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Introduction

As Ukraine fights against Russia to liberate its territories, it continues to face serious challenges related to the political aspects involving military aid from its Western counterparts. Specifically, these challenges are associated with the slow-paced delivery of promised equipment (Saballa, 2024), restrictions placed on deep strikes within Russian territory using Western munitions (Khurshudyan et al., 2024), and uncertainty for future aid that will strongly depend on the next US election results (Arnsdorf et al., 2024). To address these shortcomings, Kyiv has focused on increasing domestic weapons production through higher investments and collaborative projects with Western partners (Stepanenko et al., 2024). However, the export of weapons is currently prohibited in Ukraine. Although it represents a possible source of funding, the ban makes sure that everything that the country produces is used on the frontline (Melkozerova, 2024). Nevertheless, the Ukrainian military-industrial complex now claims that it is time to change such policy, as allowing exports could ultimately benefit the Ukrainian Armed Forces (UAF), the country's economy and the defence industry itself (Melkozerova, 2024). Therefore, this paper aims to explore this approach, presenting the advantages and possible issues while offering alternative solutions and recommendations. For this purpose, this article will begin by describing how exporting weapons would impact Ukraine's resistance while describing this initiative's current pushback. Finally, it will illustrate an alternative solution employed by Ukraine's partners to strengthen its defence industry, while proposing suggestions for further improvement. Lastly, the conclusion will summarise the findings and arguments resulting from this article.

1. The Impact of Weapons Exports on Ukraine's War Effort

When Russia launched its full-scale invasion of Ukraine in 2022, Ukraine's military-industrial complex was too weak to sustain the country's war effort (Lafitte, 2022). While it is still no match for its Russian counterpart, Ukraine's military has grown exponentially during the past couple of years, tripling its arms production in 2023 and further doubling that volume during the first eight months of 2024 (Stern & Francis, 2024). Nevertheless, the industry could produce much more. According to the former minister of strategic industries Oleksandr Kamyshin, the defence industry could produce up to 20$ billion worth of weapons (Barigazzi, 2024), yet Ukraine's government-strapped finances are not allowing it to live up to its full potential.

In 2024, out of a $40 billion war budget, $30 billion is being paid for salaries and benefits for the soldiers and $4 billion for ancillary equipment such as uniforms or fuel, leaving just $6 billion for weapons contracts with Ukraine's companies (Kryzhnyi, 2024). Although this year another $4 billion is being supplied by local partners, the industry could still absorb orders worth another $10 billion (Barigazzi, 2024). But Kyiv does not have that kind of money, and the consequences are severe. For instance, as a senior executive of the armoured vehicles manufacturer "Praktika" Yuliia Vysotska told POLITICO, "without long-term contracts and regular flow of financing, everything stops" (Melkozerova, 2024). This means that the companies do not have the money to buy raw materials or necessary components to produce weapons, as well as to pay salaries to their employees, who then decide to go to war or to work abroad while the company itself is waiting for a new contract (Koshiw, 2024; Stern & Francis, 2024). A company representative of the drone enterprise Uksspecssystem told the Financial Times that the lack of financing hinders Research and Development, which is crucial for Ukraine to balance out Russia's superiority in manpower and equipment (Koshiw, 2024). As a result, according to a report on Ukraine's drone producers' union "Technological Forces of Ukraine", 85% of Ukraine's drone companies have considered relocating abroad (Melkozerova, 2024). While this would ensure more access to financial resources, it would also represent a loss of tax revenue for Ukraine and a "brain-drain" factor concerning skilled defence industry workers leaving the country (Koshiw, 2024).

Instead, according to Yuliia Vysotska, access to adequate financing would not only address these problems and ensure production continuity and predictability from Ukraine's defence-industrial base, but it would also encourage investments, increase output, and reduce production costs (Melkozerova, 2024). For this reason, the industry is asking the governments to allow for weapons export. In this way, the money and the contracts would come from foreign governments, allowing the industry to exploit its maximum production capacity. While it is true that the weapons will not reach the frontline but will go directly to foreign clients, this system would earn Ukraine's arms manufacturers up to $15 billion (Melkozerova, 2024), which they could reinvest in R&D and output increase. It would also mean an increased revenue tax of up to $2 billion for Ukraine's government, which could be reinvested in the industry (Melkozerova, 2024). The Ukrainian industry is confident that the systems they produced would be in high demand, as they would be technologically advanced and battle-tested (Melkozerova, 2024). While this solution seems optimal on paper, there is still resistance from other sectors of Ukrainian society.

2. Issues and Challenges of Allowing Weapons Exports

The main argument against allowing Ukrainian defence companies to export their products is political. A senior Ukrainian Foreign Ministry official told POLITICO that public opinion in Ukraine and partner countries would not understand why Ukraine would be exporting military gear while asking for foreign military aid (Melkozerova, 2024). Similarly, military personnel would also be sceptical of the industry selling weapons abroad while soldiers home need them (Melkozerova, 2024). For this reason, while the government is considering allowing weapons exports, it will most likely concern particular systems, such as specific types of drones, that are not essential to the armed forces to be used in battle (Melkozerova, 2024). Nevertheless, while the development of Ukraine's defence industry would certainly benefit its resistance, it cannot replace Western aid in the foreseeable future (Stern & Francis, 2024).

Thus, allowing arms exports remains a politically delicate matter, with the Ukrainian government preferring to focus more on securing foreign funding for its domestic industry. The idea was advanced by Oleksandr Kamyshin, who argued that Western countries concluding contracts with Ukraine's defence companies for the UAF would be the most efficient way to help their war effort (Barigazzi, 2024). This strategy timidly gained traction in recent times, with Denmark leading the way (Barigazzi, 2024). The following section will delve into this alternative solution, which can support the development of Ukraine's industrial base while simultaneously addressing Ukraine's armed forces and government concerns about exports.

3. Alternative Solutions: The Danish Model

Despite being one of the smallest EU countries in terms of population and the scale of its economy, Denmark has placed itself among the top supporters of Ukraine (Kiel Institute, n.d.). It was one of the first to realise that helping Ukraine's defence industry would provide great benefits to the country. Therefore, in April 2024, it allocated about $28 million to buy military equipment from Ukrainian manufacturers to be used by the UAF (Economichna Pravda, 2024). This has been a historically significant decision in its approach to the politics of aid towards Ukraine, though less so in monetary terms. Nevertheless, Canada soon followed with a pledge of $1 million (Barigazzi, 2024).

A more substantial contribution came from the US, which in May 2024 provided Ukraine with an aid package of $2 billion in the form of Foreign Military Financing (FMF) (Harris, 2024). Through FMF, the US government sends financial aid to partner countries so that they can procure the weapons they choose from US and other partner counties' companies. However, in this case, part of the money will be allocated towards investments in the Ukrainian defence industrial base (Harris, 2024).

Similar initiatives are gaining traction on the European level. Recently, the Netherlands declared its plan to invest $400 million in drone development in Ukraine (Stern & Francis, 2024). Contrastingly, the EU and Denmark allocated respectively another $440 million and $190 million for contracts with Ukrainian arms manufacturers (Stern & Francis, 2024). The share of EU profits is part of a bigger $1.5 billion aid package announced in May, which is funded by the profits generated by frozen Russian assets in Europe (Stern & Francis, 2024). Recently, the EU pushed forward with an initiative to provide Kyiv with a $38 billion loan financed by the same profits (Hess, 2024). This would be part of the broader G7 $50 billion deal loan concluded in July, which has been slowed down by technicalities concerning the renewal of sanctions, keeping the Russian assets frozen and ensuring the servicing of the loan (Sorgi et al., 2024). While US participation in such a deal is still in question, EU money should flow into Ukraine by the end of the year, and it is reported that Ukraine will have "maximum flexibility" in terms of how to spend it (Hess, 2024). In other words, it could be assumed that, at least for 2025, Kyiv will be able to adequately finance its defence industry using this loan. In addition, a European official revealed to the Washington Post that more countries will soon announce their participation in strengthening Ukraine's defence industry following Denmark's model and that the money destined for such initiatives will increase substantially (Stern & Francis, 2024).

While the trend is surely promising for Ukraine's defence industry, the current initiatives that aim at procuring Ukrainian domestic-produced weapons for the armed forces of Ukraine are still limited in terms of participants and resources allocated. To address this issue, countries like Denmark should consider setting up a Ukrainian Defence Industry International Fund. Having an official, institutionalised financing vehicle open to all countries willing to help Ukraine through its domestic defence industry would transform this solution into a team effort, making it more noticeable on the international stage and possibly attracting more partners. It would also be a good alternative for those countries in a sound fiscal situation that wish to help Ukraine militarily but do not have vast arsenals or weapons production capacity. Finally, Ukraine would be negotiating with the institutional board of the fund instead of individual countries, which would save time, contribute to a better allocation of resources, and ensure higher coordination among the partners investing in Ukraine's defence industry.

Conclusion

This paper explored the proposal from Ukraine's defence industry to exports some of its products, currently prohibited under Ukrainian law. On the one hand, the solution has some strong advantages, as it would help Ukrainian companies raise much-needed funds to continue working, increase their output and invest in R&D. It would also provide the Ukrainian government with additional revenues and investments to defend the country. On the other hand, the initiative faces political resistance from the executive levels and the UAF, claiming that it would be politically unacceptable to Western partners and soldiers at the frontline. The former would find it odd to see Ukraine making money with arms exports while they provide military aid, whereas the latter would not understand why Ukraine's arms producers would sell weapons abroad while they face systematic equipment shortages. However, maintaining the status quo would be a suboptimal solution, as the industry produces less than it could, given the lack of public funds. In other words, allowing exports or not does not change the fact that those weapons will not reach the frontline. Still, if the Ukrainian companies are allowed to produce at least not-essential systems for foreign clients, they could raise funds to increase production for Ukraine's armed forces in the medium-long term. An alternative solution that could address these political concerns would be to get Ukraine's partners to invest in its military complex. This strategy has already been implemented by some countries, namely Denmark and the Netherlands. However, the resources allocated are still gravely insufficient. In this sense, establishing an International Fund for this exact purpose could give more authority to this approach and attract more partners while also contributing to a better allocation of the resources destined for Ukraine, which now come from individual countries with no coordination whatsoever.

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