LaSER

Latvijas Stratēģijas un Ekonomikas Risinājumu Institūts

Towards the Baltic Tiger

How to Strengthen Baltic Defence Cooperation?

Roberts Kits

Riga, September 2025

Towards the Baltic Tiger
How to Strengthen Baltic Defence Cooperation?
Riga. LaSER Think Tank. 2025.

Author: Roberts Kits
Layout and cover design: Līga Ramata

Thanks to Patriks Jānis Pudāns and Nathaniel Fagelson
for assistance in the research.

ISBN 978-9934-9295-8-8

CONTENTS

FOREWORD

Aigars Rostovskis
PhD, Chair,
LaSER Council

Daunis Auers
PhD, Chair,
LaSER Board

Latvia, Lithuania, and Estonia have followed a common path of development since re-establishing their sovereign independence in 1991. Some 25 years ago, the Baltic states went through a period of particular close cooperation as we were all rapidly moving towards membership of the European Union and NATO. Unfortunately, over time cooperation has significantly diminished, even while our allies point out that cooperation could bring great benefits. Deeper economic integration could create opportunities for companies to develop needed international skills, capabilities, and experience in close neighbouring countries before entering larger Western markets, while bureaucratic coordination would reduce costs and administrative burdens.

Russia's military aggression against Ukraine, constant hybrid threats, and the changing international security environment have highlighted the need for strengthened regional defence cooperation. This is why LaSER think tank has prepared a study on defence cooperation between the three Baltic states.

There is a clear logic supporting closer cooperation between the Baltic states. First, the development of military capabilities in each individual country is constrained by limited resources. A pooling of resources partially resolves this challenge. Second, within NATO and the European Union, the Baltic states are perceived as a single security region, but in practice, defence planning and procurement often take place in a fragmented manner. Coordination would increase the efficiency of planning. Thirdly, the growing importance of allied forces in the region requires effective interstate coordination to ensure an efficient and organized use of infrastructure, training, and strategic reserves.

This study is based on the assumption that the Baltic states can achieve significant synergies by systematically developing joint military projects, training programs, and defence industry initiatives. Similarly, information exchange could be improved and a common threat perception developed so that the Baltic states are ready to respond in a timely and coordinated manner. The study analyses the experience of Nordic defence cooperation in order to identify lessons for the Baltic states.

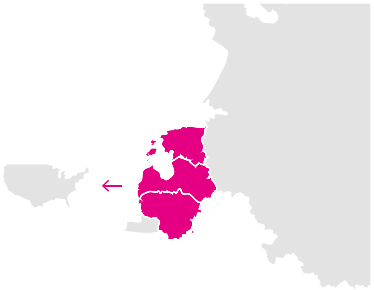
This report aims to promote rational and evidence-based discussion among policymakers, military experts, and the public. The goal is to assess the current situation and propose concrete solutions.

Close and strategically coordinated cooperation will strengthen the Baltic states' ability to counter both conventional and unconventional threats. The conclusions and recommendations provide a practical roadmap for a stronger, more integrated, and, most importantly, secure Baltic region.

EXECUTIVE SUMMARY

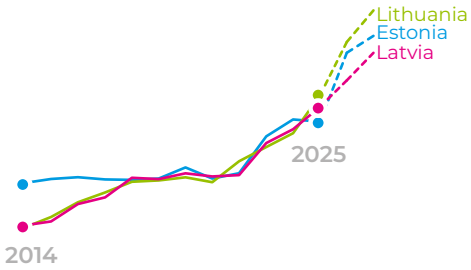
Geopolitical Situation

While the U.S. distances itself from Europe, Russia continues to pose an existential threat to the Baltic states.



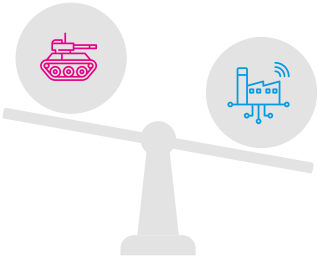
The Illusion of Security

Latvia, Lithuania, and Estonia are already among the top spenders in NATO when comparing percentage of GDP that has been allocated to defence. In response to the changing security situation, the Baltic states have committed to spending at least 5% of their GDP on defence beginning in 2026. Focusing solely on fiscal targets without investing wisely poses a risk of security illusion.



Balancing Short-term Needs and Long-term Vision

Insufficient defence capabilities necessitate investments that ensure an immediate increase in firepower and combat readiness. At the same time, high defence expenditure requires a defence policy that is based on long-term goals, including the development of a defence technological and industrial base.

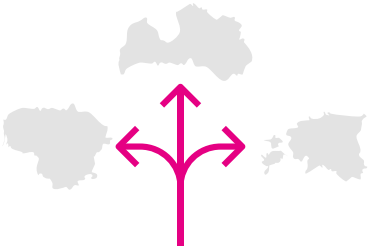


Single Area of Operations

Both allies and adversaries perceive the Baltic states as a single entity. Failure to collectively respond to emerging threats would not only undermine Baltic states' ability to defend their territories and population, but would also likely worsen the prospects of receiving international support in a crisis. At the same time, cooperation between the Baltic states does not duplicate or compete with cooperation within NATO or the EU but rather complements it.

Past Decisions

Since 2004, differing defence policy goals, priorities, and key partners have reduced the potential for future cooperation among the Baltic states. However, even the relatively limited cooperation potential is not fully realized.

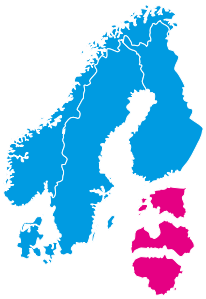


Economic Impact

Baltic integration is not only the foundation of regional security, but also a catalyst for growth and competitiveness in the broader economic context. Long-term vision-based development requires closer coordination and cooperation between Latvia, Lithuania, and Estonia.

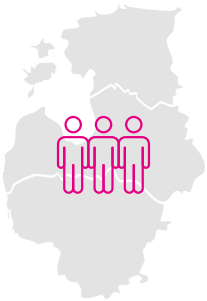
Nordic Experience

Until 2014, Nordic defence cooperation was driven by economic considerations, however, since Russia's aggression against Ukraine, the cooperation is based on a shared understanding of threats. The adoption of Nordic practices has played a key role in Baltic defence cooperation in the past, and today the Baltics must continue learning from the Nordics.



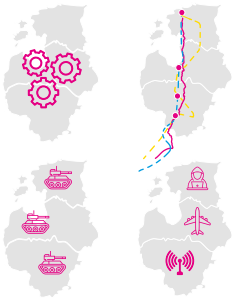
The Lessons of History

Failure to pursue defence cooperation, led to a simultaneous occupation by totalitarian regimes of all three Baltic states. They regained independence as a result of joint and coordinated action. In today's dangerous world, it is important not to repeat the mistakes of history.



Four Recommendations

This Policy brief offers four recommendations for strengthening defence cooperation between Latvia, Lithuania, and Estonia. The recommendations should be seen as initial steps to be taken immediately, but in the long term, Baltic integration needs to be expanded further to include other areas.



INTRODUCTION

In April 2024, the LaSER think tank published a report titled "Latvia 2040. Four Future Scenarios", which emphasized the need for decisive and long-term vision-based policies. Using the foresight method, the report proposed four future scenarios for Latvia's development: *the Baltic Tiger, Nordic Latvia, Listless Latvia, and Lonely Latvia*.[1]

The four scenarios have been presented to politicians, entrepreneurs, policymakers, and researchers. *The Baltic Tiger* has been widely recognized as the most desirable scenario for Latvia's development. This scenario envisages promoting cooperation between the three Baltic states to create an internationally recognized, innovative and deeply integrated region.

According to the scenario, the first step in the integration of the Baltic states is to strengthen cooperation in the defence sector, which will create a spill-over effect, resulting in deeper cooperation between the Baltic states in other areas as well.

The aim of this policy brief is to provide recommendations for strengthening defence cooperation between the Baltic states, considering both past cooperation experience and lessons from the neighbouring region – the Nordic countries.[2]

[1] Auers, D., Spuriņš, U. 2024. Latvia 2040. Four Future Scenarios. https://domnicalaser.lv/en/latvia-2040-four-future-scenarios/
[2] As part of the research, interviews were conducted with representatives of the public, private, and academic sectors in the Baltic and Nordic countries, whose opinions are reflected in this study.

1. COOPERATION POTENTIAL

The three Baltic states are comparable in terms of both qualitative and quantitative indicators. They share a common historical experience – founded after World War I, they enjoyed growth and prosperity in the interwar period, experienced occupation by totalitarian regimes during World War II, were forcibly incorporated into the Soviet Union for several decades, regained their independence with the collapse of the Soviet Union, and joined NATO and the EU in 2004. Their traumatic historical experience and geographical location have led to a shared understanding of Russia as an existential long-term threat to the security and independence of these countries.

Similarly, the three Baltic states are comparable in terms of quantitative indicators such as territory size, population, and level of economic development. On the international stage, the Baltic states are often viewed as a homogeneous region, despite their cultural, linguistic, and other differences. The small size of the Baltic states' economies and armed forces creates seemingly obvious conditions for closer coordination in the field of defence, but this has not always been the case. Indeed, there are objective obstacles that hinder closer cooperation, raising the question of how much potential exists for defence cooperation among the Baltic states – and how realistic it is, under current circumstances, to significantly expand Baltic defence integration. These questions are particularly relevant given that, since 2004, each of the countries has chosen distinct defence policy goals, priorities, and preferred cooperation partners. The aim of this chapter is to describe the current geopolitical context and economic impact of cooperation between the Baltic states and to explain why cooperation is fundamental for effective regional defence.

Table 1
Comparison of the Baltic States

Source: Britannica, Eurostat, Official Statistics portals, and defence agencies homepages

Indicator	Latvia	Lithuania	Estonia
Territory	64 594 km²	65 286 km²	45 339 km²
Population (2025)	1 856 932	2 890 664	1 369 995
GDP (2024)	40.208 billion EUR	78.410 billion EUR	39.510 billion EUR
GDP per capita in current prices (2024)	21 610 EUR	27 150 EUR	28 740 EUR
Defence Budget % of GDP (2024)	3.20 %	3.11 %	3.43 %
Defence Budget (2024)	1 367 million EUR	2 426 million EUR	1 334 million EUR
Land Border with Russia and Belarus	Russia: 284 km Belarus: 173 km	Russia: 254 km Belarus: 679 km	Russia: 294 km
Export % of total (2024)	18 12	12 6	11 8
Import % of total (2024)	20 9	8 4	11 11

Geopolitical context

The tense geopolitical situation, consistently high threat posed by Russia, and the United States drifting away from Europe require the Baltic states to remain constantly vigilant and adapt to changes in the security situation. Since Russia's full-scale invasion of Ukraine in 2022, discussion of the need to strengthen Baltic defence cooperation has experienced a new surge in political discourse.[3] Cooperation between Latvia, Lithuania, and Estonia is a prerequisite for an effective response to military threats, which is why the three countries have launched new cooperation measures, such as the *Baltic Defence Line* initiative, which provides for a coordinated approach to fortification of the external borders. At the same time, political ambition to cooperate more closely does not always result in practical cooperation projects.

The Baltic states are a single area of operations, so weak cooperation and insufficient coordination have a negative impact on the development of conventional military capabilities, standardization and interoperability, the development of defence technological and industrial base, and resilience to other types of threats, such as threats to critical underwater infrastructure or disinformation. In the neighbouring region – the Nordic countries – closer cooperation in the field of defence, alongside cooperation in other areas, is also evident, both bilaterally and trilaterally, as well as in the format of the Nordic Defence Cooperation (NORDEFCO), which is largely related to geopolitical upheavals and a growing awareness of threats to the security of these countries.

In response to changes in the security situation, European countries are rapidly increasing their defence budgets – at the 2025 NATO summit in The Hague, member states agreed to increase defence and security spending to 5% of GDP over the next ten years. However, increasing defence spending is only the first step and does not inherently lead to an increase in defence capabilities. To strengthen Europe's military capabilities and continue to provide support to Ukraine, there is a rapidly growing demand for military equipment, but lengthy procurement processes and insufficient production capacities hinder the ability to meet this growing demand.[4]

The European Defence Technological and Industrial Base is adapting slower than the Russian Military-Industrial Complex, and due to the rapid pace of Russia's rearmament, the security situation in Europe remains tense.[5] Data on the world's 100 largest defence industry companies show that in the first year after Russia's full-scale invasion of Ukraine, the profits of Russian defence industry companies from the sale of military goods and services increased by 40%, while in Europe (including the UK), they grew by only 0.2%. If the only Ukrainian defence company on the list is excluded, the revenue of the European defence industry decreased by 0.53% during this period.

For this reason, European countries have embarked on a development of the defence industry to, first, meet the ever-increasing needs of the armed forces, and second, to avoid an economic downturn associated with a rapid increase in defence spending without ensuring a return on investment in the economy.

The trend of increasing defence spending provides an opportunity for new market players to enter traditionally closed supply chains and become pioneers in the European defence industry.[6] Therefore, targeted investment in the development of the local defence technological and industrial base is the right and critically necessary policy. At the same time, uncoordinated development of defence industries at the international level inevitably leads to even greater fragmentation, weaker standardization, and interoperability, which has a negative impact on combat capabilities.

---

[3] Veebel, V. 2023. Strategic Challenges for Baltic States in Dangerous Times. Journal on Baltic Security, 9(2). https://doi.org/10.57767/jobs_2023_e1

[4] International Institute for Strategic Studies. 2025. The Military Balance 2025. Defence Spending and Procurement Trends. https://www.iiss.org/globalassets/media-library---content--migration/files/publications/military-balance/2025-military-balance/the-military-balance-2025_defence-spending-and-procurement-trends.pdf

[5] Wolff, G. B., Burilkov, A., Bushnell, K., Kharitonov, I. 2024. Fit for war in decades: Europe's and Germany's slow rearmament vis-à-vis Russia. Kiel Report No. 1. https://www.ifw-kiel.de/publications/fit-for-war-in-decades-europes-and-germanys-slow-rearmament-vis-a-vis-russia-33234/

[6] Mészáros, A. Á. 2024. Innovation in the Defence Industry from the End of the Cold War to the War in Ukraine. Journal of Regional Security, 19(1). https://doi.org/10.5937/jrs19-42865

Figure 1
Change in Arms Revenues of the Largest European, Russian, and American Defence Industry Companies in Comparative Prices 2022-2023 (%)

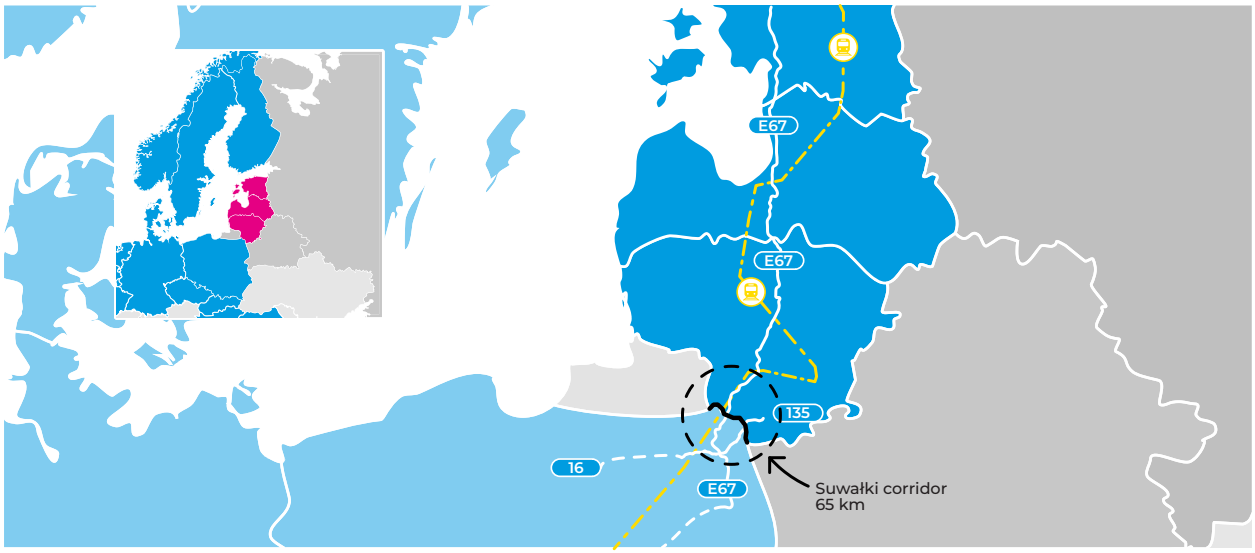
Note: Data about only those European, Russian, and American defence industry companies that are included in SIPRI's Top 100 arms-producing and military services companies in the world.
Source: SIPRI

As a result, decision-makers in the Baltic states face **a constant dilemma as they try to strike a balance between the fastest possible deliveries of equipment and long-term investments, including the development of local defence industries**, which reduces dependence on external suppliers but often means higher costs and longer delivery times. The unstable geopolitical situation and the simultaneous need to promote autonomy in strengthening defence capabilities complicate the balancing of short-term and long-term needs. This trend can be observed throughout Europe, however, failure to find the right balance in the Baltic states could have particularly devastating consequences, because they are a single area of operations separated from the rest of Europe by a 65 km wide strip of land, which heightens the risks of an Anti-Access/Area Denial scenario.

The understanding of the Baltic states being a single area of operations means that if Russia decided on a direct military confrontation with NATO, the borders separating the Baltic states would be meaningless, as operations would be carried out across the entire region as a whole, rather than separately against any one of the Baltic states.[7] The need for mutual coordination and cooperation is also illustrated by the bitter historical experience of the Baltic states – on the eve of World War II, authoritarianism and sentiments of self-isolation prevailed in the Baltic states, which meant that

Figure 2
Suwałki Corridor

Note: E67 highway, Route 16/135, and the existing railway connection are indicated in the map



[7] Śliwa, Z. 2023. The Impact of Russian Aggression Against Ukraine on Estonian Security. Studia Europejskie – Studies in European Affairs, 27(4). https://doi.org/10.33067/SE.4.2023.5

practical cooperation was weak and the three Baltic states were unable to coordinate their response to the ultimatums issued by the USSR.[8] The Soviet invasion of Latvia in 1940 began through Lithuania, and the significance of all three countries to one another is still relevant today; for example, the E77 motorway (A2 or *Vidzeme highway*), which connects Riga and Pskov (the base of Russia's 76th Guards Airborne Division), crosses Estonian territory for 22 km.

Defence Minister: "The unity of the Baltic states is the foundation of our security".[9]

Although there is a consensus at the political level on the importance of Baltic unity, some scepticism remains regarding the potential for strengthening defence cooperation among the Baltic states. The current **geopolitical situation requires us to overcome any obstacles created by a peacetime mentality and focus on how to practically strengthen the Baltic states' ability to jointly defend their territory and populations**. Now is the right time to prioritize opportunities for coordination and cooperation among the Baltic states to create an effective and comprehensive Baltic defence system. Furthermore, successful cooperation in the field of defence is also expected to ensure closer political and economic integration.

Figure 3
European Route E77 Section from Riga to Pskov

The Baltics are greater than the sum of their parts or why is the minister right?

The shared historical experience of the three Baltic states and their common understanding of Russia as the main threat to national security has contributed to the choice of a common strategic direction for foreign and security policy since the restoration of independence. Initially, defence cooperation among the Baltic states was characterized by an optimism regarding its positive impact on the self-defence capabilities of the three countries.[10] However, the Baltic states' ambitions for trilateral defence cooperation have diminished since joining NATO in 2004, as each country has chosen a different approach and priorities. Furthermore, mutual competition and mistrust, concerns about sovereignty and several other considerations have complicated the implementation of joint projects.[11] These trends are not limited to defence coopera-

[8] Bērziņa, I., Krūmiņš, G., Pleps, J., Šiliņš, J. 2022. Latvijas valsts ideja un aizsardzība: No dibināšanas līdz mūsdienām. Valmiera: Vidzemes Augstskola.
[9] Ministry of Defence of Latvia. 2025. A. Sprūds: Baltijas valstu vienotība ir mūsu drošības pamats. https://lvportals.lv/dienaskartiba/376553-a-spruds-baltijas-valstu-vienotiba-ir-musu-drosibas-pamats-2025
[10] Vaiksnoras, V. 2002. The Role of Baltic Defence Co-operation for the Security of Estonia, Latvia and Lithuania. https://www.nato.int/acad/fellow/99-01/vaisknoro.pdf
[11] Andžāns, M. Kažociņš, J. 2024. Three Decades of Baltic Military Cooperation and the Way Ahead. Center for Geopolitical Studies Riga.

tion but also extend to other strategic areas such as energy security and the transport sector.

Cooperation between the three Baltic states should be viewed in a broader international context; namely, trilateral cooperation cannot be seen as an alternative or duplicate to cooperation within NATO and the EU. An important aspect is cooperation in the 3+3 format (the three Baltic states and the three leading countries of the NATO multinational brigades stationed there, namely Latvia and Canada, Lithuania and Germany, Estonia and the United Kingdom). An effective defence of the Baltic states is only possible within the NATO command and control system. At the same time, this does not diminish the importance of Baltic integration.

Mutually coordinated defence of the Baltic states strengthens NATO's ability to defend its territory. The Baltic states and NATO must be able to secure victory not just for today, but for the battles yet to come. **Cooperation is a prerequisite for both effective defence against conventional military threats and grey-zone activities**, such as energy sabotage, attacks on critical infrastructure, disinformation, cyber threats, etc. Recent (and regular) underwater infrastructure incidents in the Baltic Sea confirm that cooperation is important in timely prevention and countering the wide array of existing threats.

Figure 4
Baltic Cooperation Within the NATO

Source: Compiled from publicly available information

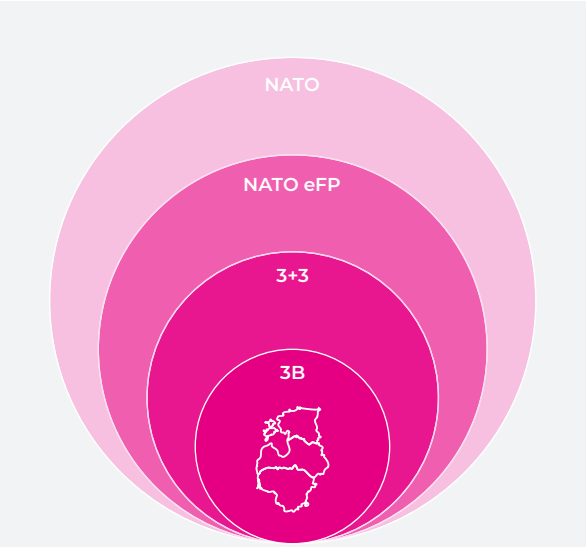


Figure 5
Underwater Critical Infrastructure Incidents in the Baltic Sea 2022-2025

Source: Wilson Center

Are the Baltic states preparing to secure victory in the battles yet to come?

Russia's war in Ukraine since 2022 has emphasized both the fundamental role of new technologies in modern warfare and the fact that, despite rapid technological development, trench warfare tactics and the use of artillery remain ever relevant.

The Oslo-based researcher Fabian Hoffmann has outlined a thought-provoking scenario of a possible Russian aggression against one of NATO's most vulnerable member states. He points out that Russia is aware of its inability to engage in a full-scale conventional war against NATO at present, but could carry out a swift, intense, however localized, invasion, capturing one of the border towns and, by threatening to use nuclear weapons, test NATO's willingness to risk nuclear war to protect a seemingly insignificant territory.[12]

Other researchers also point out that NATO's biggest vulnerability is not the Suwalki Corridor, but rather the Eastern border towns with large Russian-speaking populations, such as Narva and Daugavpils. The proximity of these cities to Russian military bases, as well as the fact that such an operation could be carried out without involving Belarus, would make it easier for an invader to carry out such an operation.[13]

In June 2025, Bruno Kahl, head of Germany's Federal Intelligence Service stated that the service has concrete evidence that Russia has no intention of stopping in Ukraine and that Moscow doubts NATO's commitment to a collective response to threats, especially those below the threshold of direct conventional military attack.[14] The potential activation of Article 5 of the Washington Treaty is a political decision, so concerns are heightened by the U.S. President's rhetoric regarding the possible interpretation of the definition of NATO's Article 5.[15] Therefore, there is no doubt that if such scenario were to materialize, it would be extremely important for all Baltic states to immediately demonstrate solidarity and readiness to fight for shared values. In the event of a local invasion, the ability of the Baltic states to respond jointly would be crucial.

On the international stage, the Baltic states are seen as a single entity, so not being able to respond to threats in a coordinated way could hurt their chances of receiving international support.

The European Sovereignty Index published in 2022 reflects the contribution of EU Member States to strengthening European sovereignty in six areas: climate, defence, economy, health, migration, and technology. Latvia and Lithuania do not significantly exceed the EU average in any of these indicators, while Estonia makes a significant contribution in the areas of technology and migration, as well as, to a lesser extent, climate, achieving the best overall result among the 13 countries that joined the EU in 2004.[16]

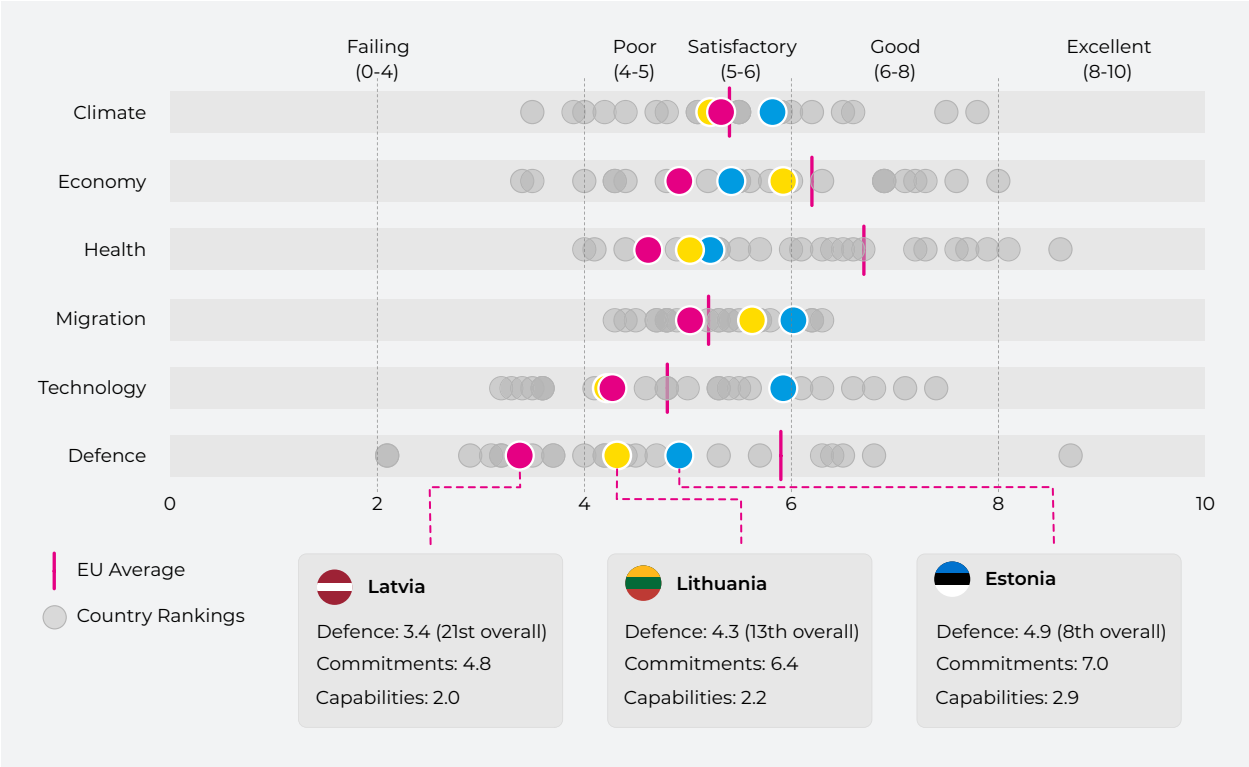
It should be noted that all three **Baltic countries show relatively worse results in defence**, especially in terms of defence capabilities. Estonia, although nominally ranked eighth among the 27 focus countries, received an overall rating of "Poor" (4.9 points) in defence. Lithuania also received a rating of "Poor" with 4.3 points and ranks 13th, while Latvia ranks 21st with 3.4 points and a rating of "Failing".

Since 2022, when the European Sovereignty Index was published, the Baltic states similar to other European countries have massively prioritized defence. Looking at trends in defence spending, the Baltic states are often highlighted as top spenders within NATO, as they have significantly increased their defence budgets in recent years and already have some of the highest defence budget shares (% of GDP).[17] In addition, the governments of all three Baltic states

[12] Hoffmann, F. 2025. A Russia-NATO War Would Look Nothing Like Ukraine. https://foreignpolicy.com/2025/05/19/russia-nato-war-putin-ukraine-nuclear-strategy-baltics/
[13] Burilkov, A., Bushnell, K., Mejino-López, J., Morgan, T., Wolff, G. B. 2025. Fit for war by 2030? European rearmament efforts vis-à-vis Russia. Kiel Report No. 3. https://www.ifw-kiel.de/publications/fit-for-war-by-2030-european-rearmament-efforts-vis-a-vis-russia-34349/
[14] Bubrowski. H. (Host). 2025. Round Table mit Bruno Kahl. Table Today [audiopodcast]. https://open.spotify.com/episode/2e4ZfDAApBgApt72Xc7pzJ?si=EGsTZbHtS6yxm0AMCSGR3Q&nd=1&dlsi=a328e54f9c674c94
[15] Lunday, C. Traylor, J., Kayali, L. 2025. Trump casts doubt on Article 5 commitment en route to NATO summit. https://www.politico.eu/article/donald-trump-nato-summit-sidesteps-article-5-mark-rutte-eu-defense-budget-russia-vladimir-putin-iran-israel-strikes-qatar/
[16] Piaskowska, G., Zerka, P. 2022. European Sovereignty Index. https://ecfr.eu/special/sovereignty-index/#by-country
[17] LSM+ English. 2024. Latvia currently in NATO's top four on defense spending. https://eng.lsm.lv/article/society/defense/04.07.2024-latvia-currently-in-natos-top-four-on-defense-spending.a560311/

Figure 6
European Sovereignty Index 2022

Note: The European Sovereignty Index is a joint assessment by the European Council on Foreign Relations (ECFR) and Stiftung Mercator of the contribution of EU member states to European sovereignty in six indices: climate, defence, economy, healthcare, migration, and technology. Each of the six indices examines both the commitments made by countries and their actual capabilities, rating them on a scale of ten points. For each index, both quantitative and qualitative indicators are selected, based on assessments by researchers representing 27 countries, official statistical data, etc. The indices are normalized by adjusting the indicator values to the population size of each country. Nine indicators have been put forward to determine the defence commitment index, and twelve indicators for the defence capability index.
Source: ECFR



have agreed to allocate at least 5% of GDP to defence in the coming years. Latvia has decided to start moving towards 5% of GDP from 2026, while Estonia plans to spend an average of 5.4% of GDP on defence between 2026 and 2029, and Lithuania plans to allocate between 5% and 6% of GDP to defence between 2026 and 2030.

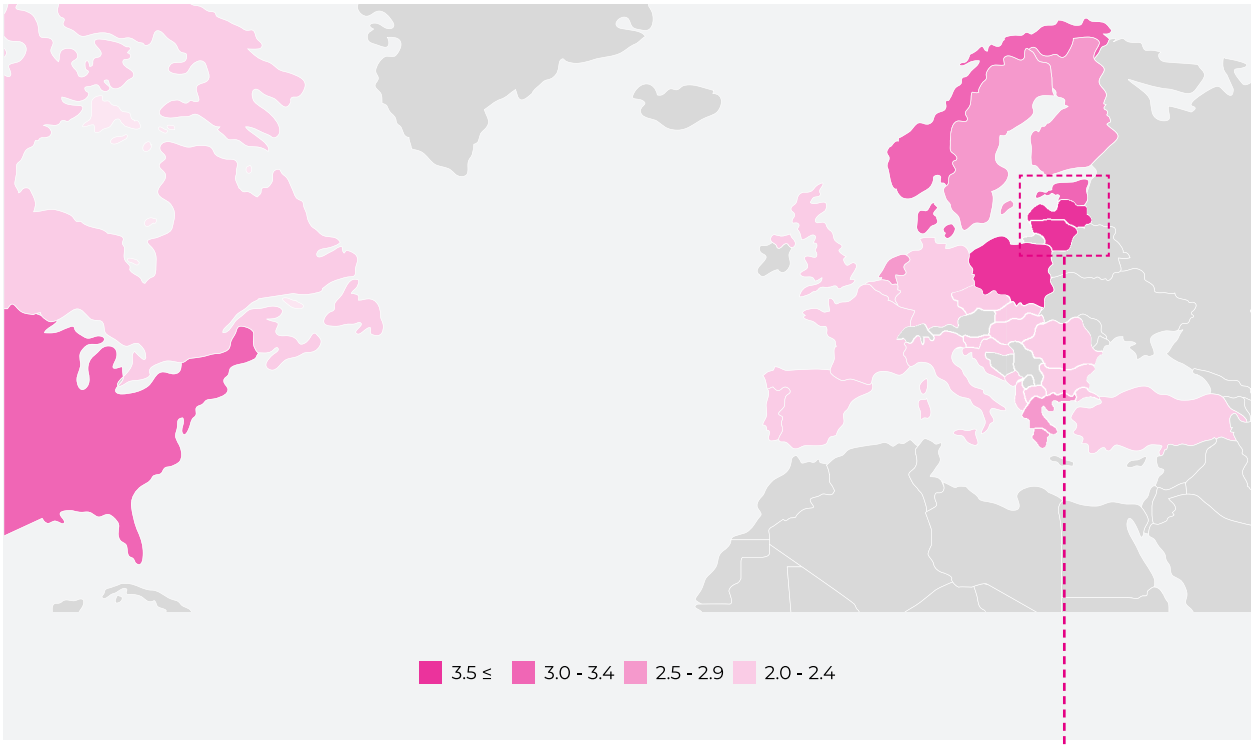
Percentage of GDP is the most common measure of defence spending. In 2006, NATO ministers formally committed for the first time to allocate 2% of respective GDP to defence. Following Russia's illegal annexation of Crimea in 2014, the commitment was reaffirmed by Allied Heads of State and Government at the NATO summit in Wales. Although the percentage of GDP allocated to defence reflects government priorities and the resulting changes in the economic structure, for small economies such as the Baltic states, this can create **a misleading impression of the extent to which increased defence spending strengthens defence capabilities of the Baltic countries**.

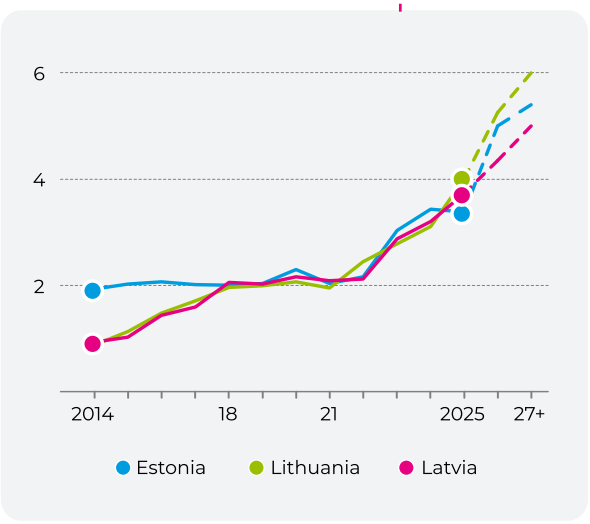
The need to increase defence spending due to the consistently high threat posed by Russia is self-evident, but the main purpose of visualizing these statistics is not to argue for an even more rapid increase in defence spending. **Increasing the defence budget does not in itself contribute to the country's defence capabilities**. Even before the Baltic states committed to allocating 5% of GDP to defence, it has been argued that their needs significantly exceed the amount of defence funding that can be allocated for this purpose without crippling the economies of the Baltic states.[18]

[18] Jegelevicius, L. 2024. For the Baltic states, bigger defence spending may never be enough. https://www.intellinews.com/for-the-baltic-states-bigger-defence-spending-may-never-be-enough-358154/

Figure 7
Defence Expenditure of NATO Member States in 2025, and the Dynamic of Defence Expenditure of the Baltic Countries 2014-2027 (% of GDP)

Source: NATO and decisions of the governments of the Baltic states





Appropriate defence budget demonstrates a country's commitment, but relatively small economies necessitate mutual coordination to maximize the impact of their investments.

Converting defence spending into a single currency and comparing them directly creates a risk of misinterpretation, as exchange rates may not reflect price differences in the military sector.

To make data on national military spending comparable, Peter E. Robertson has developed a methodology for calculating military purchasing power parity. Using publicly available data on national defence investments, the Tornquist index is constructed and applied to the available defence investment data. This lays the groundwork to determine the purchasing power of countries based on available financial resources.[19] The differences in military purchasing power indicators can be explained with relative military cost calculations, namely, on average the Baltic states pay less for military equipment compared to, for example, Finland.

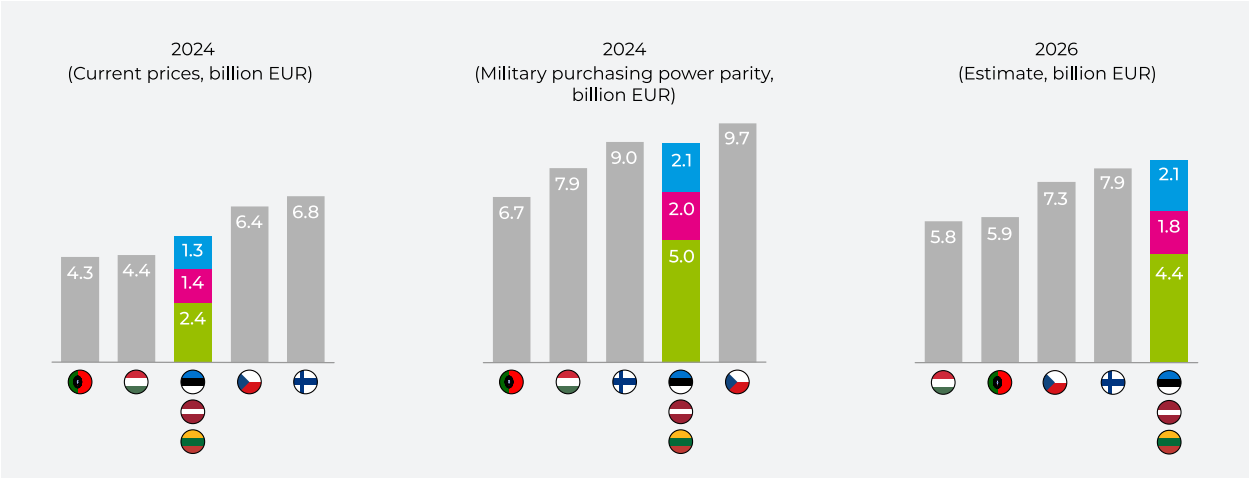
Even though a complete integration of the defence budgets of the three Baltic states is neither possible nor necessary, visualizing the combination of the three defence budgets in comparison with other NATO member states shows the importance of small economies working together to maximize the impact their investments have on regional defence capabilities.

[19] Robertson, P. E. 2022. The real military balance: International comparisons of defense spending. Review of Income and Wealth, 68(3). https://doi.org/10.1111/roiw.12536

Limited defence budgets prevent the Baltic states from considering the purchase of various strategic-level arms and equipment. The idea of purchasing fighter jets is often illustrated as an example.[20] At the same time, Finland's, whose defence budget in 2024 was slightly larger than the combined budget of the three Baltic states, but which could provisionally be comparatively smaller in 2026, when the Baltic states increase defence spending to 5% of GDP, maintains a fleet of several dozen F/A-18 fighters, and is implementing a program to replace them with fifth-generation F-35 fighters. The cost of implementing this capability is estimated at just under €9 billion over a ten-year period.[21]

Figure 8
Baltic Defence Expenditure in Current Prices and in Military Purchasing Power Parity Standards compared to Czechia, Hungary, Portugal, and Finland in 2024 and 2026 (estimate) (billion EUR)

Note: To determine military purchasing power parity, the Törnqvist index was used. The estimates for 2026 were calculated based on GDP growth projections and the planned defence expenditures as % of GDP.
Source: NATO, https://militaryppp.com, government decisions of the seven countries, Eurostat, European Commission, author's calculations



Economic impact

The need to strengthen defence cooperation among the Baltic states is rooted in a shared understanding of threat. At the same time, **the benefits of closer Baltic defence cooperation are linked to the potential for economic growth**. As a result of geopolitical upheavals, countries in Europe have begun to rapidly increase their defence spending, which creates a need to adjust national economies. Bruegel think tank points out a correlation: the closer a European capital is to Moscow, the greater its expected investment in defence.[22] The rapid increase in defence spending creates economic pressure, given the already high levels of national debt, an aging population, and high interest rates.[23] It is therefore expected that **economic considerations will play an increasingly important role in the defence policies of these countries**.

The commitment to rapidly increase defence spending places an additional burden on national economies, forcing them to seek the necessary funds. In this context, it is important to distinguish short-term and long-term effects and the resulting preconditions for economic growth. In the short run, increased defence spending is usually associated with a positive economic

[20] Sargs.lv. 2023. Kariņš: NATO samitā pieņemtie lēmumi sniegs plašas aizsardzības iespējas Latvijai. https://www.sargs.lv/lv/viedoklis/2023-07-11/karins-nato-samita-pienemtie-lemumi-sniegs-plasas-aizsardzibas-iespejas
[21] Newdick, T. 2021. Here's How Finland Justified Its Decision To Buy 64 F-35 Joint Strike Fighters. https://www.twz.com/43458/heres-how-finland-justified-its-decision-to-buy-64-f-35-stealth-fighters
[22] Wolff, G. G., Steinbach, A., Zettelmeyer, J. 2025. The governance and funding of European rearmament. Policy Brief 15/2025, Bruegel. https://www.bruegel.org/sites/default/files/2025-05/PB%2015%202025_0.pdf
[23] The Economist. 2025, June 28th. The economic consequences of war.

stimulus, **but this largely depends on a well-considered financing approach**. When focusing on maximizing short-term gains, It is recommended to finance defence by increasing public debt. However, when taking on long-term commitments and to carry out a constant and sustained rearmament, it is necessary to make balanced fiscal adjustments by reducing government spending or increasing taxes. When it comes to tax increases, it is important to consider the dynamics of military equipment life cycle management costs, to avoid rapid tax increases.[24]

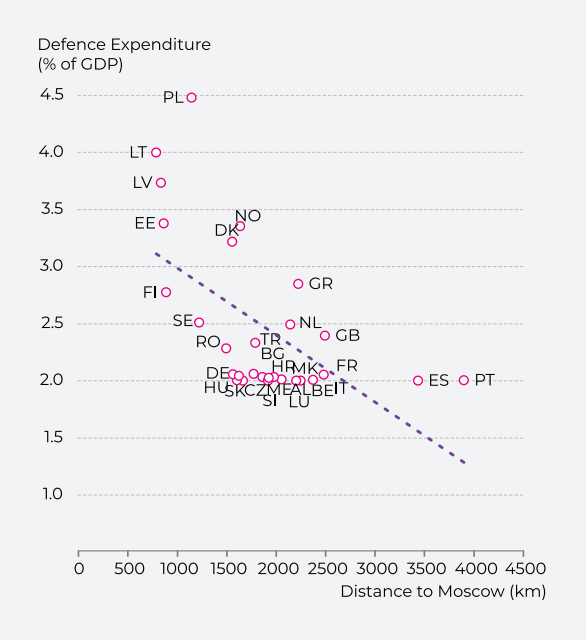
Within the ReArm Europe/Readiness 2030 plan, EU member states have been offered the opportunity to activate a national escape clause to ensure fiscal space for an additional 1.5% of GDP increase in defence spending. Latvia, along with 13 other countries, has requested the activation of the escape clause. However, as experts point out, this will potentially further promote "defence procurement nationalism," which could hamper a coordinated use of defence budgets and the development of strategic defence capabilities.[25]

While Increasing the budget deficit can be associated with a positive short-term impact, in the long term, it can negatively affect macroeconomic stability by increasing inflation and interest rates. Other financing approaches also have different advantages and disadvantages. For example, reviewing priorities and cutting government spending can have a disproportionately negative impact on socially vulnerable groups, while raising taxes can have a regressive effect, increasing social and economic inequality.[26]

Latvia's approach is generally consistent with maximizing the short-term benefits of increased defence spending. For example, the International Monetary Fund forecasts that in order to secure the necessary funding for increased defence spending, Latvia's headline fiscal deficit will increase to about 3% of GDP in 2025, however, a slight increase in revenue is expected from personal income tax reform.[27] The need to prioritize short-term gains stems from historically insufficient funding for the defence

Figure 9
Defence Expenditure of European Countries in 2025 (% of GDP) and Distance (in a straight line) from Their Capital Cities to Moscow (km)

Source: NATO and Google Maps



sector. In the current geopolitical context, insufficient defence capabilities force Latvian decision-makers to find solutions with a near-instant effect. A short-term approach does not require significantly more cooperation at the Baltic level.

A long-term approach to increasing defence spending requires closer coordination and cooperation between the three Baltic states. The Kiel Institute for the World Economy points out that the expected long-term benefits of increased defence spending are linked to accelerated technological development, including spillover effects between the military and civilian sectors, as well as economies of scale and increased productivity. To realize the potential for long-term benefits, it is necessary to implement a military procurement policy that promotes competition and the development of dual-use innovation, as well as ensures a balanced approach between the local and international levels.[28]

[24] Ilzetzki, E. 2025. Guns and Growth: The Economic Consequences of Defense Buildups. Kiel Report No. 2. https://www.ifw-kiel.de/publications/guns-and-growth-the-economic-consequences-of-defense-buildups-33747/
[25] Wolff, B. G., Steinbach, A., Zettelmeyer, J. 2025. The Governance and Funding of European Rearmament. Intereconomics, 60(4). https://www.intereconomics.eu/contents/year/2025/number/4/article/the-governance-and-funding-of-european-rearmament.html
[26] Liang, X., Tian, N., Lopes da Silva, D., Scarazzato, L., Karim, Z., Guiberteau Ricard, J. 2025. Trends in World Military Expenditure, 2024. https://doi.org/10.55163/AVEC8366
[27] IMF. 2025. Republic of Latvia: Staff Concluding Statement of the 2025 Article IV Mission. https://www.imf.org/en/News/Articles/2025/06/06/mcs060925-Latvia-Staff-Concluding-Statement-2025-Article-IV-Mission
[28] Ilzetzki, E. 2025. Op. Cit.

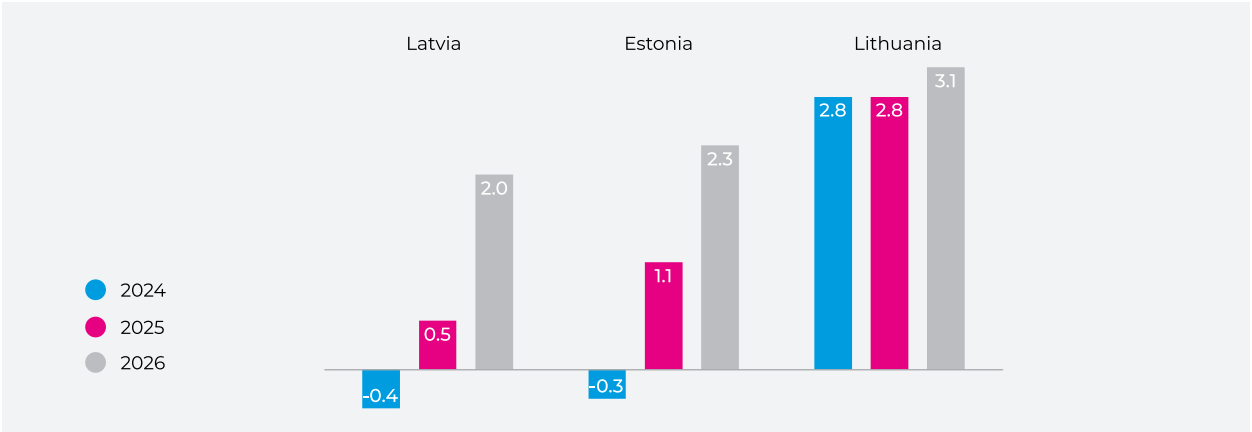
The tense security situation in the region negatively affects investment opportunities and limits economic growth forecasts for all Baltic countries. A coordinated approach to defence investments would demonstrate the commitment of the three Baltic states to work together and jointly ensure the security and stability of the region, which in turn would boost confidence and economic growth prospects. Although political rhetoric suggests that such a Pan-Baltic approach already exists, the proof is in the pudding, and, in practical terms, the Baltic defence cooperation should be improved.

The rapid increase in defence spending boosts countries' interest in developing their local defence industries, which stems from both the need to secure military supply chains from potential disruptions as well as economic growth. For example, the development of the defence technological and industrial base creates new jobs. The number of people employed in the defence industry in Europe increased by 4.34% in 2022 compared to the previous year, and by 8.92% in 2023.[29] Examples from other countries show that targeted development of the defence industry also has a positive impact on regional development.[30] As of now, there are no indications that this trend will change. Defence investment creates preconditions for the development of dual-use technologies and the adaptation of civilian technologies for military purposes; therefore, it must be seen as a catalyst for innovation and technological development. Investment in defence is also linked to the development of infrastructure for civilian and military needs, and the constant circulation of funds stimulates overall economic growth.[31]

A prerequisite for realizing economic potential in the long run is the competitiveness of the defence industry. From a global perspective, Europe's defence technological and industrial base is characterized by a significant fragmentation, which limits companies' ability to produce on a large scale, increases production costs, and generally weakens competitiveness.[32] Military systems manufactured in Europe are relatively expensive because they are ordered in small quantities – each country prioritizes purchases from the national defence industry, thus hindering the potential for economies of scale.[33] Although the latest trends show some degree of consolidation in the European defence industry,[34] **the level of coordination between the defence industries of the Baltic states remains low, which contributes to fragmentation, small order volumes, high prices, and low competitiveness**.

Figure 10
Real GDP Growth of the Baltic states in 2024 and Estimates for 2025-2026 (% year on year)

Source: Eurostat and European Commission



[29] The Aerospace, Security and Defence Industries Association of Europe. 2024. Facts & Figures 2024. https://umbraco.asd-europe.org/media/amoenldy/asd_facts-figures-2024_1119.pdf
[30] Nelson, E. 2025. Can the U.K.'s Military Spending Push Revive Its Small Towns, Too? https://www.nytimes.com/2025/05/12/business/uk-military-spending-economy.html
[31] Csobánci-H, A. 2025. Defence Spending as Economic Policy? Military Keynesianism in Today's European Context. https://finabel.org/wp-content/uploads/2025/05/IF-Adam-Csobanci-H.-May-2025.pdf
[32] Draghi, M. 2024. The future of European competitiveness: A competitiveness strategy for Europe. European Commission. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en
[33] Burilkov, A. et al. 2025. Op. Cit.
[34] Erdle, F., Scarazzato, L. 2025. What drove a recent wave of arms industry consolidation? https://www.sipri.org/commentary/topical-backgrounder/2025/what-drove-recent-wave-arms-industry-consolidation

Figure 11
Number of Employees in ASD's Defence Industry Companies 2021–2023 (thousand)
Source: The Aerospace, Security and Defence Industries Association of Europe (ASD)

Ramping up artillery shell production in the Baltics

Following Russia's full-scale invasion of Ukraine in 2022, European countries realized their critically low production capacities for artillery ammunition (especially, 155 mm). To continue the support to Ukraine while replenishing their own ammunition stocks, European countries have made significant investments in the defence industry, and the increase in artillery ammunition production capacity is significant – production capacity in Europe has already surpassed that of the U.S.[35]

The Baltic states are also determined to break into artillery ammunition supply chains, focusing on the development of individual components.

– Latvia plans to establish a production plant for modular powder charges within the framework of EU's "Act in Support of Ammunition Production", additionally allocating EUR 26 million from the state budget for this purpose.

– Estonia plans to establish a factory to produce hexogen – an explosive needed for artillery ammunition, initially investing EUR 7.2 million from the state budget, with plans to attract a strategic investor in the future.

– Lithuania has signed agreement with *Rheinmetall* to set up a 155mm ammunition production facility with the total investment of EUR 180 million.

In May 2025, the media reported that the Latvian government had also begun preliminary talks with Rheinmetall about a similar project in Latvia. It should be noted that there are currently no artillery ammunition production capacities in the Baltics, making it possible to specialize in the production of specific components through mutual coordination. This would make it possible to increase demand at the regional level, promote economies of scale, and move towards the production of standardized and interchangeable ammunition. Despite the potential, mutual coordination is lacking.

There is an obvious scepticism about the prospects of further defence industry integration at the EU level due to differing national interests and threat perceptions. However, it would be easier to move towards closer integration on the Baltic level because, unlike other EU countries, whose defence industries have historically been highly developed but have been weakened in recent decades due to low defence spending, **the development of the defence technological and industrial base in the Baltic states has begun only recently, which makes it possible to coordinate the development of the defence industry at an early stage**. The coordination of regional defence industry development is an area where the Baltic states can be leaders and set an example for other European countries, which are relatively slow to adapt to shocks.

[35] Burilkov, A. et al. 2025. Op. Cit.

2. LESSONS FROM PAST COOPERATION

Baltic defence cooperation began shortly after the restoration of independence, and over the course of thirty years, its intensity has varied. The aim of this chapter is to review the cooperation efforts to date and highlight the main lessons to be considered in the planning of future cooperation.

Less is more?

Cooperation in the field of defence and security has been one of the pillars of cooperation between the Baltic states since they regained their independence. Cooperation has developed both politically and militarily. At the political level, the most notable forms of cooperation are the Baltic Assembly, founded on November 8, 1991, and the Baltic Council of Ministers, established in 1994, which jointly address issues of concern to the Baltic states, including defence and security, which is one of the five thematic committees.

As for the military, notable developments have been the regular meetings of officials at various levels as well as the BALT initiatives launched in the 1990s: the battalion-level peacekeeping unit BALTBAT (1994), the joint naval squadron BALTRON (1998), the joint airspace surveillance system BALTNET (1998) and the higher military education institution BALTDEFCOL (1999). Of these initiatives, BALTDEFCOL and BALTNET continue to function today. In 2015, Estonia withdrew from BALTRON in order to focus on developing its mine countermeasure capabilities at the national level, while BALTBAT was disbanded in 2003, and although there have been couple of cases where the unit has been conditionally reinstated, it has never been fully deployed.[36] Over time, there have been several other BALT initiatives, such as BALTSEA, which existed from 1997 to 2005 and was intended to coordinate the receipt of international defence assistance, the joint information system projects BALTCCIS and BALTLOG, and the military medicine project BALTMED.[37] There have also been other initiatives, such as the Norwegian-Baltic joint staff development initiative NORBALTPERS, which established a working group to develop the distance learning platform BALTDISTLEARN.[38]

The turning point was accession to NATO and the EU in 2004, which significantly reduced the scope of mutual cooperation. Nonetheless new initiatives have emerged since then. For example, in 2015, the Baltic Joint Staff Element (B-CJSE) was established to ensure operational-level cooperation between the armed forces of the Baltic states, while in 2024, in response to the growing need to fortify the Eastern border of the Baltic States (and NATO) with military technical means, a new, ambitious initiative was launched – the Baltic Defence Line.

Cooperation between the Baltic states continues within the framework of multilateral initiatives and international organizations. Not only did the Baltic states simultaneously become members of the EU and NATO, but in 2014 they also joined the Joint Expeditionary Force (JEF) established under the leadership of the United Kingdom. In 2018, the Baltic Special Operations Forces Intelligence Cooperation Cell (BSIFC) was established, jointly formed by the three Baltic states and Poland with the support of the United States.[39] Finally, in 2023, the 3+3 format was proposed by Germany, which established a fixed coordination mechanism between the three Baltic states and the leading countries of the NATO multinational brigades stationed in their territories.

[36] Jermalavičius, T., Lawrence, T., Merilind, A.L. 2020. The Potential for and Limitations of Military Cooperation among the Baltic States. In Čenskas, G., Statkus, N. (eds). 2020. Lithuania in the global context: national security and defence policy dilemmas.
[37] Andžāns, M. Kažociņš, J. 2024. Op. Cit.
[38] Nacionālā Aizsardzības akadēmija. 2007. Žurnāls "Kadets" Nr. 35., 55.lpp.
[39] Kamiński, M., Hadeed, M., Sus, M., Swaney, B., Theussen, A. 2021. Baltics Left of Bang: The Southern Shore. Strategic Forums. 4. https://digitalcommons.ndu.edu/strategic-forums/4

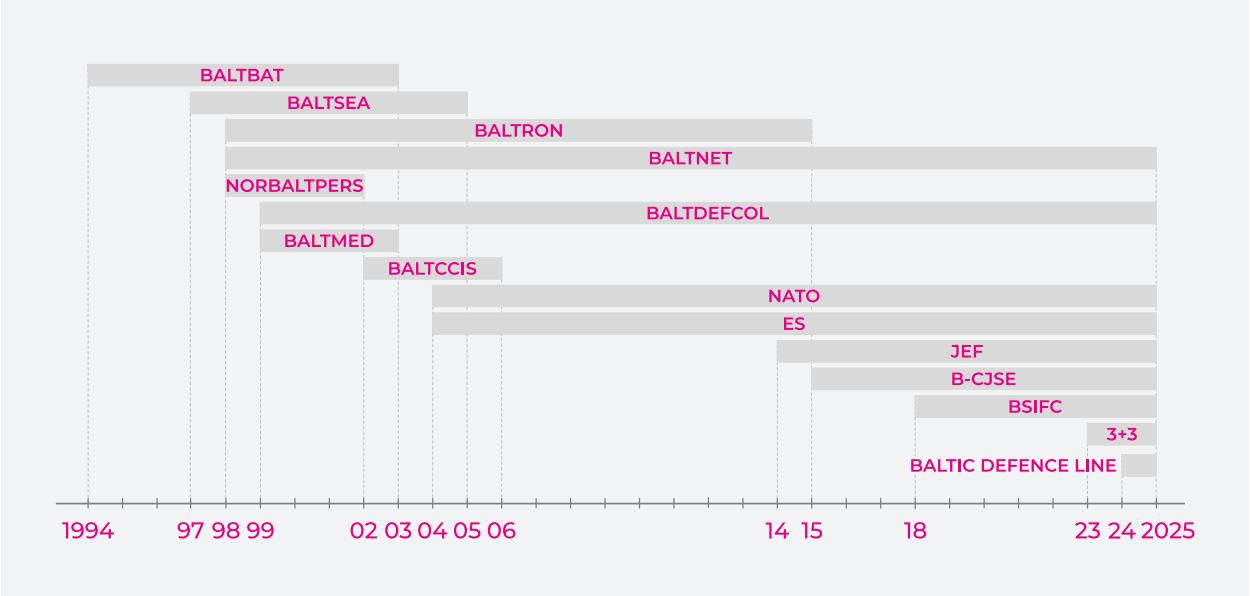
Looking at cooperation between the Baltic states over the years, the number of initiatives has actually increased. What is more, the Baltic states have been able to adapt and continue their cooperation by joining new multinational cooperation formats and international organizations. However, despite this seemingly positive development, the **Baltic states' ambitions for trilateral cooperation have weakened since 2004**. Lack of trilateral procurements and low levels of interoperability and standardization resulting from the use of different weapons and military equipment are often especially emphasized.[40]

On January 29, 2013, a trilateral Memorandum of Understanding was signed establishing framework for Baltic defence and military cooperation. The agreement was justified at the time with the need to fulfil the provisions of the conceptual policy documents such as the task included in the Government's action plan to develop joint Baltic capabilities. This plan provided for the specialization of the Baltic states with the aim of promoting Baltic integration and division of labour in the military field.[41] This shows that the idea of closer cooperation between the Baltic states in the field of defence is relevant regardless of defence budget sizes or the security situation in the region.

Baltic defence cooperation is not an end in itself; but it needs to be result-based. The potential for Baltic defence cooperation is smaller than it might initially appear, but even this **relatively limited potential is not being fully exploited**. Moreover, the essence of the problem does not lie in the lack of cooperation formats and initiatives – several other factors influence how successfully the cooperation develops.

Figure 12
Involvement of the Baltic States in Different Cooperation initiatives and International Organizations 1994-2025

Source: Compiled from publicly available information



[40] Andžāns, M. Kažociņš, J. 2024. Op. Cit.
[41] Ministry of Defence of Latvia. 2013. Ministru kabineta sēdes protokollēmuma projekta "Par Latvijas Republikas Aizsardzības ministrijas, Igaunijas Republikas Aizsardzības ministrijas un Lietuvas Republikas Nacionālās Aizsardzības ministrijas saprašanās memorandu par sadarbību aizsardzības un militāro attiecību jomā" sākotnējās ietekmes izvērtējums (anotācija).

Where you stand depends on where you sit

Interstate cooperation (as evidenced by the case of the Baltic states) can be implemented in various ways; consequently, the facets promoting and hindering interstate cooperation in the field of defence also differ. Factors influencing cooperation can be both structural and long-term, such as strategic culture and historical experience, as well as temporary and relatively easier to manage, such as personal relationships between decision-makers or rapid changes in defence spending. Thus, the prospects for improving regional defence cooperation depend on the implementation of a combination of measures appropriate to each specific case.[42]

In the case of the Baltic states, both structural and short-term factors have historically influenced and continue to influence the potential for cooperation. As it facilitated the Baltic states' progress towards NATO membership, the cooperation up to 2004 was generally considered successful. A fundamental role was played by the leadership of foreign partners both in coordinating international support projects (for example, Sweden has been the main coordinator of the BALTDEFCOL and BALTMED projects) and in strengthening mutual interoperability by supplying standardized equipment to all three countries.[43]

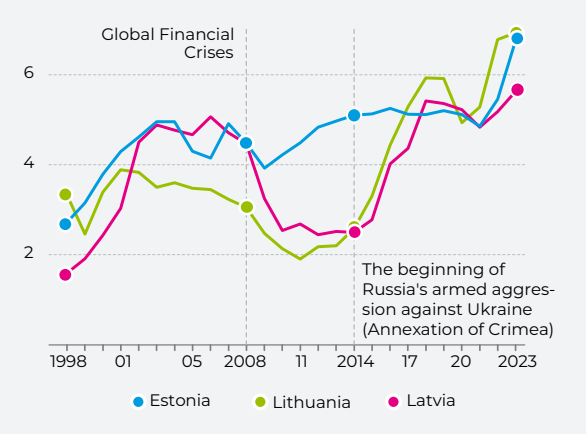
Since 2004, one of the most common explanations for the not-so-successful Baltic defence cooperation has been related to a lack of trust and mutual competition. Lithuanian researcher Tomas Jermalavičius noted back in 2009 that defence cooperation between the Baltic states is negatively affected by a "combination of three factors: foreign disengagement, divergent national responses to NATO's global strategy, and the competitive instincts of the three defence organisations".[44] Similar assessments can be found in subsequent years, when researchers describe cooperation between the Baltic states in relation to attracting resources from allied countries as a zero-sum game, where **the gains of one party are perceived as losses for the other**.[45]

Looking at the historical defence spending of the three Baltic states, the period between 2008 and 2014 (i.e., between the Global financial crisis and the beginning of Russia's armed aggression against Ukraine) is particularly noteworthy. In 2008, Latvia and Estonia both allocated 4.5% of total government expenditure to defence, but Lithuania allocated only 3.1%. While the crisis did not significantly impact Estonia's defence spending – which already accounted for 5.1% of government spending in 2014 – in Latvia and Lithuania, the figures were lower, at 2.5% and 2.6%, respectively.

Although in recent years all three Baltic countries have allocated a similar proportion of their budgets to defence, **differences in defence spending between 2008 and 2014 continue to pose a negative impact on closer military integration and prospects for future cooperation among the three**.

Figure 13
Defence Spending of the Baltic States 1998-2023 (% of Total Government Expenditure)

Source: World Bank



[42] Zandee, D., Drent, M., Hendriks, R. 2016. Defence cooperation models. Lessons learned and usability. Clingendael Report. https://www.clingendael.org/sites/default/files/2016-02/Report_Defence_cooperation_models.pdf
[43] Isberg, J. G., Frisk, J., Nordmark, M. 2021. The Swedish Armed Forces' Support for the Baltic States 1996-2006. Svenskt militärhistoriskt bibliotek.
[44] Jermalavičius, T. 2009. Baltic Military Cooperation: Past, Present and Future. https://icds.ee/en/baltic-military-cooperation-past-present-and-future-2/
[45] Jermalavičius, T., Järvenpää, P., Janeliūnas, T., Vanaga, N., Gotkowska, J., Szymanski, P. 2018. NATO's Northeast Quartet: Prospects and Opportunities for Baltic-Polish Defence Cooperation. https://www.osw.waw.pl/sites/default/files/ICDS-Policy-Paper-NATOs-Northeast-Quartet-November-2018.pdf

It is noteworthy that defence has not been a high priority on the Latvia's political agenda since regaining independence. For example, in 1995, the country's main defence policy planning document, the Defence Concept of the Republic of Latvia, stated that "given the strain on the state budget, significant expenditure in the field of defence is not currently considered justifiable".[46]

The gap between the military capabilities of the Baltic states is not only caused by the total amount of defence spending. An even more important indicator is the amount of defence investment (i.e., the purchase of military equipment as well as research and development). When comparing this indicator, Estonia's leadership is also evident. In 2014, Estonia allocated 22.15% of its defence budget to investment, Latvia – 7.5%, and Lithuania – 14.6%.[47] At the 2014 Wales

Figure 14
Defence Investment in Military Equipment of the Baltic States in 2014 and 2024 (% of Defence Budget)

Source: NATO

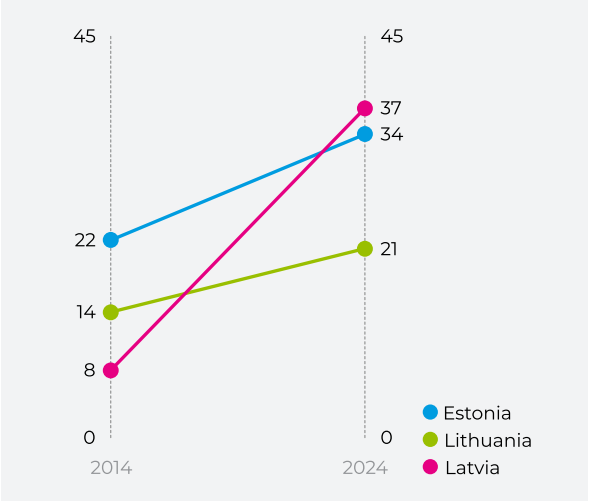
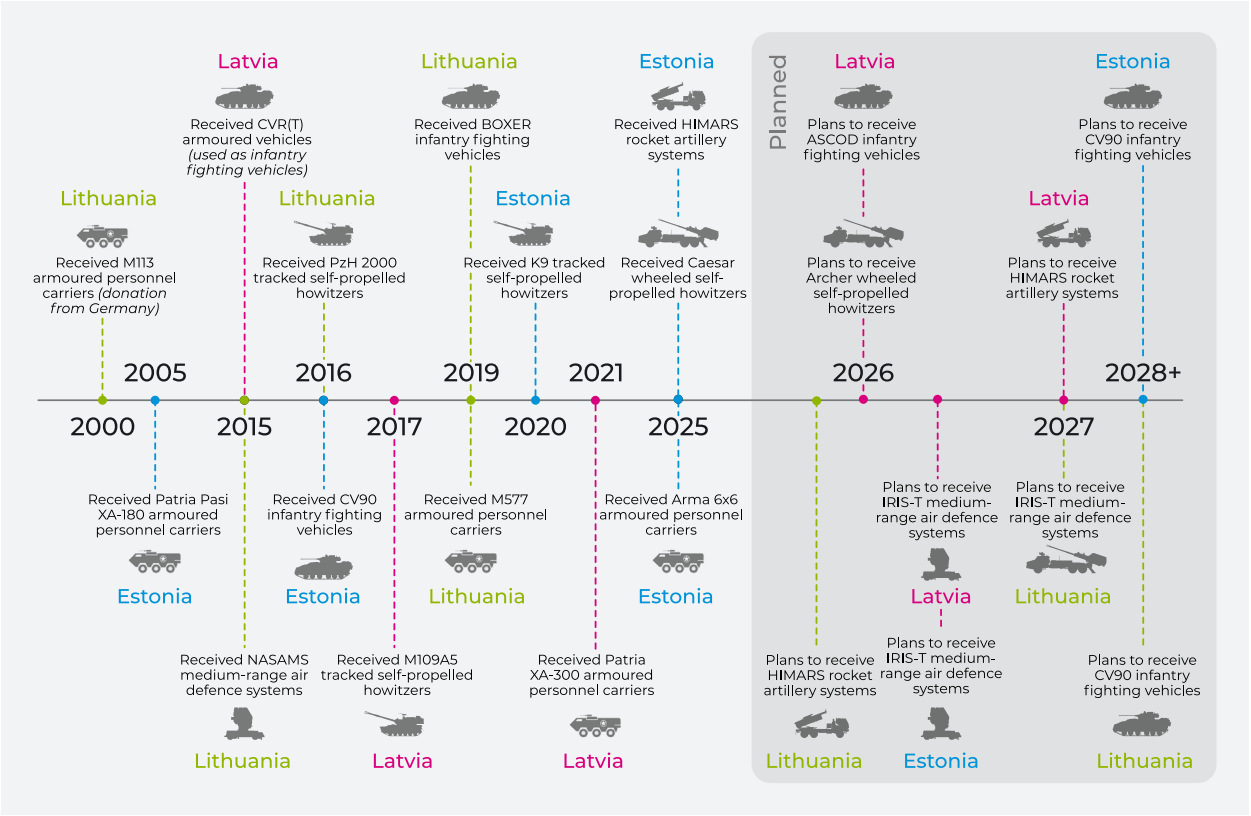


Figure 15
Deliveries of Main Military Equipment to Latvia, Lithuania, and Estonia

Source: Compiled from publicly available information



[46] Ministry of Defence of Latvia. 1995. Latvijas Republikas aizsardzības koncepcija. https://www.mod.gov.lv/sites/mod/files/document/VAK_1995_2001.pdf
[47] NATO. 2024. Defence Expenditure of NATO Countries (2014-2024). https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf

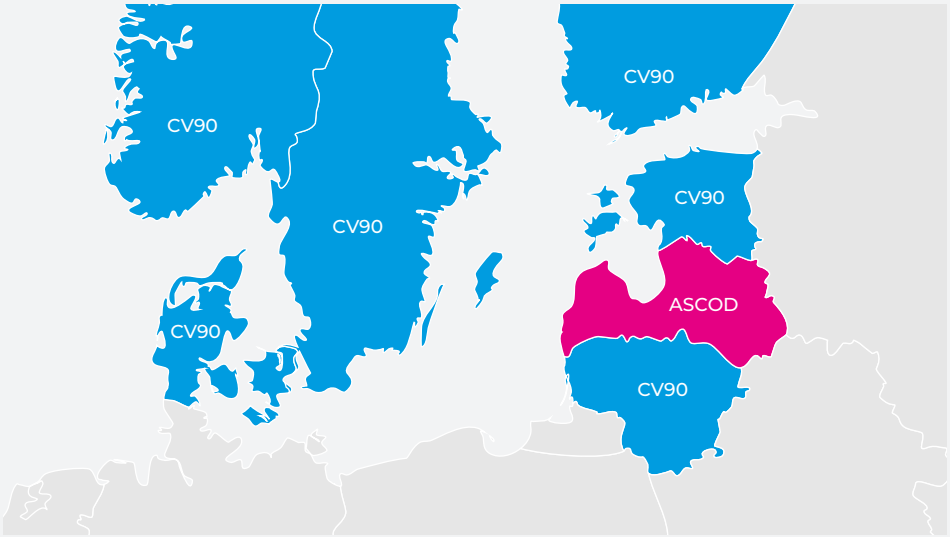
Summit, NATO member states committed to spending at least 20% of their defence budgets on defence investments. Since then, **all three Baltic states have significantly increased defence investment in military equipment and R&D**.

But even proportionally large investments in the purchase of defence equipment do not necessarily mean an immediate increase in combat capability. The current divergent priorities of the Baltic states' defence planning are linked to the uncoordinated purchase of key equipment in the past. Both the timing of the purchases and the platforms selected were different. Differing approaches result in dissimilar levels of capabilities and reduces the potential for future cooperation, especially in areas such as joint procurement or research and development. This can best be visualized by showing when each country introduced the main military equipment systems into its arsenal.

Interoperability vs interchangeability in the Baltics

Figure 16
Tracked Infantry Fighting Vehicle Platforms in the Baltic and the Nordic Countries (in use and planned)

Source: Compiled from publicly available information



In early 2025, Latvia announced that it plans to acquire ASCOD infantry fighting vehicles jointly developed by Austria and Spain. A few months later, it was announced that these platforms would be partially produced in Valmiera starting in 2026. The fact that Latvia will develop infantry fighting vehicle production capacities is in and of itself a major achievement. Although armoured personnel carriers are already being produced in Valmiera, infantry fighting vehicles are technologically more demanding and sophisticated and make a greater operational contribution to the tasks of the armed forces.

Baltic Defence Review points out that this choice comes as a surprise, as the most likely winner was the Swedish-built CV90 platform, which has similar operational performance, can offer a similar amount of local industry localisation and is used by the armed forces of other countries in the region.[48]

A few months later, in June 2025, the Defence Ministers of Lithuania, Estonia, Sweden, Finland, Norway and the Netherlands signed an agreement to harmonise technical requirements for the joint acquisition of CV90 platforms, which are already in the arsenals

[48] Baltic Defence Review. 2025. Why Did Latvia Choose The ASCOD As Its New IFV? https://www.youtube.com/watch?v=BFpYcv_ZhuM

of all these countries (except Lithuania). It is estimated that Lithuania will start receiving the first CV90 platforms around 2028 so that the Lithuanian division reaches full operational capability in 2030, which largely coincides with estimates of the time it will take for Russia to rebuild its military capability to pose a large-scale conventional military threat against NATO. It is important to underline that in the case of Lithuania, the acquisition of CV90 also implies the transfer of knowledge and technology to the Lithuanian defence industry, including assembly and maintenance.

The main reason for choosing ASCOD has been shorter delivery time. As Latvian Ministry of Defence representative has stated, at the beginning of IFV platform selection process CV90 offer was not received, and joining the multilateral process at later stage would extend delivery times.[49] He failure to receive the offer is likely associated with the relatively small demand of Latvia alone. Such prioritisation of short-term needs is understandable in the Latvian case, as Latvia still does not have infantry fighting vehicles, unlike Lithuania and Estonia. At the same time this example illustrates the necessity of states (especially, small ones) to coordinate their defence capability development planning processes to increase their demand and benefit from economies of scale.

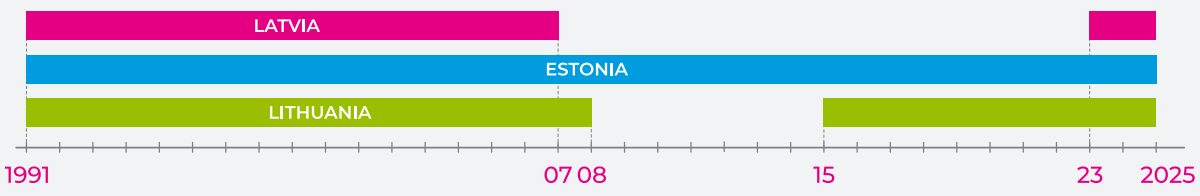
However, If Latvia had opted for the CV90, it would not only have contributed to increased interchangeability, but also Latvia could have played a more significant regional role by being involved in the production, maintenance, and repair of platforms used region wide. This would also be important during crisis or war where military platforms need to be regularly repaired and overhauled, so such capabilities could be coordinated between the end-users.

A rather similar example is the selection of wheeled artillery. While Lithuania and Estonia have decided on Caesar self-propelled howitzers, in June 2025, Latvia and Sweden signed a Memorandum of Understanding for the purchase of Archer platforms. On the one hand, this is a positive example of a joint acquisition process and subsequent cooperation in personnel training and technology transfer, but on the other hand, it is another missed opportunity for the three Baltic states to use interchangeable platforms.

While the introduction of equipment is an essential aspect of strengthening defence capabilities, the recruitment and training of personnel to operate this equipment is of equal importance. Estonia is the sole Baltic country to have maintained compulsory military service without interruption since its introduction in 1991. In the case of Lithuania, compulsory military service was abolished in 2008 and reinstated in 2015 in response to the Russian military aggression against Ukraine, while in Latvia it was abolished in 2007 and reinstated in 2023 in response to the full-scale Russian invasion of Ukraine.

Figure 17
Compulsory Military Service in the Baltic States 1991-2025

Source: Compiled from publicly available information

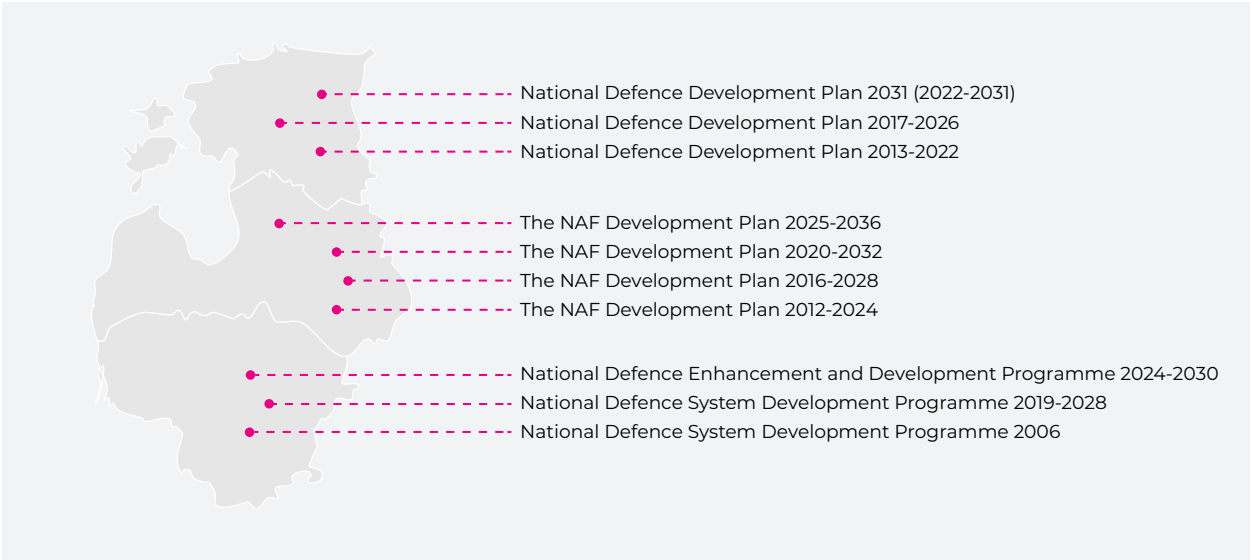


[49] XTV Broadcast "Kārtības rullis". 30.06.2025. Kārtības rullis 1. daļa. https://xtv.lv/rigatv24/video/8AGObv0v7Q2-30_06_2025_kartibas_rullis_1_dala

The prospects for future cooperation are also influenced by synchronisation of planning cycles. While regular contact is maintained between Baltic defence officials to exchange information and identify opportunities for cooperation, synchronisation of defence planning cycles could be an important step towards enhancing mutual coordination. Looking at the defence planning and capability development documents of the three Baltic states, three distinct cycles can be identified.

Figure 18
Defence Planning Documents of the Baltic States

Source: Ministries of Defence of the Baltic states



3. THE BALTICS MUST CONTINUE LEARNING FROM THE NORDICS

Like the Baltic countries, the Nordic countries are also comparable in terms of area, population and economic development. The Nordic countries share similar political systems and common historical ties. Cooperation between the Nordic countries covers a wide range of areas and is considered to be one of the most extensive examples of regional cooperation in the world.[50] The Nordic countries also cooperate in the field of defence, so the aim of this chapter is to analyse what Nordic best practices can be adopted by the Baltic states. Although Iceland is also part of the NORDEFCO cooperation format, given that it does not have a standing regular army, this chapter will focus primarily on the four Nordic countries - Finland, Sweden, Norway, and Denmark.

Table 2
Comparison of the Nordic States

Source: Britannica, Eurostat, NATO, Official statistics, Ministries of Defence; ECB average exchange rates for 2024

Indicator	Finland	Sweden	Norway	Denmark
Territory	338 485 km²	447 425 km²	384 482 km²	42 954 km²
Population (2025)	5 635 971	10 587 710	5 594 340	5 992 734
GDP (2024)	275.963 billion EUR	559.139 billion EUR	446.866 billion EUR	392.401 billion EUR
GDP per capita in current prices (2024)	49 100 EUR	52 600 EUR	80 200 EUR	65 650 EUR
Defence Budget % of GDP (2024)	2.41 %	2.20 %	2.20 %	2.37 %
Defence Budget (2024)	6 777 million EUR	10 977 million EUR	9 649 million EUR	9 206 million EUR
Border with Russia	1340 km	-	198 km	-
Export % of total (2024)	11 3 2	10 7 7	7 5 3	9 6 2
Import % of total (2024)	17 7 4	9 7 5	11 4 2	12 5 1

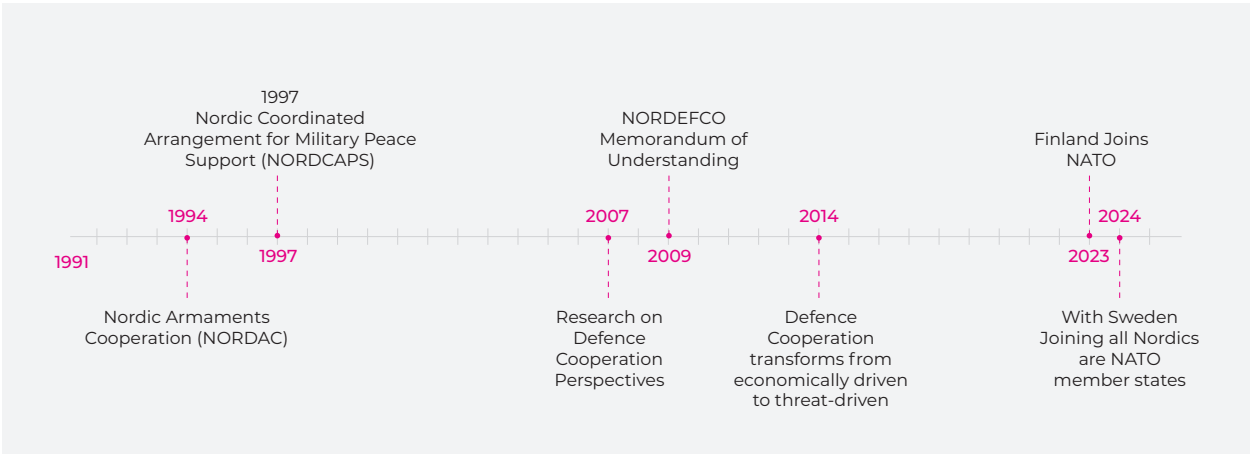
While there are several differences in the historical context between how Nordic defence cooperation and Baltic defence cooperation have developed, it should be noted that there are also similar trends in both cases. Defence cooperation between the Nordic countries was limited during the Cold War due to different foreign policy strategies - Denmark, Norway and Iceland were founding members of NATO, while Sweden and Finland pursued a neutral foreign policy course and did not join the Alliance.

[50] Liimatainen, T. 2023. Nordic added value in Nordic research co-operation. https://www.nordforsk.org/node/1176

The Nordic defence cooperation intensified around the end of the Cold War. Of particular note was the signing of the Memorandum of Understanding on the establishment of NORDEFCO in 2009. The main objective of the cooperation was initially related to overcoming the economic challenges posed by the rising cost of military equipment and shrinking defence budgets.[51] Since 2014, the main driver for cooperation has been a shared understanding of the threat.[52]

Figure 19
Development of Defence Cooperation Between the Nordics

Source: Compiled from publicly available information



Let's compare the plans

The accession of Finland and Sweden to NATO has greatly facilitated the prospects for NORDEFCO's further development. In 2023, Sweden called for a new strategic vision for NORDEFCO, leading to increased operational-level cooperation between the Nordics and including a broader focus than just peacetime tasks.[53] In interviews, Nordic defence officials also emphasise that the primary objective of NORDEFCO Vision 2030 is **to develop cooperation mechanisms so that the Nordic countries can jointly plan and carry out military operations in crisis situations below the threshold of activating the NATO's Article V**.

In practice, this means that the Nordic countries are aligning their operational defence plans. The aim is to ensure coordinated joint action to meet the region's defence challenges. This also implies joint training processes (including table-top crisis exercises at strategic and operational levels). Although the capability development planning processes are not synchronised, a common understanding of the tasks to be performed also creates the preconditions for joint procurement. For example, in 2023, the Commanders of the four Nordic Air Forces signed a Letter of Intent on closer cooperation in the development of UAV capabilities, which paves the way for joint development and acquisition processes, as well as joint training and deployment of systems.[54]

Historically, adopting the lessons learned from NORDEFCO has played an important role in planning the cooperation between the Baltic states. For example, the Memorandum of Understanding on Baltic Defence Cooperation signed in 2013 is structured along the lines of the NORDEFCO Memorandum of Understanding.[55]

It is important to continue learning from the Nordics, as the ability to cooperate in the

[51] Saxi, H. L. 2011. Nordic defence cooperation after the cold war. Institutt for forsvarstudier. Oslo Files on Defence and Security Mar/2011.
[52] Saxi, H. L. 2019. The rise, fall and resurgence of Nordic defence cooperation. International affairs, 95(3). https://doi.org/10.1093/ia/iiz049
[53] Government Offices of Sweden Ministry of Defence. 2023. Nordefco 2023: Swedish priorities. https://www.government.se/contentassets/af55ea6166c5419c98413deba4f6debe/nordefco-2023---swedish-priorities-230117.pdf
[54] Winberg, M. 2025. A Combined Nordic UAV Squadron: – An Opportunity Waiting to be Explored. Norsk luftmilitært tidsskrift LUFTLED.
[55] Ministry of Defence of Latvia. 2013. Op. Cit.

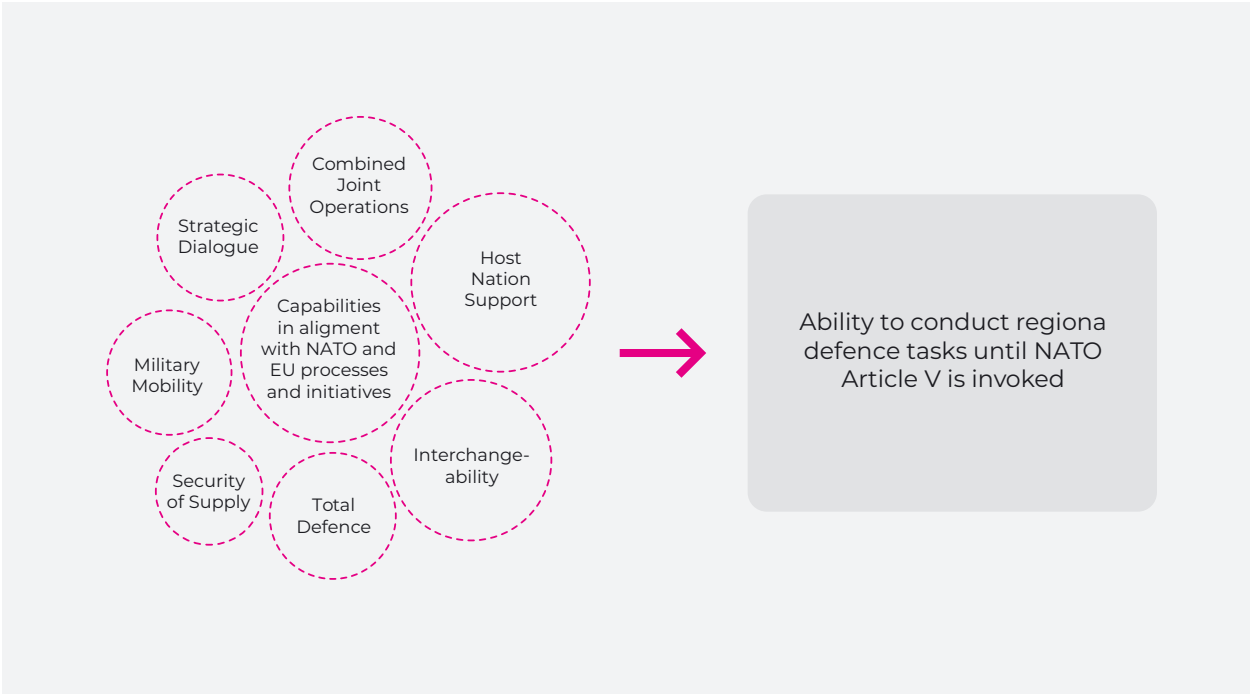
phase between the onset of a military crisis and the arrival of reinforcements or NATO Response Forces would also be critical for the defence of Baltic states. It is estimated that the first elements of a brigade-level unit of the Very High Readiness Force (VJTF) would be ready to move to the crisis region within two to three days, and the remaining elements – within a week.[56]

The Nordic example shows that **a top-down approach to planning regional defence cooperation is advisable**, i.e. cooperation has to be initiated at the political level, but its implementation is organised top-down from the political to the strategic, from the strategic to the operational and from the operational to the tactical level.

The political commitment to strengthen the Nordic Defence Cooperation is illustrated by the Vision for Nordic Defence Cooperation 2030. This document identifies a shared understanding with regards to eight strategic areas. Drawing on the lessons from past cooperation within NORDEFCO, the vision stipulates that defence capability development will be aligned with both national priorities and NATO requirements.

Figure 20
NORDEFCO Vision 2030: Eight Priority Areas of Cooperation

Source: NORDEFCO



Previous studies on the Baltic cooperation also confirm that, while a bottom-up approach may be useful in some cases, the long-term development of Baltic defence cooperation can be best achieved through a top-down approach.[57]

There already are examples of joint political and strategic-level documents for the implementation of Baltic defence cooperation projects, such as the latest memorandum between the Defence Ministers of the three Baltic states on the cooperation in the construction of the Baltic Line of Defence.[58]

However, in the broader context, **the Baltic states lack a shared vision of what they want to achieve through cooperation**. Recognising the limitations to cooperation, a common Baltic defence vision would pro-

[56] NATO Land Command. n. d. NATO Response Force (NRF). https://lc.nato.int/operations/nato-response-force
[57] Jermalavičius, T. et al. 2020. Op. Cit.
[58] Ministry of Defence of Lithuania. 2025. Krašto apsaugos ministrė D. Šakalienė: Lietuva per artimiausius dešimt metų į kontrmobilumo priemones investuos 1,1 mlrd. Eurų. https://kam.lt/krasto-apsaugos-ministre-d-sakaliene-lietuva-per-artimiausius-desimt-metu-i-kontrmobilumo-priemones-investuos-11-mlrd-euru/

vide a framework for developing further cooperation between ministries of defence and the armed forces, as well as the defence and security industries.

NORDEFCO's experience shows that the challenges hindering closer cooperation, such as mutual mistrust, competition and sovereignty concerns, are not unique to the Baltic states. At the same time, it is possible to overcome those differences, especially when countries share common values and perceive threats similarly. A shared understanding of the threat illustrates the essential role of interoperability and standardisation in defence.

In the context of defence planning, this means that cooperation initiatives, such as joint procurement, should not be seen as ends but rather as means to enhance the ability of countries to jointly perform regional defence tasks. In this context, it should be noted that the Nordic countries do not hold a record of many successful joint procurements involving all four countries. Several unsuccessful joint procurements have in the past led to a negative assessment of NORDEFCO's overall potential.[59] Some researchers have even concluded that the ambition of joint military procurement should be reduced or abandoned altogether.[60]

At the same time, Nordic defence officials emphasise the role of international cooperation formats, for example, the NATO Support and Procurement Agency (NSPA) which can provide standardised and interchangeable military platforms to the armed forces through separate acquisition processes.

One way to promote joint procurement is by harmonising and reducing technical requirements. In 2025, the four Nordic countries signed a Technical Agreement aimed at harmonising ammunition certification requirements. This initiative is expected to encourage joint procurement projects and eventually lead to the use of interchangeable ammunition.[61] It should be noted that the understanding of the need to use interchangeable munitions is rooted in a shared awareness of the necessity to conduct joint operations to defend the region.

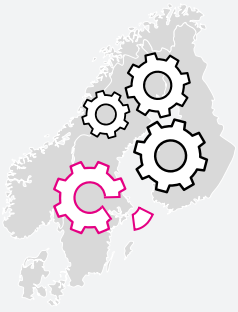
Joint procurement in the Nordics

Even before NORDEFCO was set up, the Nordic countries pursued joint military procurement projects, however, the degree of success has varied.

The Nordic Combat Uniform project launched in 2016, which included joint acquisition and testing, has been labelled as the only successful quadripartite Nordic military procurement in the past.[62] Nevertheless, while combat uniforms are functionally standardised, each country uses a different camouflage pattern, which reduces the degree of interchangeability.

There have been several successful bilateral and trilateral Nordic military procurements, such as the joint procurement of military cargo vehicles by Norway and Sweden and the joint procurement of firearms by Finland and Sweden.

Other joint Nordic projects have been less successful. For example, in 2001, Sweden, Norway, Finland and Denmark sought acquire a common, standardised helicopter platform, but while Norway, Sweden and Finland opted for AgustaWestland products, Denmark opted for NHIndustries helicopters. Project Viking, the joint Norwegian, Danish and Swedish submarine development and acquisition process, has also been unsuccessful, with Denmark withdrawing after reviewing capability development priorities, and Norway becoming an observer to the project.



[59] Dahl, A. S. 2021. Back to the future: Nordefco's first decade and prospects for the next. Scandinavian Journal of Military Studies, 4(1). https://doi.org/10.31374/sjms.85
[60] Saxi, H. L. 2019. Op. Cit.
[61] Ministry of Defence of Finland. 2025. Nordic countries to harmonise processes for certification of ammunition. https://www.defmin.fi/en/topical/press_releases_and_news/nordic_countries_to_harmonise_processes_for_certification_of_ammunition.14882.news#559d1179
[62] Saxi, H. L. 2019. Op. Cit.

Additional political pressures arise from the inability to successfully implement projects involving potential acquisitions from the domestic defence industry. For example, in 2009, Sweden and Norway jointly committed to purchase Swedish-made Archer artillery systems to achieve economies of scale. Norway withdrew from the project in 2013 on the grounds that the platforms did not meet the operational requirements of the armed forces.

It should be noted that there are similar examples of jointly initiated projects among the Baltic states from which some have withdrawn over time. For example, in early 2020, Finland, Latvia and Estonia launched a joint programme to develop and later acquire six-wheeled armoured personnel carriers, today known as Patria XA-300. Estonia withdrew from the programme soon after its launch and signed a contract in 2023 to acquire the Turkish-made Otokar Arma six-wheeled armoured personnel carriers. Despite Estonia leaving, Sweden, Germany and Denmark have joined the CAVS programme over time, highlighting the CAVS programme as a successful example of the ability of countries to implement joint projects and strengthen interoperability.

Defence industry – united we stand, divided we fall

For the Nordics, economies of scale and efficient processes are achieved through joint acquisition of equipment, life-cycle management, and training of personnel. However, defence cooperation is not limited to the public entities but also involves Nordic defence industries. Competitiveness of the defence industry is identified as one of NORDEFCO's objectives in the Memorandum of Understanding signed in 2009.

Although the Nordic defence industry governance models and levels of national involvement differ (e.g. Danish defence companies are primarily privately owned, while Finland has a high level of state involvement), a specialisation of each defence industry can be identified.

The NORDEFCO Concept for Industry Dialogue was published in 2015 and revised in 2019. The objectives of the concept are derived from NORDEFCO's Vision and emphasise that the primary objective is to create the conditions for industrial cooperation and competitiveness. The dialogue involves several NORDEFCO working groups (the Political Steering Committee, Military Steering Committee and Armaments Cooperation Working Group) on the one hand, and defence industry associations and, where appropriate, individual defence industry companies on the other. At the same time, the principles of transparency are respected in order not to give unfair advantages to specific companies in procurement processes.

NORDEFCO's Security of Supply Coordination Working Group plays a distinct role, focusing on the continuity and resilience aspects of military supply. This working group has a mandate to participate in industry dialogue with the aim of addressing bottlenecks in supply chains.

This practice should be replicated in the Baltic countries. Consultative dialogues with the defence industry at national level are already taking place and they demonstrate the importance of information exchange in achieving strategic objectives.[63] General cross-border industry dialogues are also organised in the Baltics. For example, the Estonia-Latvia Business Dialogues have been held at the Business Hub opened at the Embassy of Estonia in 2025.[64] The existing initiatives do not conflict with the need for a tripartite coordination platform for the defence industry. On the contrary, they can facilitate the establishment of such cooperation platform, taking into account what has been done so far.

The Nordic experience shows that such an approach **facilitates coordination and specialisation which increases competitiveness across the region**, as well as encourages partnerships for international tenders or initiatives such as the European Defence Fund.

The European Defence Fund (EDF), launched in 2021, brings together European

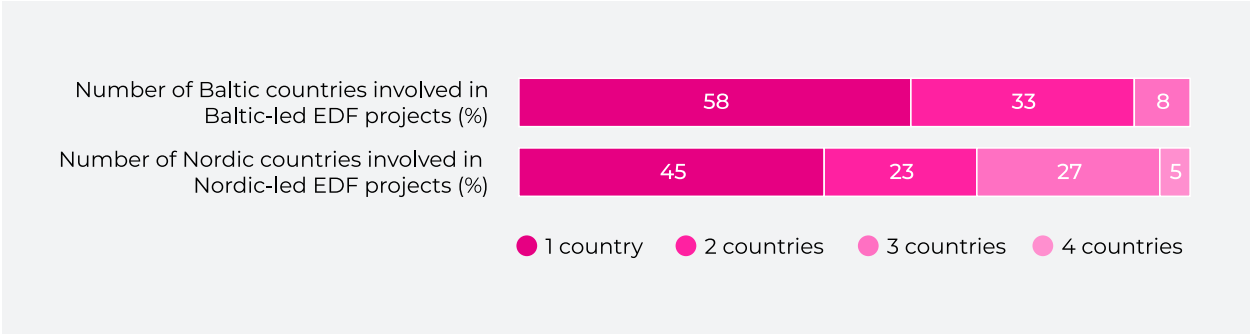
[63] Ministry of Defence of Latvia. 2025. Aizsardzības industrijas konsultatīvās padomes trešajā sēdē diskutē par industrijas aktualitātēm. https://www.mod.gov.lv/lv/zinas/aizsardzibas-industrijas-konsultativas-padomes-tresaja-sede-diskute-par-industrijas

[64] Trade with Estonia. 2025. Estonia opened a business hub in Latvia, fostering collaboration in the region. https://tradewithestonia.com/estonia-opened-a-business-hub-in-latvia-fostering-collaboration-in-the-region/

industry and research institutions to carry out projects with specific objectives. The EDF is considered to be one of the most important EU-level initiatives in the field of defence, playing a key role in reducing existing market fragmentation.[65] In the four EDF calls, 55% of all projects led (coordinated) by a Nordic country have involved at least one other Nordic country in the project consortium – i.e. Nordic-coordinated EDF projects with two, three or four Nordic countries in the consortium. In contrast, more than half (58%) of the EDF projects coordinated by a Baltic state have not involved other Baltic states. Moreover, the only EDF project coordinated by a Baltic state with all three Baltic states represented in the consortium was implemented within the first EDF call in 2021.

Figure 21
Number of Baltic States Involved in Baltic-led EDF Projects and Number of Nordic States Involved in Nordic-led EDF Projects 2021-2024 (%)

Note: Within the timeframe of 2021-2024 the Nordic states led 22 EDF projects, whereas the Baltic states led 12 EDF projects
Source: European Commission



The *Nordic Defence Review* indicates the existing specialisation of the Nordic defence industries and points out that it fosters cooperation and innovation:

- **Norway** is described as a naval domain industrial powerhouse with highly developed capabilities in advanced weapon systems and command and control systems.
- **Sweden** is an innovation leader, developing complex, globally competitive and cost-effective technologies.
- The **Danish** defence industry is smaller but has carved out a unique niche in radar technology, aerospace structures and ship and aircraft self-defence systems.
- **Finland** has a strong mechanical engineering industry, indirect fire weapon systems (mortars) and aerospace components.[66]

The Nordic Defence Partnership of *NAMMO, Patria* and *Kongsberg Aerospace & Defence* is a shining example of the ability of states and companies to work together and develop defence industrial capacities.

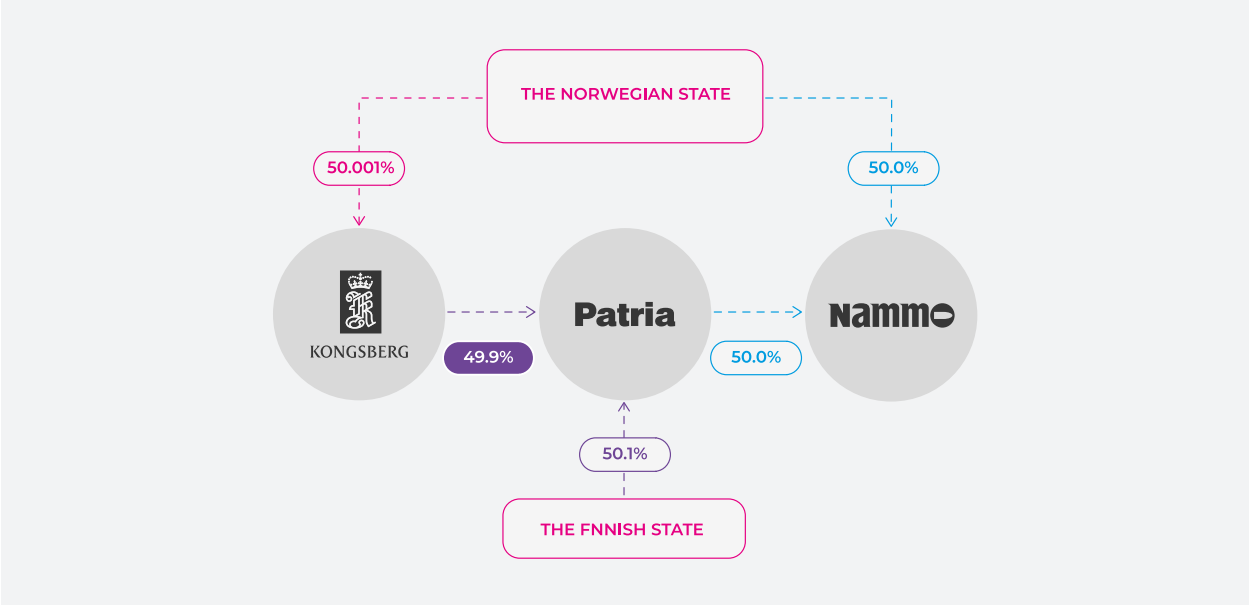
NAMMO was founded in 1998 when Norwegian, Swedish and Finnish ammunition manufacturers merged to form a joint venture. Currently, the Norwegian Ministry of Trade, Industry and Fisheries owns 50% of *NAMMO* alongside the Finnish company *Patria*, which owns the other half. In turn, 50.1% of *Patria* is owned by the Finnish State and 49.9% by the Norwegian defence company *Kongsberg Defence & Aerospace*.

Although the ownership structure of the partnership does not include all Nordic countries, such cooperation facilitates the integration of supply chains and coordinates industrial capacity development across the region. For example, in June 2025, four Nordic countries signed a strategic part-

[65] Giumelli, F., Marx, M. 2023. The European Defence Fund precursor programmes and the state of the European market for defence. Defence Studies, 23(4). https://doi.org/10.1080/14702436.2023.2277440
[66] Nordic Defence Review. n. d. Defence Industry. https://nordicdefencereview.com/defence-industry/

Figure 22
Kongsberg, Patria, and NAMMO Partnership

Source: Kongsberg Defence & Aerospace



nership agreement with *NAMMO*,[67] enabling the establishment of new partly state-owned munitions production facilities and strengthening the security of supply.[68] There are *NAMMO* ammunition production facilities in all four Nordic countries.

Defence industry primes play an important role in the development of the Nordic defence ecosystem. For example, companies such as *Kongsberg* and *SAAB* have set up corporate venture capital divisions to advise, accelerate and invest in start-ups and promote their involvement in the development of innovative technologies.[69] This means that the large companies not only raise capital but also define technological niches, which are then delegated to start-ups that can more flexibly create innovative solutions. **Venture capital investment is particularly intensive in deep-tech start-ups**. This in turn has led to national-level specialisation in specific technology niches, e.g. Finland and Norway excel in space technology, while Denmark and Finland are seen as leaders in quantum technology.[70]

Interviews with Baltic defence industry representatives also confirm that closer integration of the Baltic defence industries requires not only joint access to capital, but also **alignment of defence innovation ecosystems**. Building on the existing initiatives, there is a need to create a system where Baltic defence industry companies, whether they are established in Latvia, Lithuania or Estonia, receive a unified access to innovation support, for example in Test, Evaluation, Validation and Verification (TEVV).

It is true that the Baltic states do not currently have defence primes like Sweden or Norway because the development of defence industry commenced relatively recently. This, however, provides an opportunity **to ensure mutual coordination at an early stage and create conditions for long-term cooperation between defence industries of the three countries which will provide both operational and economic benefits**.

[67] NAMMO. 2025. Nordic countries enter Strategic Partnership with Nammo. https://www.nammo.com/nordic-countries-enter-strategic-partnership-with-nammo/
[68] Ministry of Defence of Denmark. 2025. Kontrakt underskrevet: Statsligt medejerskab af ammunitionsfabrik skal styrke forsyningssikkerheden. https://www.fmn.dk/da/nyheder/2025/kontrakt-underskrevet-statsligt-medejerskab-af-ammunitionsfabrik-skal-styrke-forsyningssikkerheden/
[69] SAAB. n. d. Saab Ventures: Creating value, providing solutions, building companies. https://www.saab.com/about/innovation/ventures
[70] Dealroom.co, Danske Growth. 2024. Nordic defence tech report 2024. https://danskebank.fi/-/media/danske-bank-com/pdf/fi/nordic-defence---danske-bank.pdf

Figure 23
Venture Capital Investment in Defence and Dual-use Start-ups in the Nordic Countries (%))

Source: dealroom.co/Danske Growth

Coordinated support for the defence technological and industrial base at the regional level will promote the development of interoperable capabilities. For example, a tripartite financing mechanism for the joint procurement of equipment or services from the Baltic defence industry would simultaneously promote industry coordination and the development of joint procurement projects. It should be noted that the European Defence Industrial Strategy (EDIS), approved in 2024, envisions non-binding guidelines for Member States to procure at least 40% of defence equipment jointly with other Member States by 2030 and to channel 50% of defence investments to the European defence industry.[71]

The Baltic defence technological and industrial base is small and dual-use oriented. Apart from a few military manufacturers, the Baltic defence industry is not characterised by heavy industry elements; instead, it is focused on knowledge-intensive civilian technologies with dual-use potential. There are also several civilian companies that would be able to diversify their production to meet military supply needs. Finally, the Baltic defence industry is mainly private, but all three Baltic states have established state-owned enterprises to manage and coordinate the development of large-scale defence investments. As shareholders, public institutions define the activities of these companies, and closer integration of the Baltic defence industry could start with closer cooperation between state-owned enterprises.

[71] European Commission. 2025. A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry. https://defence-industry-space.ec.europa.eu/eu-defence-industry/edis-our-common-defence-industrial-strategy_en

4. RECOMMENDATIONS

The Baltic states must step up their defence cooperation. This is both due to the need to strengthen common defence capabilities and because of the long-term economic prospects. This study is not the first attempt to identify possible steps to enhance the cooperation. For example, in 2019, a series of proposals for strengthening Baltic cooperation was published, covering a wide range of areas, including military cooperation, energy security, cyber security, etc. The recommendations included ambitious targets such as constitutional amendments.[72] Surely, ambitious goals are essential to move towards a closely integrated Baltic region in the long run, but currently there is a rather high level of scepticism regarding whether such recommendations can be implemented.[73] Concerns that the potential of Baltic defence cooperation is still affected by mutual competition and mistrust have also been voiced in the interviews.

Russia's full-scale invasion of Ukraine has fundamentally shaken Europe, making defence and security issues a political priority. When strengthening Baltic defence cooperation, it is necessary to focus on achieving concrete goals that are relevant for all parties. The tense geopolitical situation must serve as an additional incentive for cooperation, rather than a constraint.

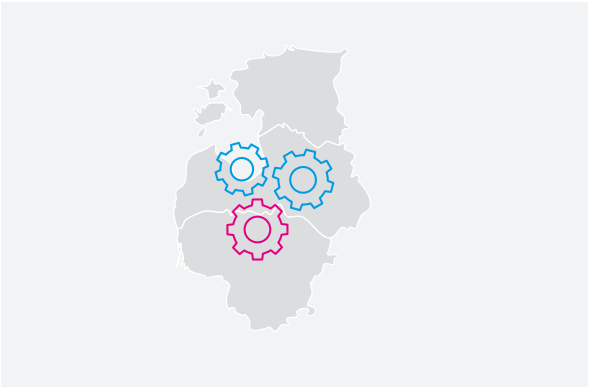
Recommendation 1. Prepare a joint vision and synchronize planning cycles

NORDEFCO's practices have already been partly adopted in the Baltic cooperation planning. For example, regular meetings of the Capability Directors or National Armaments Directors are held to exchange information and identify synergies. Several procurement projects as well as the selection of interchangeable platforms have largely been the result of regular contact between the Baltic defence officials.

The Nordic countries have gone a step further and are aligning their operational plans to enable joint operations and prepare to meet the regional defence requirements arising from NORDEFCO's Vision 2030.

The ambition of the Baltic states to work more closely is present - both in statements by politicians and in policy planning documents. For example, Latvia's 2023 National Defence Concept states that integration of the Baltic states is a prerequisite for effective regional defence, while Estonia's 2023 National Security Concept emphasises that defence planning is based on the premise that the Baltic states are a single area of operations.

The Baltic states must reach political agreement on what they want to achieve in the long run through closer cooperation. Such political vision must not conflict with the Baltic states' commitments and priorities in NATO or the EU. Of course, a political vision will not in itself contribute to increased combat capability, but it is important to define what the Baltic states want to achieve through closer cooperation and to work towards it in a focused way.



Coordination at strategic and operational levels should emerge from the political vision. Achievable objectives must be defined for the land, maritime, air, cyber and space domains, as well as in joint and enabling capabilities, training, and research (similar to the joint report published in 2008 by the Swedish, Norwegian and

[72] Nikers, O., Tabuns, O. 2019. Baltic Security Strategy Report. What the Baltics Can Offer for a Stronger Alliance. The Jamestown Foundation, Washington. https://jamestown.org/wp-content/uploads/2019/09/Baltic-Security-Strategy-Report-2019.pdf
[73] Andžāns, M. Kažociņš, J. 2024. Op. Cit.

Finnish Force Commanders with 140 potential cooperation initiatives, covering all operational domains and related process developments).[74] Developing a common political vision and strategic plan does not require new cooperation mechanisms and formal platforms but can be done within the framework of existing cooperation.

It is important to recognise that **multilateral defence cooperation projects are complex processes with a high risk of failure**. It is important not to lower overall ambition because of projects that have failed. This is particularly true for joint military procurement, as the success of such can be hampered by countries' efforts to simultaneously pursue national security interests, the competitiveness of local companies, and industrial and foreign policy objectives, which tend to be divergent.[75] Even the Nordic countries, which have a long history of close cooperation in other areas, have faced challenges in the successful implementation of joint military procurement, but they continue to develop new cooperation projects because of their operational and economic benefit.

There have been attempts in recent history to synchronise the Baltic defence planning cycles.[76] In 2023, all three Baltic states published Defence Concepts, which shows a degree of synchronisation, but planning cycles remain divergent and limit the development of joint projects. Taking the example of the Nordic countries, it is particularly important to focus planning synchronisation on joint operational planning to enable the implementation of joint operations for the defence of the Baltic region against grey-zone activities that do not cross the threshold of triggering the NATO's Article V.

Current geopolitical trends create the conditions for synchronising planning processes. All three countries plan to increase defence spending rapidly, approaching and even exceeding the 5% of GDP in the coming years, to meet the new NATO capability targets approved in 2025, which, according to the NATO Supreme Commander for Transformation, are 30% higher than the previous cycle's targets. In addition, it is noted that Member States have currently not implemented around 30% of the previously approved capability targets.[77] The new cycle of NATO Defence Planning Process (NDPP) sets out the capability development objectives to be achieved over the next twenty years.[78] To achieve these goals, the Baltics need to work together today, which is why they need to prepare a joint vision and synchronize planning cycles.

Recommendation 2. Develop the Baltic defence technological and industrial base

A strong and integrated Baltic defence technological and industrial base is, firstly, a prerequisite for an effective regional defence, secondly, a driving force for closer political integration and, thirdly, a platform for the region's economic and technological growth and competitiveness.

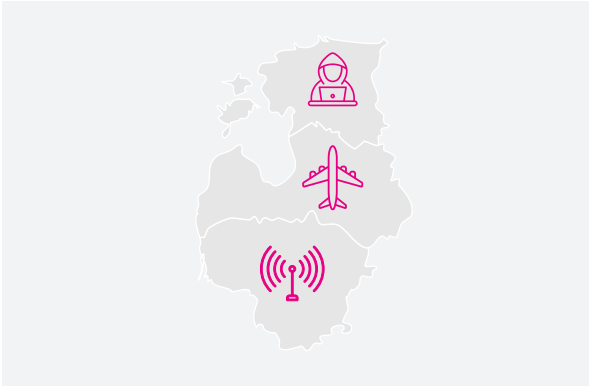
In recent history, the three Baltic states have embarked on a targeted development of the defence industry at national level. This national economic interest-driven approach maximises short-term gains in an increasingly tense geopolitical environment by applying security of supply requirements (localisation of technology and know-how at 30% of the total value of large capability contracts) and building national innovation support ecosystems. However, **in the long-term, this contributes to the fragmentation of defence industries, reduces competitiveness and limits opportunities for future cooperation**.

As in the case of defence planning processes, the development of the defence technological and industrial base must be based on the understanding of the Baltic states as

[74] NORDSUP. 2008. Nordic Supportive Defence Structures (NORDSUP): Progress Report 16 June 2008.
[75] Lambertini, L. 2023. A Schumpeterian view of the interplay between innovation and concentration in the EU defence industry. Defence Studies, 23(4). https://doi.org/10.1080/14702436.2023.2277474
[76] Adamowski, J. 2016. Lithuania, Latvia Sign Deal To Synchronize Defense Procurements. https://www.defensenews.com/global/europe/2016/09/19/lithuania-latvia-sign-deal-to-synchronize-defense-procurements/
[77] Ruitenberg, R. 2025. NATO to ask allies for 30% capability boost, top commander says. https://www.defensenews.com/global/europe/2025/03/14/nato-to-ask-allies-for-30-capability-boost-top-commander-says/
[78] Lapsley, A., Vandier, P. 2025. Why NATO's Defence Planning Process will transform the Alliance for decades to come. https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/why-natos-defence-planning-process-will-transform-the-alliance-for-decades-to-come/

a single area of operations. In a crisis situation, when supply chains are disrupted, the local defence industry is a fundamental element in supplying, maintaining and supporting the armed forces.

Recognising the time-consuming and costly nature of the development of the defence technological and industrial base, two complementary approaches are recommended. On the one hand, there is a need to foster industry-to-industry cooperation and cross-border partnerships, but on the other, to create the conditions for specialisation of national defence industries.



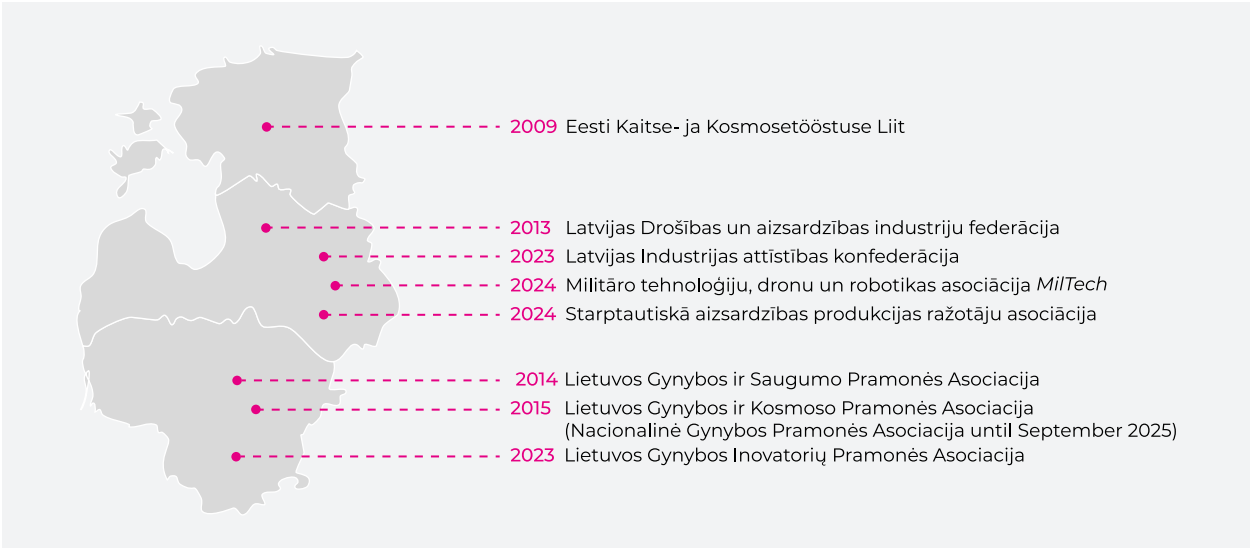
Cross-border partnerships and the creation of new Pan-Baltic Defence Companies is the way to achieve industry integration. However, this should not stem from states increasingly controlling the market. As in the case of NORDEFCO, there is a need for a regular coordination platform between defence ministries and the defence industry (industry associations and, where appropriate, individual companies), while ensuring that the principle of transparency is respected.

It is recommended to set up a **Baltic Defence Investment Fund**, which would attract public funding from Latvia, Lithuania and Estonia, as well as create the conditions for attracting private capital. This would not only contribute to a coordinated development of the Baltic defence industry but also promote the adoption of standardised and interchangeable equipment in the armed forces of the three countries. The Latvian-led Drone Coalition has already set an example of establishing a joint procurement fund in support of Ukraine, and this can be applied to the development of joint Baltic defence capabilities as well.

Setting up such cross-border coordination mechanisms also requires **a mindset change among decision-makers**. A joint procurement fund can ensure a proportionate contribution from each country, but the nominal return to the Latvian, Lithuanian and Estonian defence industries is unlikely to be equal. A strong and integrated Baltic defence industrial and technological base is a pillar of defence and competitiveness for the whole region, so zero-sum thinking, where gains for one country are perceived as losses for another, should be discarded.

Figure 24
Defence Industry Associations of the Baltic States

Source: Compiled from publicly available information



It is often emphasised within policy documents that **the defence industry forms the mobilisation reserve of the armed forces**, therefore support for the defence industry is directly linked to of national defence tasks.[79] Given the understanding of the Baltic states as a single area of operations, the defence industry and innovation support ecosystems need to be as integrated as possible. This would apply to, for example, prototype testing, which is a fundamental aspect of innovation development and can only be carried out in cooperation with the end user (the armed forces). Baltic companies should be given equal opportunities to carry out prototype testing in any of the three states, which includes access to infrastructure, equipment, and military expertise.

Baltic countries must set an example for the rest of Europe

Fragmentation is often described as one of the most important factors limiting the development of the European defence industry. Efforts to mitigate it are often met with scepticism, as countries with highly developed defence industries are reluctant to give up their national economic interests. In this context, closer coordination of defence industries is an area where the Baltic states can set an example for other European countries.

During his speech at the European Chambers of Commerce and Industry (EUROCHAMBRES) event on the development of the European defence industry on 30 June 2025, European Commissioner for Defence and Space Andrius Kubilius has indicated five recommendations to Baltic defence industries:

- **Join forces** in a single association representing Baltic defence industry companies.
- **Specialise** in technology niches by adopting a cluster approach to industry development.
- **Act** - use EU's support mechanisms and break into international supply chains.
- **Adapt** to the requirements of tomorrow's warfare, not yesterdays.
- **Cooperate** with Ukrainian defence industry as much as possible.

Industrial specialisation is a key approach through which the Baltic defence industries can strengthen their competitiveness at European and global level. The small size of Baltic economies and the relatively new defence industries create both a need and an opportunity for each country to specialise in a particular market segment and technological niche. Industrial specialisation, however, should not associated with states increasingly controlling the market. States will primarily defend the interests of their national defence industry leaders,[80] regardless of formally accepted niches and specializations.

The solution is to synchronise and specialise the defence industry and innovation ecosystems. Support mechanisms, such as innovation grant programmes, should be open to all companies or research institutions established in all of the Baltic states. **At the same time, the topics and strands to be supported should be coordinated to avoid overlaps**. This would avoid duplication of public sector activities at the level of the Baltic states and support the region's most competitive companies, boosting return on investment. This requires that **the evaluation process be transparent and objective**, involving representatives from all three Baltic states and possibly independent experts from abroad.

A good example is Latvia's 2024 innovation grant, which focused on the development of unmanned systems.[81] This approach allowed the promotion of specific technological

[79] Cabinet of Ministers of Latvia. 2023. Tiesību akta projekta "Aizsardzības industrijas likums" sākotnējās ietekmes (ex-ante) novērtējuma ziņojums (anotācija). https://tapportals.mk.gov.lv/annotation/29281ce8-d5b9-4dea-b711-6657886e52e3
[80] Kollias, C., Tzeremes, P. 2025. Europe's defence industrial strategy and the EDTIB: a connectedness-based analysis of major European defence industries. European Security. https://doi.org/10.1080/09662839.2025.2500296
[81] Ministry of Defence of Latvia. 2024. Aizsardzības ministrija izsludina grantu konkursu dronu inovāciju attīstībai. https://www.mod.gov.lv/lv/zinas/aizsardzibas-ministrija-izsludina-grantu-konkursu-dronu-inovaciju-attistibai

niches through targeted support mechanisms, without directly intervening in the market. At the same time Estonian Defence Innovation Grant had similar focus on drone technology as a priority area for support. This creates a risk of overlapping of efforts.

Specialisation of the defence industry or a cluster approach should be **built on existing specialisations**, i.e., the current focus of defence industry companies should be considered, as well as other institutional considerations that could contribute to the consolidation of such specialisation. A possible distribution of specialisations involves:

- **Latvia. Unmanned and autonomous systems, communications, and command and control**. To provide assistance to Ukraine, Latvia's defence technological and industrial base is already focused on the niche of unmanned aerial vehicle technology.[82] To highlight a few drone companies: *Edge Autonomy* and *Atlas Aerospace*, as well as start-ups like *Origin Robotics*, *Gorgon Optronics*, and *Eraser*. LMT, Latvia's largest defence company, is also involved in the development unmanned aerial systems in the context of military applications of 5G communications and the development of C2 systems. In recent years, the development of surface, underwater and land-based unmanned systems have also expanded in Latvia. Particularly noteworthy are companies such as *VIC TEC*, *NEWT21*, *SUBmerge Baltic*, *Natrix* and *Brasa Defence Systems*. There is also significant political support for the development of unmanned systems – Latvia has established an Autonomous Systems Competence Centre, it is co-leading the Drone Coalition for the support of Ukraine, there is a unique drone test bed for military applications, which is topped with specifically drone-focused innovation support mechanisms. Moreover, one of the four defence industry associations in Latvia specialises in unmanned systems and robotics.

- **Estonia. Cybersecurity, artificial intelligence, autonomous systems**. Estonia has a highly developed IT, digital and cyber security industry. For example, the 2025 Estonian Defence Directory features 20 companies specialising in this field.[83] Particular highlights include *Cybernetica, Neverhack Estonia* (formerly *Cybers*), *Datel* and *Guardtime*. Despite the lack of demand pull from Estonia's military, the strong IT, digital and cyber industries have contributed to the competitiveness of Estonian defence companies also in the field of AI.[84] To highlight some of the companies, *DefSecIntel*, which specializes in the development and integration of artificial intelligence solutions, is particularly important in this area, but *Milrem Robotics*, an Estonian defence industry company which was founded in 2013 and specialises in unmanned ground systems, is also integrating AI tools to strengthen the autonomy of their remotely piloted systems. It should also be noted that Estonia has put cyber defence high on the political agenda since the massive cyber-attacks of 2007 and is positioning itself as a global leader in cyber security. NATO's Cooperative Cyber Defence Centre of Excellence is based in Tallinn, and Estonia has also established a foundation, CR14, which manages cyber ranges, supports testing of cyber solutions and organises cyber security training.

- **Lithuania. Ammunition and laser technologies**. The Lithuanian defence industry is more diverse compared to the other Baltic countries. Although there are some Lithuanian defence companies in cyber security and unmanned systems as well, thinking of potential specialisation of the Baltic industry support ecosystem, Lithuania stands out as the Baltic leader in munitions production. Thanks to Lithuania's successful foreign investment attraction policies, Germany's *Rheinmetall* will establish a 155 mm artillery ammunition production facility in Baisogala. A somewhat similar initiative was launched in mid-2025, with the Lithuanian Ministry of Defence and Ministry of Finance concluding a Memorandum of Understanding with *NAMMO* and *Northrop Grumman* to produce medium calibre (20-50 mm) ammunition in Lithuania.[85] Finally, the largest producer of small calibre (up to 12.7 mm) ammunition in the Baltics is

[82] Fiott, D. 2024. Integrated Arsenals? Mapping Defence Industrial Relations Between Europe And Ukraine. IRIS. https://www.iris-france.org/integrated-arsenals-mapping-defence-industrial-relations-between-europe-and-ukraine/
[83] Invest Estonia. 2025. Estonian Defence Directory March 2025. https://investinestonia.com/wp-content/uploads/estonian-defence-directory-1.pdf
[84] Jermalavičius, T. 2024. Caught Between Today and Tomorrow: Defence AI in Estonia. In Borchert, H., Schütz, T., Verbovszky, J. (eds). The Very Long Game. Contributions to Security and Defence Studies. Cham: Springer. https://doi.org/10.1007/978-3-031-58649-1_7
[85] Ministry of Defence of Lithuania. 2025. Lietuva stiprina nacionalinę gynybos pramonę – pasirašytas tarpusavio bendradarbiavimo memorandumas dėl šaudmenų gamybos Lietuvoje. https://kam.lt/lietuva-stiprina-nacionaline-gynybos-pramone-pasirasytas-tarpusavio-bendradarbiavimo-memorandumas-del-saudmenu-gamybos-lietuvoje/

the Lithuanian-based *Giraitės ginkluotės gamykla*. Lithuania also has a highly developed laser technology industry. Particularly noteworthy are companies such as *Astrolight*, which develops laser technologies for cross-domain laser communications (e.g., space-to-ground), *Brolis Semiconductors*, which develops laser optical devices as well as thermal and night vision equipment, *Aktyvus Photonics* and *Quantum Light Instruments*, specialising in laser target designators, and Ekspla, which develops various types of laser technologies but specifically focuses on ultrashort pulse laser systems for defence. It should be mentioned that the Lithuanian Laser Association, which was founded in 2004, represents laser and photonics companies in both the civil and dual-use sectors.

The state-owned defence companies in the Baltics should take the lead in promotion of defence industry specialization, as they are established to manage defence investments and coordinate production processes. As shareholders, states determine the strategic orientations of these companies, and defence specialisation in the Baltic region could be one of them.

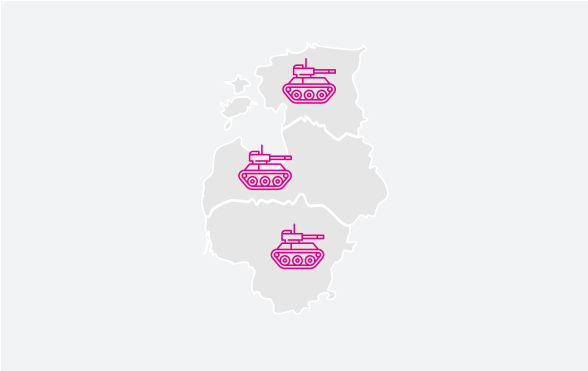
A strong defence technological and industrial base is fundamental for the Baltic states to protect their territory and population in the event of a military threat. Given that the Baltic states are a single area of operations, it is necessary join efforts of the three countries and develop the Baltic defence technological and industrial base.

Recommendation 3. Increase interchangeability

NATO Allied Command Transformation stresses that interoperability is not a convenience, but a strategic necessity that underpins the ability of Allied forces to operate and perform together.[86] Looking at interoperability as a spectrum, the end point is full interchangeability (i.e. two or more countries using the same platform). Interoperability at the Baltic level is an area with potential for improvement. There are only a few cases where the armed forces of all three Baltic states use the same equipment platforms, which poses a number of challenges.

First, it is an **additional consideration in joint operational planning**, as the possibility of equipment interchangeability is excluded in the event of a military threat. Secondly, it **limits the scope for further cooperation in capability development**, e.g., by limiting the possibilities for joint training of personnel.

Finally, there is also a negative economic impact, as it reduces the scope for joint lifecycle management. Although the actual maintenance costs depend on the specifics of the programme and the actual length of the life cycle (the longer the platform is used, the higher the nominal maintenance costs will be), the highest proportion of costs is always in the operation and maintenance



phase rather than in the investment (acquisition) phase. The operation and maintenance phase represents on average 55% of the total lifecycle cost, with a tendency in several cases for this proportion to increase significantly.[87] For the Baltic states, this means that **it will always be economically unreasonable in the long run to acquire different platforms**.

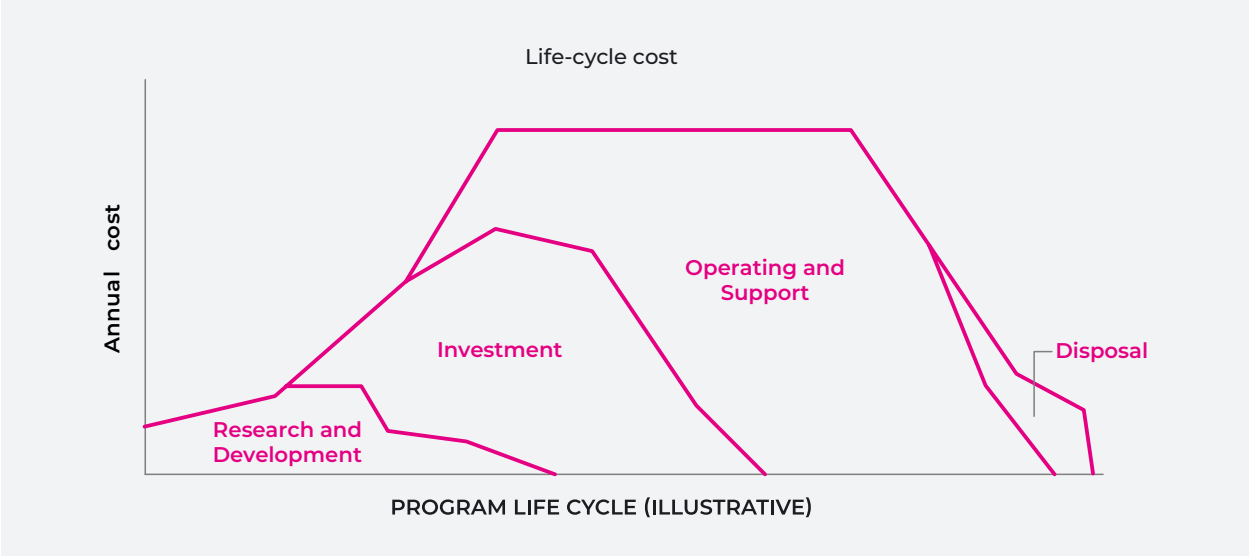
In the case of the Baltic states, there are several aspects that hinder the acquisition on interchangeable equipment. The impact of small-scale joint procurement is often highlighted; however, the problem is not always best addressed through joint procurement. For example, the acquisition of rocket artillery systems in the Baltic states has

[86] Allied Command Transformation. 2025. What Is Interoperability — And Why It Matters to NATO. https://www.act.nato.int/article/what-is-interoperability/

[87] Jones, G., White, T., Ryan, E., Ritschel. 2014. Investigation into the Ratio of Operating and Support Costs to Life-Cycle Costs for DoD Weapon Systems. Defense Acquisition Research Journal, 21(1). https://www.dau.edu/sites/default/files/Migrate/ARJFiles/ARJ68/ARJ68_Jones.pdf

Figure 25
Conceptual Model of Military Equipment Program Life Cycle Costs

Source: Jones, G. *et al.* 2014.



not been the result of joint procurement – each country has acquired HIMARS systems through a bilateral intergovernmental process with the US. Nevertheless, the acquisition of HIMARS is one of the most positive examples of increasing interchangeability, as the Baltic states will operate with the same platforms, and after the establishment of a coalition key, a mutual exchange of munitions for training or operational purposes will be enabled.[88]

Another factor impeding the choice of common platforms are the different requirements of the armed forces. On the one hand, this might seem unjustified in the case of the Baltic states, where the geographical conditions and the capabilities to counter the threat are not significantly different. However, each country may have different sets of priorities, such as price, delivery lead time, operational performance, potential for local industry involvement in equipment production, etc.

Being aware of the persistently high Russian threat and the consequent urgent need to address the capability gaps in the Baltic states, priorities are often set that are not conducive to the choice of interchangeable platforms. For example, in the recent process of Latvia selecting infantry fighting vehicles, delivery time was a key factor. It should be underlined that this trend is observed across Europe, with countries setting different priorities and often imposing disproportionately high or overly detailed technical requirements, which limit the scope for reducing existing fragmentation.

Considering the rapid increase of defence spending and its impact on the national budget, **it is highly important that defence investment balances short-term needs and a sustainable long-term approach**. The right balance should be based on an up-to-date threat assessment. There are different estimates of Russia's ability to rebuild capacity and launch a large-scale military aggression against NATO, but there is consensus that the threat will persist in the long term, so it is especially important that defence investment does not overlook long-term requirements, which includes the need to increase interchangeability.

[88] U.S. Congress. 2025. A bill to modify the requirements for transfers of United States defense articles and defense services among the Baltic states. S. 1057. https://www.congress.gov/119/bills/s1057/BILLS-119s1057is.pdf

Recommendation 4. Strengthen military mobility at the Baltic level

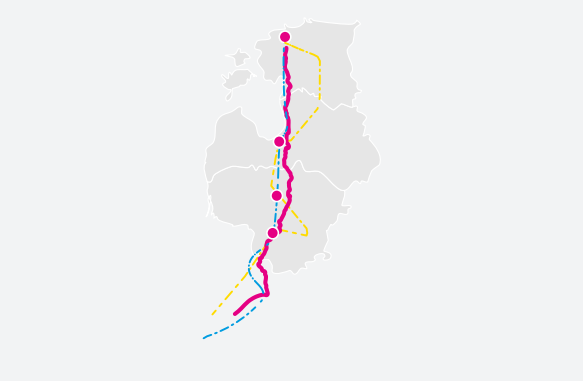
Being members of NATO and EU is the cornerstone of Baltic defence. Taking into account that defence plans are based on the principle of collective defence, it is important to develop a strategic-level logistics capacity at the Baltic level, as this is essential for building credible deterrence and defence capabilities.[89]

According to the NATO Secretary General, Russia may be ready to attack NATO in the next five years, which is why "we are all on Eastern flank now".[90] For this reason, a closely integrated Baltic region, capable of a coordinated action to move large numbers of personnel and equipment at short notice, underpins the deterrence capabilities not only of the three Baltic states, but of NATO as a whole.

Deterrence is always cheaper than war,[91] and the foundation of credible deterrence is the ability to move NATO's troops and equipment faster than the enemy can in pre-crisis circumstances. The three main obstacles for military mobility in Europe are: red tape, inadequate infrastructure and insufficient coordination among countries.[92]

Similar to the first recommendation, the main focus of increased military mobility is the period before a military crisis starts, as **the ability to move and concentrate forces in the vicinity of the flashpoint in a timely manner is a prerequisite for halting and preventing further escalation**. For this reason, cooperation between the Baltic states in the field of military mobility is a strategically important area of cooperation with a fundamental impact on the region's defence capabilities.

On the European level, military mobility has become important in defence planning, especially since 2022. Military Mobility Action Plans have been developed, a PESCO project to simplify and standardize military transport procedures has been established, and EU funds are now being diverted to develop the necessary infrastructure. However, several challenges remain including decentralised management and the resulting lack of coordination, an unfit selection process for dual-use infrastructure projects, etc.[93]



Given the urgency of this issue and its significant impact on strengthening deterrence capabilities, the Baltic states need to intensify their mutual coordination in the development of military mobility. **The Baltic states have already taken joint steps to reduce administrative barriers**.[94] It should be noted however that the improvement of procedures is an ongoing process, which will continue to require coordination between the Baltic states, for example, in harmonizing the regulatory framework for the mutual exchange of ammunition, if necessary.

A critical aspect of military mobility development is the availability of adequate infrastructure. Estimates of NATO's Eastern flank logistics capacity show that neither the road nor rail infrastructure is currently suitable for moving personnel on the scale and within the timeframe envisaged by the new NATO Force Model (deployment of 100,000 troops on the eastern flank within ten days, 200,000 within 30 days, and 500,000 within 180 days of the decision being taken).[95]

---

[89] NATO. 2023. Vilnius Summit Communiqué. https://www.nato.int/cps/en/natohq/official_texts_217320.htm
[90] NATO. 2025. Building a better NATO Speech by NATO Secretary General Mark Rutte at Chatham House - London, United Kingdom. https://www.nato.int/cps/en/natohq/235867.htm?selectedLocale=en
[91] Sikorski, R. 2024. Deterring Russia Is Cheaper Than War. https://foreignpolicy.com/2024/07/01/europe-eu-russia-war-deterrence-military-nato-spending-geopolitics-blocs/
[92] Kuijpers. D. 2025. Europe needs 'Military Schengen' to keep Russia at bay, former NATO commander says. https://www.ftm.eu/articles/interview-nato-top-official-ben-hodges
[93] European Court of Auditors. 2025. Special report 04/2025: EU military mobility – Full speed not reached due to design weaknesses and obstacles en route. https://www.eca.europa.eu/ECAPublications/SR-2025-04/SR-2025-04_EN.pdf
[94] Nikers, O., Tabuns, O. 2019. Op. Cit.
[95] Zaborowski, M., Macko, P. 2025. Roads to Readiness: Military Mobility Infrastructure on NATO's Eastern Flank. GLOBSEC Future Security and Defence Council. https://www.globsec.org/what-we-do/publications/roads-readiness-military-mobility-infrastructure-natos-eastern-flank

Rail transport plays a fundamental role in strengthening deterrence capabilities.[96] In the case of the Baltics, logistical constraints are created by different standard railway track gauges (in the Baltic states, the track gauge is 1520 mm, while the standard gauge in Europe is 1435 mm). This hinders the movement of large numbers of personnel and equipment across the Polish Lithuanian border.

Thus, the connection of the European standard gauge railway with the rest of Europe is of strategic importance in ensuring the deterrence and defence of the region. Although it is formally stated that the *Rail Baltica* project in addition to its civilian benefits has military a significance, challenges related to financing timely development remain. This project must be prioritized given its role in developing deterrence capabilities in the region.

The interim report of the Special Investigation Commission on the *Rail Baltica* project of the Latvian Parliament states that the increase in project costs and the resulting potential delay in **implementation is linked to, among other things, the inclusion of a military component in the project**. Aware of the consequences that may arise from the failure to establish a European standard gauge connection in a timely manner, the possibility of financing the military component of the project from the state budget funds allocated for defence and security should be assessed. This would be in line with the guideline adopted at the 2025 NATO summit in The Hague to allocate 3.5% of GDP to actual military investments and an additional 1.5% of GDP for defence and security needs in a broader sense, such as infrastructure needs. Given its impact on the development of military mobility capabilities, The *Rail Baltica* project should be designated as a priority infrastructure project for defence and security.

Finally, mistrust and mutual competition are often cited as key reasons preventing closer defence cooperation between the Baltic states. It is likely that the inability to secure timely and sufficient funding for the implementation of the Rail Baltica project could significantly undermine the already low level of trust and opportunities for future cooperation. Interestingly, *The Economist* pointed out as early as in 2013 that disagreements between Latvia, Lithuania and Estonia are hindering the development of *Rail Baltica*.[97] Fast forward twelve years, with war having returned to Europe, the time has come to overcome differences and strengthen military mobility at the Baltic level.

[96] Van der Laan, D. 2025. Former commander US Army Europe: 'Rail is key for deterrence'. https://www.railfreight.com/railfreight/2025/03/26/former-commander-us-army-europe-rail-is-key-for-deterrence/
[97] The Economist. 2013. On the Baltic slow train. The geopolitics of the EU's flagship railway project. October 19th 2013.

AUTHOR

Roberts Kits

LaSER Researcher who specializes in Defence and Security issues. Roberts holds an MA in Diplomacy and BA in Political Science from the University of Latvia, Faculty of Social Sciences. He has also studied at the Institute of Political Studies of Lyon (Sciences Po Lyon), Naval Postgraduate School, and Baltic Defence College. His research interests include defence and security, modern warfare, defence technology and innovation, readiness and resilience studies, and development of European Defence Technological and Industrial Base.

The objective of the Latvian Strategy and Economic Institute (LaSER Think Tank) is to develop and offer Latvian policy-makers new, innovative and evidence-based policy ideas.