



WORKSHOP SUMMARY

Investing in Europe's Competitiveness:

Improving European Defence Readiness

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Investing in Europe's Competitiveness Initiative

In its role as a global, nonpartisan, nonprofit think tank, the Milken Institute has launched an initiative called Investing in Europe's Competitiveness. The aim is to develop actionable steps to catalyse the investment needed in the European Union (EU) and United Kingdom (UK) to meet productivity challenges and generate growth, aligned with themes diagnosed in reports by Mario Draghi, Enrico Letta, and Christian Noyer, as well as UK Prime Minister Keir Starmer's missions.

The initiative is centred on three pillars:

- Attracting new investment into infrastructure and decarbonisation
- Closing the innovation tech gap
- Investing in Europe's defence and security priorities

Executive Summary

The Milken Institute, in partnership with Oliver Wyman, hosted a private roundtable during the World Economic Forum in Davos, Switzerland, on 19 January 2026. The question addressed by the roundtable was, ‘How can the defence industry, private capital, and government work together to improve defence readiness in Europe?’

The roundtable highlighted that Europe’s defence readiness challenge is not just about funding levels but also about fragmented markets, outdated procurement models, a lack of supply chain contingency financing, and insufficient integration across industry, government, and finance. Russia’s invasion of Ukraine has fundamentally altered the nature of modern warfare, underscoring the need for rapid innovation cycles, scalable production capacity, and new approaches to financing defence capabilities. Without structural reform, increased spending alone will not deliver meaningful readiness.

The European Context

Participants agreed that Europe now faces a markedly different security environment. Traditional threats—including espionage, cyberattacks, and political interference, as well as ‘hybrid threats’—have intensified, while recent geopolitical tensions have placed new strains on the transatlantic alliance.

A central constraint on Europe’s readiness is the lack of an integrated defence market. National procurement systems, fragmented regulatory frameworks, and limited cross-border coordination continue to prevent economies of scale, hinder innovation, and deter private investment. Defence remains structurally distinct from other areas of European integration, with persistent barriers in procurement processes, financing mechanisms, and the predictability of long-term government demand.

Our participants noted that Europe has always—to echo Jean Monnet—been ‘forged in crises’. Big leaps in integration tend to occur when new challenges are not seen as soluble by national governments alone, an approach scholars of the European union’s development labelled ‘functionalism’. Perhaps the challenges that European nations now face—and particularly the opportunities to harness new technologies to address them—might best be solved within each country instead of at a European-wide level. The financial crisis, COVID-19, and the post-Cold War settlement all catalysed new forms of cooperation and resource pooling in the EU. Many participants in the roundtable questioned whether today’s security environment could create similar momentum toward a more unified European approach to defence.

Fragmentation also constrains capital formation. Compared to the United States’ single defence market, European scale-up companies face smaller, disconnected national markets, making it more difficult to attract growth financing. Participants discussed the potential for collective funding mechanisms—including European-level procurement frameworks and mutualised

financing tools—to support cross-border priorities such as air defence, drones, and electronic warfare. The issuance of common European debt was seen as both a useful way to fund new Europe-wide defence capabilities and a way to deepen liquidity in Europe-wide safe assets.

Attendees noted how these shortcomings have impacted Europe's defence support for Ukraine. Despite avowed support, Europe is 'not sufficiently in the game'. For example, European countries only share certain platforms (e.g., Storm Shadow missiles), which have had a limited impact on the ground.

This lack of support extends to investment. As one participant noted, in 2025, foreign direct investment in Ukraine's defence tech sector was only \$100 million, raising the question of why sufficient finance is not being mobilised for Ukraine, which is in effect Europe's first line of defence.

Beyond structural barriers, attendees emphasised the need for greater public understanding of the trade-offs required to boost readiness. Defence spending increases will likely require difficult fiscal choices and, in some cases, increases in recruitment. Attendees noted how Europe's politicians have not adequately presented to the public the trade-offs inherent in boosting defence spending, particularly in terms of potential impact on welfare and social programmes. There is also a potential need to broaden public awareness of the necessity of greater civil mobilisation, with Scandinavia cited as a model for civil preparedness and whole-of-societal security preparation.

How the Ukraine War Is Transforming Readiness

Much of the discussion focussed on how the Ukraine conflict has catalysed important changes in warfare, particularly by shifting the ways in which defence ministries must consider how they incubate innovation and strengthen readiness.

The conflict has demonstrated how rapidly modern warfare evolves. Unmanned systems, autonomous platforms, and electronic warfare now play a dominant role, with innovation cycles measured in months rather than decades. For example, drone technologies often become obsolete within six months, challenging traditional procurement models designed around long-life platforms.

A key lesson is the importance of rapid deployment, learning, and iteration. Ukraine's approach has combined frontline feedback with accelerated development cycles, enabling continuous adaptation of technology and tactics. Participants stressed that European defence systems must evolve to support similar innovation-driven approaches, with procurement mechanisms that reward speed, experimentation, and integration of private-sector technologies.

The Ukraine conflict is driving rapid innovation and production design, highlighting the need to align R&D cycles and government procurement mechanisms to support reinvention on

the battlefield. This shift also reflects a broader reality: most technological innovation today originates in the private sector, not within government laboratories. This differs significantly from past approaches to innovation, such as during the Cold War, when major advances occurred through a defence-innovation complex grounded in the public sector. As a result, Europe will need to strengthen private-sector innovation partnerships that can translate commercial innovation into deployable defence capabilities.

Mobilising Private Capital for Readiness

Participants agreed that financial markets have a critical role to play in strengthening Europe's defence ecosystem, but only if supported by clear demand signalling from governments and structural reforms to ease cross-border procurement and the development of common capabilities.

Three priorities emerged:

- Governments must provide credible long-term demand signals. Clear commitments on what capabilities will be purchased, on what timelines, and at what scale are essential to unlock private investment and build contingent production capacity across supply chains.
- Greater cross-border cooperation is needed to improve interoperability and market scale. Integrated procurement frameworks and shared capability priorities would enable companies to design for a continental market rather than fragmented national systems.
- Regulatory and capital market reforms are necessary to improve 'investability'. The most urgent suggestion was to progress the Savings and Investment Union through reforming pensions, harmonising bankruptcy regulations, and deepening capital markets through securitisation. Another suggestion was to lift the cap on profit margins on government contracts for defence-sector companies. Attendees also identified certain environmental restrictions as ripe for reform, including restrictions on the storage of military hardware such as ammunition.

There was debate over whether Europe suffers from a true shortage of growth capital or from insufficient incentives to deploy existing capital into the defence sector. Some attendees felt there is a 'missing middle' limiting the potential of European start-ups to attract sufficient domestic funding. Others were adamant that there is enough funding, but that it is not being harnessed effectively by creating adequate incentives for outside actors to invest in the sector. Participants agreed that clearer exit pathways, including deeper IPO markets and consolidation among emerging defence technology firms, will be critical to sustaining investment.

Investors and governments will need to work together to help support innovation and technological development in the sector. A key theme from the roundtable was the question of what capital, for what technology, and for what purpose it needs to be deployed. As our attendees identified, the amount of financial capital required is not significant—around \$1 trillion, according to one attendee's estimate—and much less than the stock of issued European debt. The primary question is therefore not one of affordability, but of how to create the system.

Milken Institute Attendees

Petra Freddi, Managing Director, Europe

Simon Radford, Director, Policy and Programming, Europe

Sophie Eggar, Director, Partnerships, Europe

Aidan Irwin-Singer, Associate Director, Policy and Programming, Europe

The discussion took place under the Chatham House rule. The views expressed above summarise the points made in the room, and no one view listed above should be seen as endorsed by either all attendees or the host organisations.

About the Milken Institute

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

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