous military production rhythm could hardly be maintained (Pianta and Perani, 1991). As a consequence, Italy went through two important political trends. On the one hand, the defeat of the *Evil Empire* gave the country the possibility to develop a more concrete foreign policy (Carbone, 2008). On the other hand, the government found itself trapped between a sentiment of European procurement cooperation and a more practical defence protectionism, a situation which can still be seen in the national framework (Marrone, 2017). At the end of the Cold War, the Italian Republic pursued an important path of internal industrial merging, due also to an important capital freeze connected to the issue of over capability of European defence industries of those years (Beht and Siwiecki, 1993).

As a matter of principle, the country traditionally looked at the issue of defence industrial integration with a suspicious eye, also considering the precarious financial and industrial domestic environment of the early 1990s (Caruso and Locatelli, 2013). After 1989, the Italian defence industry, as in most European countries, continued to rely prominently on national commissions, often expressly commanded by States' Ministries of Defence with the objective of bailing out national defence companies (Zamagli, 2009; Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies).

Understanding this feature of apparent paradox in the Italian politics (so vigorously trapped between market openness and state-ownership) is important in order to understand two social and political dynamics that lay the foundation of the Italian defence procurement process. First, the Italian *Raison d'état* is still an important factor in the national decision-making and, although it is often underestimated in the national debate, it can collide with international benefits or European directives (Matlary, 2013). In other words, as it happened in other European Member States, Italian national interests and internal political dynamics survived the overhaul of the post-Cold War period and continue to date to shape Italian government's stance abroad, often taking priority over mutual benefit of international cooperation (Matlary, 2013).

Second, it has become academically recognised that over time these dynamics have created a strong sentiment of defence industrial protectionism (Skons and Wulf, 1994). Italy's armaments production has developed in an uncoherent manner because Rome has privileged either European integration or national protectionism according to the national priorities of the moment (Personal interview with Professor Andrea Locatelli, Catholic University of Milan). Data confirms that, in the Italian case, defence procurement has been used for different purposes: to maintain solid Atlantic defence relations (Howorth et al, 1997); to strengthen political ties (Marrone and Ungaro, 2014:); or to pursue nationalistic interests, as for example the internal advancement or the acquisition of technical expertise through collaboration (De Vestel, 1995). Although this situation might change in a post-Brexit European environment, in which the Franco-German axis could again be seen as a locomotive of European integration, it might be wrong to underestimate the role traditional political considerations and foreign circumstances have played in the definition of defence industrial strategies.

This discussion over Italian foreign policy should not let the reader lose the focal point of this thesis. The European Defence Market continues to be a

theoretical project and not a tangible reality. Different industrial strategies to defence procurement (state-ownership and privatisation) are among the main stumbling blocks to a more united European Defence Market. Italy has maintained a strong State control of its defence companies, while balancing instances of Atlanticism and Europeanism (Gilli et al, 2015). Yet, blaming the mere governmental influence can be misleading. On the contrary, this thesis argues that the government is subject to diversified influences.

As a consequence, the main reason behind this European shortfall on defence industrial cohesion cannot merely be identified in the political sphere. Rather, an analysis of the industrial role on the matter is a *sine qua non* to understand the issue of European procurement collaboration. In order to understand Italy's stance (and as a logic extension, a more general European industrial approach), the discussion should focus on the national Military-Industrial Complex and, more specifically, on the role that the industry has played in the development of a European Defence Market.

### The Italian Military-Industrial Complex

Since the birth of the nation, Italy's political and economic elite has been convinced that the creation of a national Military-Industrial Complex was a basic necessity to allow the country to sit at the international table and acquire the capability to meet precise military needs (Cohen and Federico, 2001). It is for this reason that, in general terms, before the First World War the Italian military labour productivity exceeded the all-industrial average of more than 80% (Cohen and Federico, 2001). This situation has gradually brought the Italian MoD to play an important role in arms procurement and acquisition (Pianta and Perani, 1991). This instance is demonstrated by an analysis on State-sponsored arms project. Italy's State-sponsored defence procurement has raised annually by more than 6% (Devoto, 1970).

An increased role of the government in the industrial sector has enhanced the synergies between two MIC actors: the government and the Italian National Defence Industry (NDI). While the former has already been recognised as the central authority of the country, the latter is a more complex and multifaced world. In general terms, the Italian NDI has a pyramidal structure, at the top of which it is possible to find prime contractors' companies (e.g. Leonardo, Iveco or Avio), followed by smaller entities which produce components to be sold to stronger and bigger firms (Briani, 2009). Throughout the decades, the governmental aid on the domain of military industrial production has established an environment of difficult (if not impossible) competition among companies, which was supported by the inherent climate of monopsony of the Italian defence market (Sandler, 2008). This has created a degree of dependence between the government and the defence industry. In an environment of State monopoly and an almost inexistent industrial competition, governmental-industrial collusion is seen as inevitable condition, as a low level of trust between the two parties could hypothetically lead in the long turn to a deleterious industrial environment of slowed technological progresses, possible higher arms costs and a reduced efficiency of the final equipment (an unbearable economic scenario for modern States) (Meddings and Jones, 2014). This interference of Rome's executive power in the military sector of the industry helped the consolidation of the Italian National Champion and the affirmation of the role of the Military-Industrial Complex (Felice, 2010). Today, the Italian defence expenditure is shared among the *Ministero della Difesa* (Ministry of Defence), the *Ministero dello Sviluppo Economico* (the Ministry of Economic Development) and *Ministero dell'Economia* (Ministry of Economy) (Daddi et al, 2016).

Italy has a long history of State intervention in the national economy and industry (Hall, 1986). This environment has prompted the government to define the State ownership over defence industry by law. According to the legislative decree 58 of February 1998, the Italian governmental share of its

National Champion cannot be lower than 30% in order to impede any hostile takeovers (Caruso and Locatelli, 2013). This logically resulted in an important influence of the government in the business activity of the company and in a consolidated bond between the two (Author Unknown, 2011). Over the last few decades, this autarchic policy has led to the establishment of a powerful cohesion between Rome's executive and the Italian NDI. Furthermore, while a governmental-industrial relation was ratified by law, ties between the two players and the army consolidated in the framework of long-term military programs and strategies, which often require decades to be fully operative while needing continuous technical attention and revision (Battistelli and Devoto, 1974). As it will be demonstrated in this dissertation, this situation directly effects the competitiveness of the national defence procurement.

It was initially thought that the 2008 economic crisis could have created the right environment for Italy to push for the opening up of the defence market, especially considering the important financial cutbacks in those years (Drent and Zandee, 2016, Baccaro, 2012). In theory, cuts in financial budgets are important stimulators for multilateral cooperation on defence procurement (Marrone, 2012). Given the perilous state of the Italian economy, analysts thought that, in the aftermath of the crisis, the country would have brought back on the table the issue of European procurement cooperation (Personal interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program). This did not happen. Despite the omens, the economic crisis has not encouraged an integration of the European Defence Market, while the European defence procurement remained of national concern (Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program). The solid relationship between the government and the defence industry created a situation in which the nation reduced their governmental procurement spending but maintained a nationalistic posture withal.

The fact that the 2008 financial crackdown did not result in an opening up of the defence market can be understood by looking at Italy's industrial interests and Italy's Military-Industrial Complex. Generally speaking, it is possible to assume that the asymmetric nature of the financial crisis (in this sense, a crisis which affects some Member States more than others) created an environment by which some States are more vulnerable to threats than others and are, therefore, more encouraged to act independently (Haroche, 2017). Because of this, the Italian central government, as it has happened in other States, has felt responsible for its national industrial capability, technical knowledge and employment rate, especially with regards to its National Champion (Trybus, 2014). Especially when under financial pressure, Ministry of Defences feel the necessity to protect domestic procurement and industries rather than thinking beyond national borders (De la Brosse, 2017).

This Italian strong connection among Military-Industrial Complex's actors is demonstrated by the economic process of *isteresi*. The latter asserts that it is impossible to see economic consequences of governmental decisions to influence only a single sphere of the national system. In more practical terms, should the government decide to cut the defence budget, this decision will not only have a short-term impact on the executive establishment but would inevitably cause a long-term spill-over effect in several sections of the Italian decision-making process (Nones, 1996). The governmental decision to reduce military expenditure would inevitably impact both the industrial procurement in program, which by nature needs to be planned years or decades in advance, and the investments in military training, affecting simultaneously the army, the government and the defence industry (the three above-mentioned actors of the Military-Industrial Complex) (Nones, 1996). The three are so interconnected that a decision taken by one of them will affect the system as a whole.

This situation of national protectionism over procurement has had a direct consequence on the Italian executive process. In more general terms, this

relationship can be defined as a *sistema-paese* (countrywide system), thereby an ecosystem which reinforces itself by exercising an important influence in each other's' decisions (Piovesana, 2017b; Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program). There is a flux of information, data, people and political-industrial influence which goes from one side of the system to the other (Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program). This demonstrates that the actors in play cannot be seen as autonomous and independent. Given the synergies within the national system, it is possible to recognise national industries, governments and armies as interconnected elements, whose interests, priorities and profit calculations inevitably affect one other. In the Italian case, defence programs have often followed multiple rationales, which might have been industrial, financial, political or strategic, and which encompass the whole triangular system of the Military-Industrial Complex, as in the case of the F-35 project (Marrone, 2012).

An outcome of this protectionist environment is that the stronger the interconnection between the actors of the Military-Industrial Complex, the less competitive the defence environment (Darnis et al, 2007). Ultimately, this leads to the conclusion that in the framework of Italian defence procurement, the country has developed a more indigenous and less competitive industrial base, which has hindered over time the real possibility to pursue an opening of a strategic market, under the inherent fear of technological and financial losses (Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). The Italian National Champion, Leonardo Spa, has surely played an important role in this instance, being one of the most influencing actors of the Italian Military-Industrial Complex.

The Italian Defence Industry: Leonardo as Italy's National Champion

The history of the Italian defence procurement is strongly linked to the Leonardo Company. The latter is an organization on which the Italian government has invested an important amount of financial and technological resources over the last few decades.

Finmeccanica (the former name of Leonardo Spa) was officially formed in 1948 and, since 2016, has been renamed 'Leonardo Spa', called after the name of the famous Italian painter and inventor, symbol of brilliance and innovation (Politi, 2016). The industrial rebranding followed a period of extreme uncertainty, characterised by scandals, corruption and huge financial losses in the stock market, as a result of the 2008 economic crisis (in the post-2008 period, the company lost 60% compared to the European sector index) (Berta and Toselti, 2015). This subchapter will explore the relevance of Leonardo in the national decision-making process, with a particular focus on the European Defence integration. Aware of the possible confusion of using both names (Leonardo and Finmeccanica), this dissertation will only use the former to address Rome's National Champion and all the civilian and military entities of the Italian industrial framework associated (e.g. DRS Technologies Group, MBDA Group or Sistemi Dinamici Spa). Yet, the reader should be informed that Finmeccanica was, until 2016, the official name of the Italian National Champion.

The establishment of Leonardo is representative of a period of important national industrial reconstruction. As stated above, the Italian defence industry after the *Ventennio* had been severely undermined by the 1939-1945 war and the consequent political climate. The major defence industries were predominantly located in Northern Italy (Genova, Milano, La Spezia and Brescia) and obtained immediately a central role in the restoration of the post-war Italian economy (Zamagli, 2009). Priority was given to internal military markets, given important demand-driven necessities (Krahmann, 2010). Yet,

after the Second World War, the Italian military procurement sector became highly fragmented. On this point, the issue was due to two main factors.

On the one hand, Italy was deprived, in the years following the end of the Second World War, of its defence industrial capability (to a lesser degree than Germany, but far from French or British standards) (De Vestel, 1995). The defence section of the country experienced an important employment and technical crisis; in the aircraft industry, from a pre-war total of 40,000 men, in 1947 the rate was down to 4,000 unites, one tenth of the original amount (Devoto, 1970). According to figures, in 1945 the Italian public-branch shipyards and the national precision mechanic sectors witnessed a drop of respectively 60% and 70%, while engine production fell by 15% ca. (Rosa, 2016). On the other hand, the non-militarized culture that arose after the Cold War. also influenced the defence sector as the public opinion started questioning an excessive national defence expenditure (Piovesana et al, 2017). Data demonstrates that Italian security interests and necessities have met in the last few decades a lower public support compared to other European MS (Matlary, 2013).

As a result of these two social and political phenomena, the Italian defence industrial landscape of the post-Second World War was highly fragmented, with a number of small and medium enterprises (SMEs) scattered throughout the entire national territory (Marrone and Ungaro, 2014). Leonardo was created to unite the myriad of holdings and companies in the mechanical engineering and shipbuilding sectors that were then functioning as primary references to the Italian Ministry of Defence (Leonardo, 2018). In general terms, it is possible to divide the history of the Italian National Champion into three main phases over which the company's turnover rose by thirteen times (from 1 billion euros to 13 billion euros ca.): the 1949-1979 years, the two decades after 1979 and the twentieth century period (Felice, 2010). Going through all these industrial phases is beyond the scope of this thesis, which, on

the other hand, has the objective of demonstrating the role of industrial pressure on national decision-making. Yet, it is important to underline that until not long ago, Leonardo operated in different sectors of the national industrial capability, with a production strategy that ranged from cars and airplanes to weapons and munitions (Felice, 2010). Its specialization in aerospace and defence happened only recently (Felice, 2010).

This internal decentralization of the Cold War Italian defence industry initially prevented the Italian national Military-Industrial Complex to access foreign markets and attract investments, resulting in limited financial benefits for both the private and public sectors (Marrone and Ungaro, 2014). Due to this situation, the Italian industrial defence procurement lagged behind other world powers while, on the international stage, American firms reigned uncontested (Nones 2000). In those years, the Italian establishment relied almost entirely on domestic commissions, while turning to American counterparts when its defence industry was not able to provide the national army with the required equipment (Marrone and Ungaro, 2014).

The consolidation of the defence industry was an important step for the Italian political, military and industrial world. It gave foreign competitors, investors and governmental representatives a unique interlocutor, able of being a partner and not a mere supplier (Marrone and Ungaro, 2014). The Italian industrial merging of the early 1990s aimed to increase the influence of the Italian military manufacturing base worldwide, to undergo a certain degree of specialization in aerospace, defence and security sectors, and to gain access to American and British markets (Anthony et al, 1994). The industrial phenomenon of consolidation in Italy was informed both by the external changing climate of the early 1990s and by an internal financial crisis and skyrocketing Italian national debt that obliged holdings to seek greater industrial co-operation (Francese and Pace, 2008). This process of industrial restructure turned to be the most severe amongst the Organisation for

Economic Cooperation and Development (OECD)'s members and established a pyramidal structure of the Italian defence procurement system, which saw Leonardo and other few companies at the top of the chain (Briani, 2009). This structure persists today and has already been mentioned in the first part of this thesis. The consolidation of this hierarchical structure, which was made up of primary contractors and sub-contractors, aimed to lower risk of industrial losses (Amatori and Colli, 2000).

These industrial developments were in line with an overall European trend of industrial mergers, which increasingly helped Leonardo to become more interconnected with other foreign companies not only in terms of operational schemes but also at the capital investment level (Skons and Wulf, 1994). However, in spite of this progressively interrelated industrial environment, European defence entities did not completely detach from their national origins (Kluth, 2017). More specifically, there are still strong national bonds and benefits of internal nationalistic defence markets from which Leonardo is still taking advantage, hindering the effective course of defence industrial globalization (Various Authors, 2005: 49).

In fact, by remaining mostly constrained within national boundaries, the 1990s Italian industrial consolidation process did not result in an opening of the market, but rather in the strengthening of both the market's nationalistic nature and its National Champion (Nones, 2000). This instance has created an industrial relationship between the central Italian government and Leonardo. Throughout its history and industrial existence, Leonardo's financial and technological losses have been covered and paid through public spending coming from the *Istituto per la Ricostruzione Industriale* (Institute for the industrial reconstruction, or IRI), a public holding founded in the early 1930s by the Fascist regime tasked to rescue banks and state-owned companies (Felice, 2010).

Even after IRI's closure, in the early 2000s, this instance has not changed. Although since the earliest years of Leonardo the Italian government has indicated that the defence company has to follow strict managerial rules and criteria of liberal production and profitability, the government has over the years injected important monetary sums to use its National Champion to increase employment in underdeveloped regions and protect indigenous defence procurement (Felice, 2010). This dependence on government's bailouts arguably created a strong synergy between the two actors, which persists today and creates a fundamental obstacle to foreign collaboration.

In this sense, it could be argued that as the Military-Industrial Complex arose, the interests of the industrial sphere became central in the government agenda and were reflected in national decisions and foreign directives (Mintz, 1985). Today's national military manufacture remains a nationalist subject, to ensure that industrial advancement and production stays within national territory (Arteaga et al, 2016). Following this line of reasoning, Rome's government is looking for an enhancement of European defence capability but not the immediate creation of a European Defence Market, not to dismiss Member States' individual defence paradigms (Italian Ministry of Defence, 2016).

One of the main issues that hindered the path of European defence integration, in the Italian case, was the disastrous condition of Leonardo at the dawn of the New Millennium. Leonardo was not financially ready for a competitive international context outside of national protection and urgently needed an internal process of consolidation to avoid being eradicated by European competitors (Zamigli 2009; Personal interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). It follows, that even if the Leonardo's *Amministratore Delegato* (Chief Executive Officer, or CEO) might have theoretically been willing to encourage a process of industrial openness (an instance which however might be disputable), the reality of the Italian production capability imposed a return to protectionist stances to limit

the risks (Personal Interview with Mr. Massimo Artini, former Italian Vice-president of the Chamber of Deputies' Defence Commission). This situation has continued to characterise the Italian financial framework and inform the decision-making process. Due to this problem, a certain degree of Italian national protectionism over defence procurement continues to exist (Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program).

In the long run, industrial protectionism could be detrimental for the national economy, triggering a backlash-side-effect. In general terms, under strong national protection defence industries may overlook their technological shortfalls and avoid investing enough money to enhance their equipment performance as public funds easily provide them with the required tools to achieve a minimum gain (Blom et al, 2011). In other words, by allowing a protectionist environment with the intent to limit industrial risks in the short-term (and even if this strategy is only to be maintained in the short-period), defence companies may not feel the need to improve their production chains and equipment quality as they are not exposed to the risk of foreign competitiveness and technological pressure to present the best product. This situation might create a technical domino-effect and lead the firms in the long-run not to be competitive, as it happened in the Italian case.

This can be demonstrated through a practical analysis of future world procurement. According to estimates, in the 2016-2020 period, there are \$50billion worth of military equipment programs, Italy could aspire to. Yet, Leonardo risks not to take advantage of them, because the company is not competitive enough compared to other global holdings. Foreign defence competitors have greater technological and organizational capability to obtain international licences (De Feo, 2017). In the long run, this industrial non-competitiveness could be degenerative for the whole European defence, as the

demand for European defence capability is only expected to grow (Griessmann, Date Unknown).

According to what stated above, empirical data shows that Leonardo has been unprepared to compete with external industrial contenders. This has played a pivotal role in the Italian governmental decision not to expose its internal defence production to foreign competition (Personal interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). This arguably shows that while the political sphere is ready to take the necessary steps to further enhance the integration process of Member States' defence markets, the economic productive systems of Italy remain nationalistic by nature (Personal interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies).

In these regards, industries have emphasised that by opening up to foreign competitors too soon, the national market could be subject to job and technical losses, in turn hindering the overall competitiveness (Leuhmann, 2011). It is for this reason that the Italian government, aware of the economic constraints and technological necessities of its National Champion, has encouraged joint ventures, yet always limiting foreign ownership of its national defence industry in order to maintained capabilities and industrial possession within national boundaries (James, 2002).

Once again, this demonstrates what stated above. Italy has encouraged a more intergovernmental approach to defence procurement, always posing national sovereignty over procurement decisions as a core value. In Italy, the political and financial trends of the post-Cold War period did not give rise to a more integrationist approach to defence procurement, because of political scepticism and rivalry with external actors (Fiott, 2014) and the presence of internal protectionist pressures operating through the Military-Industrial Complex (Pianta and Perani, 1991). The Italian financial uncertainties throughout the 1990s and 2000s were also influencing variables. At the dawn of the Third

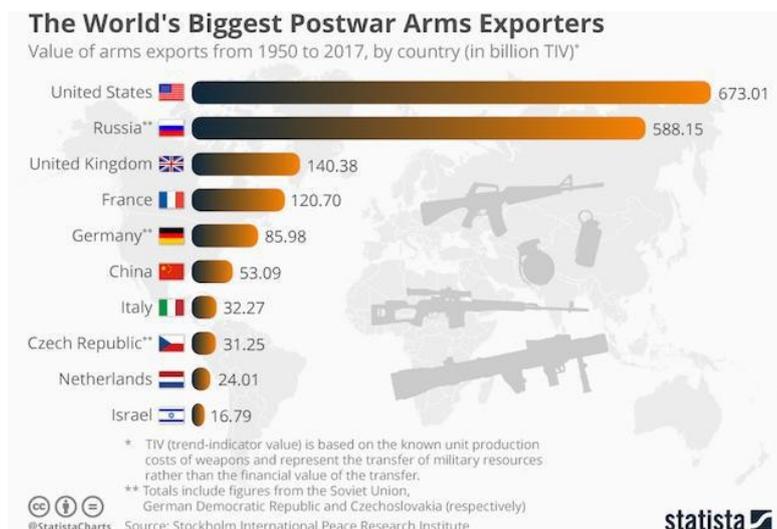
Millennium, and similarly also in 2008, Italy's central concern was to bring to a halt its internal economic instability (Caruso and Locatelli, 2013). Despite the initial hopes, the 2008 financial pressure did not steer the path towards the giving up of national sovereignty over defence procurement (Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program). As a result of this governmental-industrial failure, a structured European industrial framework for military purposes is still to be seen (Skons and Wulf, 1994).

A conventional approach to International Relations, which acknowledges the State as a unitary actor, appears therefore inappropriate to analyse the dynamics of the Defence Market. As a matter of fact, since the very beginning, the Western alliance has been in favour of defence cooperation (Cooper, 1985; Becker-Along, 2010). European governments have already demonstrated to strive for an enhanced European defence cooperation, as in the case of the Pleven Plan (despite its results) (Dinan, 2010). This chapter has demonstrated that the role played by the industry in shaping the national decision-making is strong. In these regards, Leonardo's role is substantial. As far as its position in the country's system is concerned, the company could be seen as both an independent entity, which managed to maintain a certain degree of autonomy in spite of the strong governmental control (Piovesana, 2017), as well as an important tool for the Italian foreign policy because of the political use the government made of arms export and military production (Renda and Ricciuti, 2010). Underestimating its role in the Military-Industrial Complex, and its influence in the national decision-making, could lead to a fallacious portrayal of the real internal dynamics of the Italian Republic.

It is impossible to distinguish governments and industries on the matter of defence procurement (Dunne and Skons, 2011). The MIC has a direct impact on the decision-making process because of both the high personalities which compose it and the conversion of the interests of powerful elites that lays at

the foundation of its structure (Aspaturian, 1972). The arms producers have an important influence over the governmental and political sphere, becoming a central actor in the discussion (Personal Interview with Professor Andrea Locatelli, Catholic University of Milan). More precisely, the Italian Defence Industry has directly informed the government's decision-making on defence procurement in many ways. In practical terms, this thesis recognizes two of them.

The first is pushing the government in taking a more pro-active role in the industry's international business. A critical example of this situation



is the judiciary events of the AW-101. The selling of the Italian helicopters was encountering some legal issues between Leonardo Spa (and its section of AugustaWestland) and the Indian government, due to alleged accusations of corruption (La Repubblica, 2014). A positive outcome of the transaction was considered an important objective for the Italian National Champion, which continues to date to be no match for the competitiveness of other Member States' defence industries (Di Feo, 2017). In fact, as it is shown in the chart<sup>1</sup>, Italy's arms exports (and therefore the competitiveness and appealing of its products abroad) is traditionally far from the European 'Big Three' (the United Kingdom, France and Germany), but closer, in reality, to second-tier countries like Czech Republic and the Netherlands. Aware of this weakness, in the AW 101 case, the Italian government played a crucial role in attempting to unblock the standoff (Covato, 2017). Although the financial deal continues today to be in an impasse, the case represents an important example of how governments can play a direct role in the selling of defence systems to booster internal production and support national technological advancement.

<sup>1</sup> The chart has been retrieved at the following website: Armstrong, M (2018), The World's biggest Postwar Arms Exporters, *Statista* [<https://www.statista.com/chart/13205/the-worlds-biggest-postwar-arms-exporters/>] on the 13<sup>th</sup> of July 2018]

This instance is supported by the fact that the Italian establishment has also expressed the willingness to become more involved in direct arms marketing (Di Feo, 2017). Data confirms an increasing role of the government in Leonardo's international industrial negotiations (Di Michele, 2017). This development has the objective of imposing a degree of governmental guarantee to secure international agreements (Di Michele, 2017). This instance is hardly surprising but rather demonstrates the synergies between the Italian government and its defence industry. This connection is confirmed by an increased national investment in military production and acquisition (ca. 5 billion of euros in three years) (Piovesana, 2015).

The second way national defence industries affect the national decision-making process is more practical. Industries influence the governmental decision in granting industrial commissions based not on actual national military needs, but rather on the desire to protect industrial production and competitiveness. In other words, this protection had the intention to promote the 'Made in Italy' of arms production, often at the expenses of a more profitable cost/quality calculus. There are numerous examples of extremely high-priced projects (e.g. the Mangusta 2 helicopter, Centauro tank and the Freccia armoured vehicles), which have been labelled with a questionable operational use for the Italian army (Piovesana, 2016). Italian investigations and reports have denounced the excessive production of tanks and armament systems and have once again questioned the real necessity of an unnecessarily excessive military production chain (Di Feo, 2015). The C1/C2 Ariete tanks represent an excellent example of this.

The C1 Ariete is the main battle tank of the Italian Army, entirely produced and developed by a consortium of Italian industries (Iveco, Defence Vehicles Division and the Oto Melara division of Leonardo) (Army Technology, Date Unknown). The fire control and propulsion systems of the tank are developed by Italian first and second-tier contractors, underlining the complete Italian

manufacturing nature of the vehicle (Army Technology, Date Unknown). Its maximum speed does not exceed the 65 km/h, while the 120mm smoothbore gun, manufactured once again within national borders, is controlled by a state-of-the-art computer system produced by the Galileo consortium (Army Technology, Date Unknown). The tank has been deployed in Nasiriya, Iraq, for its defensive capability. (Nigro, 2004).

A new project, the Ariete 2, has been recently announced. According to the *Documento Programmatico Pluriennale* [Multi-year programmatic document] of the Italian MoD, the new version is going to replace the outdated one by 2028 (Ministero della Difesa, 2017). The Italian Defence industry (more specifically the Iveco and Leonardo companies) will always detain the control of its development and production, as in the cases of the new projects for Mangusta 2 and Centauro 2 (for an overall cost of almost 500 million euros) (Piovesana, 2016). According to the Ministry of Defence, the project will answer to Italy's military needs of increasing operational deployment, as well as rising demand of balanced skills of Command, Control and Information Gathering (Ministero della Difesa, 2017). Yet, this instance is questionable.

The Ariete C2 might be seen as a perfect example of the influence of the Italian MIC (and more precisely the industry), which by definition would favour indigenous industrialization to international cooperation. This can be demonstrated by analysing another European tank, the German Leopard 2. Through an operational analysis of the latter, it will be shown that Italy is choosing a sub-optimal armament system, which hardly reflects its effective requirements.

The Leopard 2 has for years been considered one of the best European tanks ever designed. It is not its firing or offensive potentials which would outclass the Italian-manufactured C1 Ariete, but rather its incredible mobility capabilities, which would fit Italian necessities of deployment and agility (Rheinmental Defence, 2017). It is not by chance, that the Leopard 2 is today

the backbone of more than 18 armies worldwide (Canada and Turkey are two examples) (Rheinmental Defence, 2017). Critics could argue that the Leopard 2 has already been deployed in theatres of war with terrible results (Mauri, 2018). This critique maintains interesting points. However, the Leopard deployed in the current Middle Eastern crisis has been the 2A4, not designed to respond to an unconventional type of warfare. The new versions, 2A6 or 2A7, would better suit the counterinsurgency Italian needs for a peacekeeping strategy, also considering the increased modular protection of the crew (Army Recognition, 2018). Finally, the C1 Ariete costs more than 8million euros per unit, again the 7,5 of the Leopard 2 (Sputnik News, 2016)

The C1/C2 Ariete example is emblematic. It is clear that internal industrial dynamics continue to deeply influence the normal continuation of the European defence integration (Keohane and Politi, 2017). The problem, arguably, is not of mere immediate costs of buying a more expensive system. Rather, it is this thesis' opinion that this issue is far greater. By deciding to design a new unilateral project (Ariete 2), Italy has to deal alone the issue of armaments Life-Circle Costs (LCC), (Research and Development (R&D), designing, as well as training, maintenance and all costs associated with the product) (Crollen, 2003). On the contrary, the European Defence Agency has supported a comprehensive package of training and logistic support for the participating States in the Leopard 2A7 project (EDA, 2017). This was done to support European armaments' interoperability and to encourage a more multilateral European armaments acquisition (EDA, 2017). By not participating, Italy has precluded itself from both being perceived as a constructive ally (which would have strengthened Italy's international position) and benefiting from a shared project of military logistical upgrading, with the possibility to downscale the costs. What might be questioned, therefore, is not the mere acquisition of a C1 Ariete tank, but rather the initiation of a new unilateral nationalistic project, entirely designed and produced in Italy, instead of joining a more multilateral procurement scheme.

As it has been demonstrated, the Leopard 2 tank would have better suited Italian operational needs, while also allowing both interoperability among European partners and substantial reduced costs.

Italy is aware of the problematics connected with pursuing an autarchic defence procurement. However, the process is hindered by a more practical industrial stance, which emphasises the Italian industrial deficiencies to withstand international competition (Personal Interview with Mr. Massimo Artini, former Italian vice-president of the Chamber of Deputies' Defence Commission). Data demonstrates that there has been a degree of industrial influence, which has decelerated the continuation of a European defence industrial integration, following paradigms of national considerations (Personal Interview with Dr. Alessandro Marrone, Senior Fellow at the Istituto Affari Internazionali Security program).

This instance shows that it is hardly accurate to consider governments the main source of disturbance in the inevitable process of integration of European defence industries (Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). In fact, as in other European countries, the Italian government traditionally lacks politicians with a specialized knowledge on military affairs (Personal interview with Professor Andrea Locatelli, Catholic University of Milan). This inevitably results in a reliance of the executive branch on internal interest groups and military lobbies (which would generally priorities national interests), granting them direct access to the government's decision-making (Drown, 1990). According to this logic, therefore, politico-industrial elites are equally concerned with equipment efficiency vis-à-vis autarchy (Kluth, 2017). This not in terms of their authority in taking decisions, but rather in the resulting influence over final decisions. The industry, by influencing government's high-rank pronouncements, can be seen as the primary source of protectionist pressure (Moravcsik, 1991).

## Conclusions

This chapter has analysed this thesis' central case study: the Italian case. The country, has shown both an Atlanticist and Europeanist approach to foreign policy, favouring European integration in a non-cohesive manner. Italy has supported a European soft power integration but has continued to maintain a strong sovereignty over its defence procurement. Despite its role in the redefinition of a Common European Defence, the country has encouraged a predominant nationalistic approach to military manufacturing. Arguably, this can be seen in numerous examples. The thesis has emphasised the C1/C2 Ariete projects, to demonstrate the country's preference for internal procurement, despite clear advantages (both at the operational and logistic levels) coming from international cooperation.

While there might be different explanations to this phenomenon, this thesis has underlined that industrial pressures to protectionism and the technical unpreparedness of Leonardo to compete with European firms are the two main reasons behind the Italian hesitation to pursue an integrated European Defence Market. This thesis' hypothesis appears here confirmed. The weaker the industry, the stronger the governmental reluctance to pursue a path of international consolidation. By following this line of reasoning, it is clear that the prospect of losing financial assets, could be an important reason behind industries' protectionist stance.

The industrial consolidation of the 1990s, and the financial crisis of the 2000s, could have represented perfect opportunities for Italy to push for more industrial cooperation. Yet, by promoting an internal industrial consolidation and protecting the National Champion from foreign acquisition, Italy has seen the establishment of a powerful synergy between the government, the industry and the military and the creation of a monopolistic procurement environment,

which continues to exist. Leonardo maintains, according to this dissertation, a crucial influence in the current Italian stance on the European Defence Market.

By analysing the Italian foreign policy, its internal Military-Industrial Complex and the role of Leonardo in the national decision-making process, this thesis comes to the conclusion that the Italian industrial unwillingness to open up to external influences and competition (due to the fear of losing commissions and secure profits) has to be seen as a primary source of national protectionism against the establishment of a European Defence Market.

## **Chapter Three**

### **The Military-Industrial Complex and its interests: a final analysis**

#### Introduction

The aim of this third, and final, chapter is to summarise the results hitherto reported and give an answer to a crucial question: what does the Italian case tell us? The response to this query is the missing link of a line of argumentation which has so far tackled the issue of the EDM.

This thesis has demonstrated that the abstract concept of a Military-Industrial Complex can be used to analyse the issue of industrial pressure on the

decision-making process. The Italian case is a perfect example of a medium-size defence manufacturing power, which would theoretically benefit from a shared cooperation in arms production but continues to maintain a strong state control over the market not because of political unwillingness, but because of financial considerations. In the previous chapter, the C2 Ariete project has been the emblematic example of this confusing situation, which continues today to favour indigenous production, even at the cost of a lower quality and competitiveness. The Leopard 2 (2A6-2A7) tank would have probably better suited Italian operational needs on the ground. Participating in the multilateral Leopard 2 project would have arguably strengthened Italy's position in the Union, while allowing the country to take advantage from shared logistic costs and training. However, the Italian Industry has been granted the commission for new projects, which will cost around half a billion euros and will continue to maintain the production within Italian NDI. These questionable strategic choices can be understood by analysing, once again, the structured composition of the national Military-Industrial Complex.

By moving the referral point towards the MIC, this thesis has taken into account the role of the industry in the decision-making process. It has been demonstrated that the industry has been reluctant to proceed down the path of European industrial integration, because that would technically mean a loss of operational sovereignty and possible profit costs for weaker companies, due to the disappearance of a protected and secure nationalistic environment. In this discussion, defence industries have encouraged national commissions to avoid the interruption of capitals' flow. The case study of Italy's NDI has been emblematic to portray this autarchic behaviour.

This last part will therefore address the question left open from the discussion of the previous chapter. More specifically, it will address what this situation tells us and what are the main points to be grasped from this change in the perspective of analysis. In order to do that, the chapter will address the reasons

behind defence manufacturing firms' reluctance to compete internationally. This chapter will be conclusive of this thesis's argument and conjunct the chain of thoughts presented at the reader, by analysing the motives behind the industry's scepticism in losing the comforting zone of internal protectionist markets. It will be stated that their influence, in EU Military-Industrial Complexes, has played an important role in the redefinition of countries' national priorities and foreign strategies.

### The role of the industry in the 21<sup>st</sup> Century

Arms manufacturers fight to preserve a central role at the decision-making table. This issue aims to ensure the continued flow of public money into military programs, a vital topic considering the unstable geopolitical contest at the EU borders (Luehmann, 2011). In such a fragmented landscape of European defence procurement, a practical realization stands out: the inefficiency of the market has exploited a continuous flux of money, which circulates throughout the defence system (Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). Should this flow of investments been redirected towards more cost-effective programs, medium-size firms would find themselves vulnerable to a more aggressive international competition, and unable to keep speed with European industrial rivals (Blom et al, 2011). This scenario tends to confirm that:

*“state officials in Europe today, including the military, tend to support increased trade and cooperation, while the interests of arms producers and those who work for them remain the primary sources of continuing pressures for protection”* (Moravsick, 1991; 37)

The European Defence Market does not exist. What it does, is a certain autarchic approach to defence procurement that characterises the European military landscape, creating an environment that places industry and national

consideration at the centre of the debate. Practice shows that norms of liberalization and denationalization of defence industries did not survive long when it came to preserve national industrial and political interests, causing a new phenomenon of State aid and intervention in the field (Hoeffler, 2012).

The above-analysed Italian case empirically demonstrates this. In fact, the State continues to control the 32% of the firms' share and the company's *Amministratore Delegato* (or CEO) is directly appointed by the government (Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). Yet, Italy is not an isolated instance in Europe. Today, more than 2/3 of the EU defence procurement continues to be preserved within Member States' national borders (De la Brosse, 2017). This arguably represents a political paradox of our times. While political-social-financial indicators point towards a more coherent defence spending, industries have held the political progression of integration (Moravcsik, 1991). Leonardo represents a good case of that, as it can hardly be compared to other European defence industrial giants, as Boeing or Thales both financially speaking and in terms of their production capabilities (Nones, 2000). This instance should appear at the end of this dissertation as a given assumption. The thesis has demonstrated that the role of defence industry in the field of defence procurement should not be underestimated. However, it is yet to be clarified why industries are reluctant and hesitant to lose national protection. Someone could argue that there is a glaring and logic benefit in maintaining an autarchic procurement environment. Yet, many interesting points could arise from a closer analysis.

#### An analysis of industrial benefits of a nationalistic market

In general terms, it can be said that every State or government, in the international field, would traditionally prefer national autarchy to international cooperation, especially when national survival or high national priorities are at

stake (Matlary, 2013). In theory, emerging States could become less and less politically and financially dependent from major arms suppliers if they continued to invest on a local arms production base (Kurc and Neuman, 2017). In fact, due to the perceived importance of military capabilities, a large share of R&D has generally been financed by governments funds (Blom et al, 2011). States attempt to encourage an internal financial return of their defence investment, in form of a more advanced industrial technology or equipment (De Vestel, 1995: 18). Over time, this has created indigenous complexes, making the defence industry ‘national’ by nature (Ikegami, 2013). Therefore, history and conventional wisdom teach us that if confronted with a choice between autarky and free trade, governments would choose self-sufficiency, thereby facing an *autarky-efficiency* dilemma, by which greater autonomy can be achieved only at the expenses of reduced efficiency (Moravsick, 1991).

As asserted above, this issue of sovereignty has been highlighted many times. Security of Supply, the capability of a State to produce and provide armed forces with up-to-date key technologies, has traditionally been used as a convenient excuse to support domestic industry and protect it from foreign competition (Heuninckx, 2015). However, as it has been demonstrated, this rhetoric hardly holds. In order to have a comprehensive understanding of the situation, this thesis has shifted the focus of the conversation from the governmental level to a more internal and industrial point of view.

Over the last few decades (and especially since the fall of the Berlin Wall), the budgetary cuts in military expenditure and rising arms costs have placed national industries and executive powers in a very difficult situation, bringing them to face the above-explicated issue of autarky-efficiency dilemma. This situation means that if a European nationalistic approach to defence procurement is to continue to exist, States would be required to support the structure of their national markets with more investments, while industrial competitiveness would remain low (Griessmann, Fate Unknown; Chappell et

al, 2016). Economics plays a central role in the industrial defence analysis (Griessmann, Date Unknown).

As a matter of fact, with a stable (or even slightly rising) defence budget, the only solution is to collaborate industrially with other European partners (Matlary and Osterud, 2007). This is an international trend that has affected not only medium-size powers (as Italy), but major arms producers, which have progressively been unable to adequately equip their national defence forces (Latham, 1995; Ikegami, 2013). Among the uncertainties of a future defence industrial integration, there is a widespread apprehension of the industrial consequences to an opening up of strategic defence markets. In these terms, by maintaining key strategic capabilities under strict national control (despite international cooperation), national governments have encouraged industrial advancement and supported indigenous technological capabilities (Artega et al, 2016). This has also been a strong concern for defence industries, which feared competition from abroad (Ikegami, 2013). Therefore, it can be said that the main source of concern for both the government and the national defence industry (or, in this case, the National Champion) has been the possibility of losing a competitive high-technological capability because of the creation of a deregulated market (Appleby and Foster, 1993). The fear of the impact of more integration on national defence bases has been the real catalyser behind governments and industries' reluctance to move towards closer cooperation (Lazarou, 2016). In other words:

*“Governmental subsidies, protectionism, and export promotion are defended as means of propelling domestic companies into leading positions in world markets.” (De Vore, 2011; 634)*

Some have argued that a liberalized defence market could lead to a scenario of higher national vulnerability at the military and strategical level, the dependence on foreign suppliers for the definition of defence and military

strategies and possible repercussions for the internal economy (Chappell et al, 2016). Such analysis implies that the issue of protectionism of defence firms is not merely a question of national prestige. Rather, it deals with the perceived threat of losing strategic internal assets not just in the short, but especially in the long-term (O'Donnell, 2012). Under a liberalised market, weak defence firms would find themselves vulnerable and obliged to invest more in technology and quality upgrades to maintain a certain position in the market (Blom et al, 2011). This perspective has made industries' voluntarily surrendering of strategic national assets improbable, as it increases the chance of a loss in competitiveness and technological capability (Genschel and Jachtenfuchs, 2013).

The issue of a fragmented European Defence Market explicated through technological losses

The issue can best summarised by asserting that industries have prevented governments from pursuing a path of European Common Defence procurement because of the fear of losing technical capabilities. This technological loss is twofold. First, the logical loss of technical know-how, which could in the long run lead to both the dismissal of internal national capacity and to the emergence of a foreign hostile competitor (Independent Study Team, 1987). It is rational to assume that, should the partners not be equal on size, one firm can lose more than the others through unauthorised transfer of knowledge (Butler et al, 2000). In practical terms, industries fear a possible closure due to a lessened of governmental ties and the increase of foreign competition (Personal Interview with Mr. Giorgio Zanin, Italian member of the Italian Chamber of the Deputies). By understanding this inherent industrial anxiety, it is possible to analyse the reluctance of medium-size firms (as Leonardo) to compete with European partners in a free and unregulated market (Ikegami, 2013). In the imaginary scenario of a

competition between Leonardo and Thales over the production of a fifth-generation jet, Leonardo's position could be threatened because of reduced industrial capabilities (Personal Interview with Mr. Massimo Artini, former Italian Vice-president of the Chamber of Deputies' Defence Commission).

Traditionally, this has not been a mere concern of the industry. During the Cold War, Western governments feared the repercussion of possible linkages of military procurement know-how to third parties, as this could have theoretically ended in the hands of the Soviets, providing them with a manufacturing advantage and the chance to apply it to a series of weapons' manufacturing activities; this instance is acknowledged as *Security Assurance* (Sanders, 1990). In contemporary times, this geopolitical fear might be loosened, yet it might be reasonable to assume that there is still an important inherent hesitance in transferring technical knowledge from one side to the other, as this could benefit a competitor and, in turn, impact the competitiveness of the weaker firm (Butler et al, 2000). This leads to the realization that not only is cooperation (let aside integration) in defence harder than other domains as trade or commerce, but it requires also a deeper level of commitment (Genschel and Jactenfuchs, 2013; Guay, 1996). Therefore, there might be distrusts (and therefore lack of commitment) at the governmental level. However, this issue is also rooted in the national industrial framework.

Second, in general terms, it is possible to assume that industries fear the loss of jobs as a consequence of international agreements (Giegerich et al, 2008). It has been argued, that by opening up the market, rising unemployment might be a collateral damage (Bond, 2014). This could have substantial repercussions for the national economy and the country's social resilience, in particular in instances under strong financial pressure (e.g. Italy).

Governments have often insulated National Champions from foreign competition to maintain a certain level of national employment and technological capability (Butler, 2017). In this sense, the country's capability

to act independently (i.e. Security of Supply), can be seen as an important piece in the national mosaic of industrial policies and strategies (Butler, 2017). By losing the important traditional source of income of defence procurement and public funds, the very survival of national defence industries could be threatened in the short and long-term, as, in a liberalised market, national military commissions would logically be granted on the base of a cost/benefit approach rather than national affiliation (Luehmann, 2011). Therefore, it might be argued that it is for these reasons that countries like Italy have often attempted to maintain a certain defence industrial control within national borders (James, 2002). It is once again not an issue of mere geopolitical grandeur, but a more thoughtful appreciation of industrial competitiveness and national financial interests.

In other words, it is impossible to expect the development of the European Defence Market without any industrial redistribution, consolidation of capabilities and consequent loss of jobs according to the dynamics of the market (Walker and Gummet, 1993). Rise of unemployment due to the inevitable reshaping of the industrial landscape has already been acknowledged as inevitable (Bond, 2014). Yet, it is important to maintain an optimal degree of consolidation and to not overstress it. In these terms, although it is undeniable that a European Defence Market could improve the European production chain (Luehmann, 2011), an excessive European defence industrial consolidation could hinder the healthy environment of capitalist competition, failing to guarantee an efficient quality of equipment and their financial competitiveness (Struys, 2004; House of Lords European Union Committee, 2012). It follows that an overstretched rationalization could create the exact opposite of the current defence landscape, where few giant European industries could monopolise the market and hamper competitiveness and material quality (Nones, 2000). Smaller companies would cease to exist (Luehmann, 2011) and competition would be hampered by the presence of the few:

*European defence industry consolidation could turn out to be either a boon or a disaster [...]. At worst, the European restructuring could exacerbate some of the most unfortunate features of the post-Cold War defence sector: notably the entrancement of huge quasi-monopolies with so much political muscle that government have little choice but to appease them – even if that means buying more old-fashioned armour that they really have, or sloppy controls on arms exports to potential war zone. (Adams et al, 1999; 16)*

### Economic consideration and the European Defence Market

The above-discussed points and the fear of technological losses for national defence industries rise important points. However, they are arguably based on a misleading vision which predominantly focuses on the short-term and ignores the beneficial repercussions for the entire Union should a European platform for defence purchases be created. The perseverance of EU Member States to maintain their defence industries within national borders is clashing against an international trend which is currently experiencing a process of ‘vertical disintegration’, which means a gradual geographical separation of sequential phases of production (Ballester, 2013).

Should the European Defence Market come into existence, it might not be wrong to expect job losses and short-term financial difficulties, due to a process of industrial relocation and restructure. However, financial and geopolitical imperatives of our time have made the European Defence Market of extreme importance and increased necessity (Ikegami, 2013). An EU cohesive defence market is a vital condition to both achieve an adequate level of security and delivery the necessary defence capabilities for 2020 and beyond (Fiott, 2017).

Military equipment is needed to observe operational requirements, and, with time, there is the necessity to modernise the material through procurement programs and public funds (Nones, 1996). However, the aim of upgrading military equipment, to better suit modern warfare realities, is becoming more and more unachievable for single European MS, which have so far mostly relied on public procurement (James, 2003; Schmitt, 2005). This is an important problem for all European Member States, as the duplication of defence efforts among all 28 countries, and the lack of military interoperability, are two of the main reasons behind the inability of the European Union to act as a global security actor (Marrone, 2012).

This issue of industrial procurement fragmentation, duplication and lack of interoperability has led over time to a substantial military gap with the United States, arguably creating a political and strategical unbalance among NATO allies (Adams et al, 1999). This issue is even more worrying considering that the European defence expenditure of the Union reached in 2017 almost 300 billion euros with an increase of almost 4% over 2016 figures (Beraud-Sudreau, 2018). Yet, Europe is far from achieving the same level of US military deployment (Hartley, 2011; Cirlig, 2013). The issue here is not how much the Union spends, but what kind of capability the EU governments can deliver with that specific amount of money (Darnis et al, 2007). This thesis is not calling for more financial efforts in the national sector of defence. As a matter of fact, if the share of defence in GDP remains constant, in an improving economy the defence expenditure is expected to grow accordingly (Smith, 2009). In other terms, a growing EU economy would prevent the investment of more money through cuts on welfare programs. On the contrary, this thesis wants to stress the importance of pooling resources together. Put in a more practical way, the issue is not to pay more or less, but rather to spend better and together (Salm, 2016). According to this thesis' findings, a more comprehensive European Defence Market would enhance the

value of the investments spent by the Union, allowing the development of economies of scale (EPP group, 2015).

Despite evident military and strategic shortfalls, national borders continue to be anachronistic obstacles to the achievement of a coherent platform for defence purchases (Nones, 2000). In fact, data shows that defence industries produce predominantly within national borders (De la Brosse, 2017), while armies are reluctant to agree on reducing military requirements and bow to external military necessities in order to achieve multilateral procurement agreements (Drown, 1990). In general terms, given the inexistence of agreed common military requirements, European Member States tend to produce or acquire different versions of a military system, causing a low level of interoperability and massive armaments' duplications (De Vore, 2011).

This is a serious problem for the European Union Common Defence and Security Policy, especially if we consider the importance of equipment interoperability in common theatres of war. This can sometimes be priceless in order to conduct joint military operations as the Afghanistan case has demonstrated (Griessmann, Date Unknown). The importance of interoperability for the European Defence posture has already been widely acknowledged by the literature and has been placed as central political aim for the Union since the 1970s (Eurogroup Communiqué, 1975). In general terms, it can be argued that:

*“Securing a competitive technological and industrial base is essential to achieve the objectives of the common Foreign and Security Policy in an affordable manner and to provide European capabilities in key areas such as air transport, intelligence-gathering and command and control” (Von Wogau et al, 2004; 46).*

The establishment of a European Defence Market is a prerequisite for the creation of an integrated joint command for armed forces at Community level.

Such a process will most likely be driven by operational necessities and political willingness to enforce the European capability to deploy special European forces abroad (Howorth, 2007). This is a pivotal objective considering Europe's current unsecure external geopolitical environment (Missiroli et al, 2013; Drent and Zandee, 2016).

Many argue that, considering the still substantial role of the MIC in domestic decision-making, it is more probable that the future of European defence will remain in the hands of nationalistic rhetoric rather than idealistic models of European federalism (Adams et al, 1995). Yet, the cost of 'non-Europe' is massive (Briani, 2013). Given these important financial and operational variables, it is this thesis' view that a gradual trend of political detachment of the industrial governmental relation is to be expected, over the next few years (James, 2002).

### Conclusions

By considering the triangular shape of the Military-Industrial Complex, this thesis has demonstrated that the direct impact of industrial interests on the decision-making processes is substantial. It might be wrong to assume that governments and industries have an asymmetrical relation, which would see one having the upper hand on the other.

Industrial apprehension for the possibility of losing national protection and safe financial income by exposing itself to foreign competition has been central in slowing down the process of defence integration in the European Union. Italy is a good case of this and well portrays the answer to the hypothesis put forward by this thesis in the first chapter: the weaker the defence industry, the more reluctant the MIC (and therefore the decision-making sector of defence procurement of the State) in exposing itself to a free deregulated market. The C1/C2 Ariete example is a demonstration of

governmental hesitation to lose industrial competitiveness, and to prompt internal production to support technological advancement (or consolidation), even at the costs of operational disadvantages.

This chapter has analysed some of the reasons behind the industry's reluctance to open up the market. This thesis has focus on issue of technological loss to demonstrate industrial appreciation to encourage a deregulation of the defence market. This technological loss has to be understood in two ways. The first is the evident loss of technical know-how as a consequence of international collaboration on defence projects. This instance could eventually benefit one of the partners more than the other, should the partnership be unequal on size. The second is more economy-related and deals with the effective repercussion of job and profit losses should the national defence industry be unprepared to compete with other European defence industries. In case these two trends were to characterise a new European industrial environment, the resulting outcome could lead to an over-consolidation of the market at the Community level, hampering the healthy environment of the capitalist market and creating a quasi-monopolistic defence industrial framework in Europe.

It is undeniable that a restructuring of the market could lead to possible job losses and financial distress in certain parts of the Union. However, this thesis has illustrated throughout its three chapters, that in the long-run the benefits would outweigh the losses. The European Union needs a stronger and more comprehensive Defence Market to tackle internal and external challenges and be able to compete internationally with industrial giants as American, Middle Eastern or Asian players. Remaining barricaded behind national borders could lead to dangerous instances in the future. Arguably, Europe would be incapable to produce up-to-date equipment or to react as a unitary military body. Therefore, in its conclusion, this thesis urges the literature on the field to shift the focus from a more obsolete and traditional view of the defence procurement, to the triangular discussion over the Military-Industrial

Complex, which implies a more complex and closer relationship between the three above-mentioned actors.

## **Conclusions**

Today, defence procurement remains one of the major stumbling blocks to the establishment of a coherent and efficient European CSDP. Since the end of the Cold War, EU Member States have failed to further pursue paths of supranational integration in the domain of military procurement. The issue obtains particular relevance when analysing the current geopolitical and financial situation of the Union, at the dawn of the third decade of the twenty first century.

This thesis has demonstrated two important assumptions. First, the European Union's crumbling external environment will increasingly require a more direct involvement of Brussels, to protect European citizens and to maintain peace, democracy and libertarianism in Europe's neighbourhood. This will mean that European demand for military material is only expected to grow. However, Europe will progressively face a weakening of its military production competitiveness and capability if it will maintain the current fragmented nature of its defence procurement market. This will happen because of two main social and economic trends recorded since the end of the Cold War. The first is undoubtedly the decrease in military spending due to a widespread European public sentiment of pacifism and the evanescence of the common threat. Since 1989, investments and public resources have been predominantly redirected towards Welfare State measures as *peace dividends* became central features of the European foreign policy. The second trend is the rise in armaments costs, a steady phenomenon which has led to skyrocketing prices for military and dual-use vehicles and equipment. Pulled together, low defence budgets and high costs steered the path to the incapability of single EU Member States to provide alone for their own security. This issue, in this thesis, has been acknowledged under the name of '*structural disarmament*'.

Logically, this should have brought governments to seek for international collaboration. Many analysts, also considering the economic hardships of the 1990s and first decade of the 2000s, advocated the creation of a European platform for defence business and procurement, namely a European Defence Market (EDM). This would have had important positive repercussions for European governments in the long-run. In fact, this would have favoured a competitive environment of defence procurement, allowing Member States to maintain low-budgetary investments for the defence, while prompting a new wave of industrial consolidation and operational interoperability. Duplications, redundancies and financial wastes would have been fixed by supplanting the

traditional outdated protectionist environment of national defence industries with a most cost/benefit calculus. However, this failed to happen.

The fact that many national defence manufacturing bases continue to exist in the European industrial framework is the ultimate realization that countries would rather acquire inadequate equipment than losing strategic industrial assets. Over time, it has become increasingly difficult to believe that European countries would maintain national defence procurement because of mere geopolitical considerations. The traditional realist approach to International Relations (IR), which tended to consider the State a unitary actor, gradually became difficult to be empirically supported.

This dissertation has looked at the issue of European defence procurement through a different perspective. This thesis has analysed the internal structure of EU Member States' decision-making processes, building its argumentation on the pre-existing notion of an abstract Military-Industrial Complex.

The term became famously used by President Eisenhower in 1961 and underlines the issues of increased interactions among three main State's defence actors: the government, the army and the national industry. The Military-Industrial Complex indicates the set of synergies among the three above-listed players, which has over time created an environment of industrial protectionism and has influenced European Member States' foreign policies. In other words, the progressive close relationship between these three elements granted industries, lobbies and corporative interests access to the very core of the national decision-making circle. In doing so, the industry has had an influence over governmental decisions, informing the effective establishment of a deregulated European Defence Market.

In these regards, this thesis has put forward a hypothesis: the weaker the firm, the stronger the MIC reluctance to contribute to an opening up of its strategic industrial sector. The businesses' concern is that by allowing greater competition, encouraging the establishment of a deregulated defence market

and losing secure annual public funds (without guarantee of being able to effectively confront foreign partners), the gradual loss of competitiveness would have caused the disappearance of medium-size defence establishments and a massive drop of financial profits. Industrial interests and concerns, in this sense, take priority over mere discussions of military superiority, which, although maintaining an indisputable importance, are nonetheless relegated to the margins of the debate.

By pointing at the Military-Industrial Complex, this thesis has evolved the discussion from a simplistic assumption of State centrism to an argumentation over industries' interests and priorities to maintain a protectionist nature of the defence market. This nationalist policy aimed to ensure the existence of domestic industries. Yet, it was done regardless of glaring disadvantages at the financial, military and social levels.

This thesis has not ignored the hesitation of the industry, which rises some important points. In fact, there might be negative repercussions, in the short term, following a possible European industrial merging process. These consequences concern rising unemployment rates, technical losses and increasing national dependency on foreign partners. Arguably, the latter issue remains central because of the intergovernmental nature of European politics. However, data demonstrates that a gradual process of industrial specialization in the defence sector would potentially bring substantial financial benefits and military advantages in the long-period. It would allow Europe to strengthen its foreign position while permitting Member States to maintain a low-budgetary defence expenditure. Finally, it would lead to an enhanced Europeanist sentiment and a progressive decreased distrust among EU partners.

Italy is an interesting case of industrial protectionism. Its foreign policy has balanced instances of Atlanticism and Europeanism, supporting (under left-wing executives) a European soft power integration. Yet, the country has been sceptical in encouraging a deregulated defence procurement. More

specifically, Rome has continued to favour indigenous military manufacturing programs, in spite of important financial and political benefits coming from international defence projects. The C1/C2 Ariete is an emblematic example of this still strong protectionist sentiment over the National Defence Industry. The thesis questions the validity of the project, which tends to rely on national industrial production, rather than taking part in a more intergovernmental project, as the Leopard 2. It is not, however, a mere question of relative direct costs (even though this thesis has shown that the price of the C1 Ariete is higher than the Leopard 2). By not taking part in an EDA-supported program, Italy has decided not to take advantage of shared Life Cycle Costs (LCC), which could have substantially reduced the effective costs of the armament. Italy continues to award public funds on nationalistic merits rather than on a more benefit/cost calculus.

This thesis has acknowledged that this instance cannot be explained by analysing the situation through a conventional realist approach to IR. It has approached the issue through Liberalism, with the intention of understanding the industrial and economic pressures, governments are exposed to. National Champions, in this sense, are central actors. According to this thesis' argumentation and evidence, Leonardo Spa has been reluctant in encouraging a European defence industrial integration due to the inherent fear of losing national economic profits and orders. This instance would have put its real medium-term survival in jeopardy. In this sense, this thesis' hypothesis appears confirmed. The weaker the firm, the stronger the government reluctance to open up the market. Industries have, therefore, exercised an important influence over governmental decisions and stances. This thesis' argumentation has put forward the Military-industrial Complex as an abstract concept to explain the set of synergies which have made it possible.

This thesis's aim was to examine the issue of the European Defence Market. It started with the following question: why has the European Union been unable

to integrate at the defence industrial level? The answer to this question appears to be found in the military industrial sector of the Union. In the attempt to provide the reader with a comprehensive argumentation, the thesis has proceeded with a two-step strategy. It initially created the theoretical foundation of the discourse, introducing the abstract concept of the Military-Industrial Complex. This pre-existing notion was used to explain the structure, through which industrial protectionist pressures have been allowed to exercise its power over governmental decisions.

In this sense, while it is undeniable that governments have the final word on defence procurement, their evaluations and choices have been highly informed by individualistic industrial interests, thanks to Military-Industrial Complex's structure. Although this thesis has briefly mentioned also the role of the army, it has predominantly focused on the industry-government relation. This thesis has then moved towards a more empirical case study: Italy. It has taken into account a tangible example of industrial protectionism and has explained the issue behind the National Defence Industry's reluctance to a more integrated European Defence procurement.

It has never been the intention of this thesis to imply that nobody looked at the structure and role of Military-Industrial Complexes, nor that nobody analysed the current issue of the European Defence Market and the fragmentation of the European industrial landscape. However, this dissertation's merit has arguably been to use the former to explain the latter.

This thesis has balanced theoretical frameworks and empirical evaluations to provide an analysis of the industrial role in the European defence procurement. It might seem obvious to state that further study should be conducted on the issue of European Defence Market and the role of national industrial lobbies and interests. As it has been demonstrated, should the Union continue down this path of fragmentation and nationalism in defence procurement, in a few decades it will find itself incapable of competing with international actors for

military commissions. This would have disastrous consequences for the European posture abroad and for its internal economic resilience. It is for this reason, that it is this thesis' author's strong belief that, given the current EU political and geopolitical situation, and the threats Europe is currently facing, this instance will continue to gain relevance in the domestic and international domain. The European Union needs to upgrade its structure and internal cohesion to strengthen its position and regain its rightful role as a global financial and military actor.

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