



The Baltic Defence Industry

United We Scale, Divided We Fail?

Roberts Kits

Riga, July 2026

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Author: Roberts Kits
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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.

FOREWORD

Defence spending among the 27 European Union (EU) states rose to an estimated €381 billion in 2025, an increase of 63% compared to five years ago, and now represents more than 2% of EU GDP.¹

This sharp rise in spending has been driven by Russia’s war of aggression on Ukraine as well as growing uncertainty about the USA’s future military role and presence in Europe. European states have, quite rightly, been forced to step up. Procurement as well as defence research and development spending are increasing at dizzying speeds as European states update their hitherto largely neglected military capabilities, equipment, and innovate for the future.

At the same time, Europe’s leaders are well aware of the fact that economic growth since the financial crash of 2008 has been underwhelming. Adding these two facts – rising defence spending and stagnant growth – together, it is inevitable that the governments of pretty much every European country have talked about using the defence industry as a source of domestic economic development.

For example, in 2025, Spain’s prime minister Pedro Sanchez stated that “the aim is to turn this security crisis into a new economic stimulus for Spain [...] to promote a new wave of innovation and reindustrialisation.”² In the same year, speaking at the World Latvian Economics and Innovations Forum, Daiga Mieriņa, Speaker of the Saeima, stated that “We must be smart and take advantage of opportunities to channel resources from the security sector into economic growth.”³

So, what are the prospects for Latvia and the broader Baltic region? LaSER defence and security researcher Roberts Kits has dived into the defence industries of the three Baltic states and produced a detailed and up-to-date mapping and analysis of where we are and, most importantly, offers practical and easy-to-implement recommendations that will strengthen the competitiveness of the defence industry and not only enhance our collective defence capabilities but also serve as an additional catalyst for the development of the Baltic region.



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PhD, Chair,
LaSER Council



Daunis Auers
PhD, Chair
LaSER Board

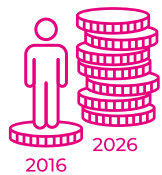
¹ European Defence Agency. 2025. Defence Data 2024–2025. https://eda.europa.eu/docs/default-source/brochures/2025-eda_defencedata_web.pdf
Note: At the time of publication, updated figures in Defence Data 2025–2026 revealed that EU member states’ defence expenditure actually reached €418 billion in 2025. https://eda.europa.eu/docs/default-source/eda-publications/2026-eda_defencedata_webpublic.pdf
² La Moncloa. 2025. Pedro Sánchez announces that Spain will allocate 2% of GDP to security and defence this year <https://www.lamoncloa.gob.es/lang/en/presidente/news/paginas/2025/20250422-security-and-defence-plan.aspx>
³ Latgales plānošanas reģions. 2025. Remigrācijas koordinatori piedalās Pausaules latviešu ekonomikas un inovāciju forumā. <https://lpr.gov.lv/2025/remigracijas-koordinatori-piedalas-pausaules-latviesu-ekonomikas-un-inovaciju-foruma/>

EXECUTIVE SUMMARY



Threat Situation

The geopolitical situation continues to worsen both in Europe and elsewhere in the world. The U.S.-led liberal world order has come to an end.



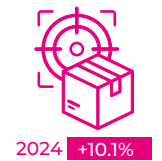
Surge in Defence Spending

NATO member states in Europe have committed to allocating at least 5% of GDP to defence and security by 2035. The Baltic states' defence budgets reach 5% of GDP as early as 2026. It is crucial to ensure that defence investment translates into real military readiness and economic competitiveness.



Exports

Given their small economies, the long-term development of the defence industries in the Baltic states cannot be sustained by domestic demand alone.



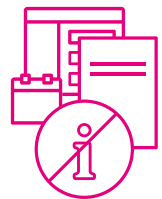
The Baltic Niche

Nearly all European countries are now focusing on the development of their defence industries, often prioritising procurement from local manufacturers. To strengthen the competitiveness of the Baltic defence industry, it must find its own niche.



Common Challenges

The long-term development of the Baltic defence industry will depend on the availability of human capital, the resilience of supply chains, and adequate testing capabilities. To overcome these challenges, the Baltic states must join forces.



Data-driven policy

The defence industry does not constitute a distinct economic sector in a statistical sense; therefore, data on the development of the defence industry in the Baltic states are currently not comparable. Furthermore, most companies in the Baltic defence industry focus on developing dual-use solutions, and the actual added value for military applications is not measured. As a result, policy documents are dominated by slogans rather than data-driven solutions.



The Baltic Tiger

Closer cooperation is the foundation for both the development of defence capabilities and economic growth. This study proposes concrete and realistic initiatives for closer integration of the Baltic states' defence industries.

INTRODUCTION

“The world that shaped the habits, assumptions, and force posture of NATO [...] following the Cold War no longer exists. Power politics has returned.”

Elbridge Colby, U.S. Department of War⁴

Over the past few years, global shifts have pressurised the security of small states, prompting Estonia, Latvia, and Lithuania to increase defence spending at an unprecedented pace, with defence budgets reaching 5% of GDP as early as 2026. To ensure that these investments also contribute to broader economic development, the Baltic states actively strengthen their domestic defence industries.

In September 2025, the LaSER think tank published a report entitled “Towards the Baltic Tiger: How to Strengthen Baltic Defence Cooperation”,⁵ which identified closer cooperation among Baltic defence industries as a core recommendation. This agenda has since gained political traction. In January 2026, the defence ministers of the three Baltic states emphasised the need to expand cooperation between the Baltic

defence industries to strengthen regional security, strategic interoperability, and defence research and development.⁶

Cooperation is not confined to the political level. Baltic defence companies have already launched several cross-border partnerships, and in May 2026 the defence industry associations convened DAIMEX, the first Baltic-wide defence and aerospace industry conference.

Nonetheless, **defence industry development policies of the Baltic states are limited to the national level**, leaving the potential for regional cooperation untapped. Without a more coordinated approach, the Baltic states risk reproducing patterns seen elsewhere in Europe – fragmented and overlapping industrial capacities that weaken long-term competitiveness. Against this backdrop, this study maps existing industrial capacities and analyses development trends from a comparative perspective. On this basis, it sets out concrete and implementable proposals for advancing the Baltic defence industry.

4 USA Department of War. 2026. Remarks by Under Secretary of War for Policy Elbridge Colby at the NATO Defense Ministerial (As Prepared) <https://www.war.gov/News/Speeches/Speech/Article/4404801-remarks-by-under-secretary-of-war-for-policy-elbridge-colby-at-the-nato-defense/>

5 Kits, R. 2025. Towards the Baltic Tiger. How to Strengthen Baltic Defence Cooperation? <https://domnicalaser.lv/en/towards-the-baltic-tiger-how-to-strengthen-baltic-defence-cooperation/>

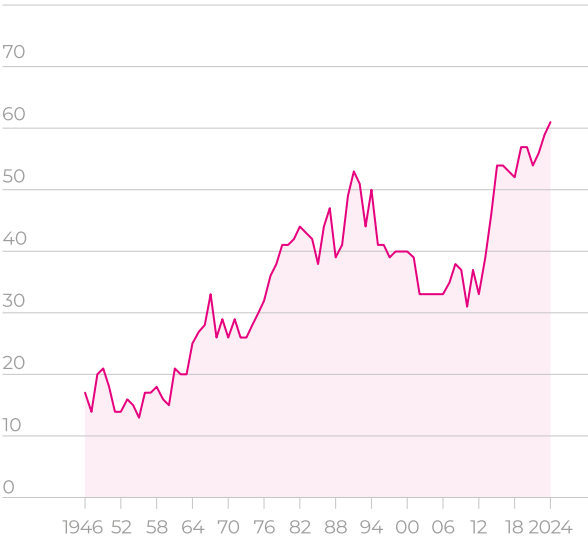
6 Kaitseministeerium. 2026. Joint Communiqué of the Baltic Defence Cooperation Ministerial Committee 30 January 2026. https://kaitseministeerium.ee/sites/default/files/3b_mc_joint_communique_27jan.pdf

1. THE DEFENCE INDUSTRY: THE WORLD & THE BALTICS

The number of armed conflicts worldwide – including interstate military conflicts and internal armed clashes – has increased tenfold since the end of World War II. The U.S.-led liberal world order, which was grounded in norms and rules, has ceased to exist.⁷ As threats grow in scale and complexity, safeguarding sovereignty, ensuring territorial integrity, and protecting citizens have become the central concern of small states’ foreign and security policy.

The defence industry is expanding rapidly in response to the growing demand for military equipment. This pattern is visible across most regions, particularly in Europe. In 2022–2023, EU member states allocated 78% of all defence procurement to suppliers outside the EU,⁸ however, as ambiguity about the future of Transatlantic relations has grown, a series of policy initiatives and support mechanisms have been launched to strengthen Europe’s industrial capacity. Particular attention is being paid to how to align defence capability needs with industrial development requirements.

Figure 1
Number of Conflicts Worldwide, 1946–2024
Source: UCDP



7 Gerstle, G. 2022. The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era. <https://doi.org/10.1093/oso/9780197519646.001.0001>

8 Draghi, M. 2024. The future of European competitiveness. Part A, A competitiveness strategy for Europe. <https://data.europa.eu/doi/10.2872/9356120>

Figure 2
Geopolitical Risk Index, 1946–2026

Note: The Geopolitical Risk Index is constructed from media-based narratives. Articles referencing war, terrorism, or interstate tensions are identified using predefined keywords, and their frequency is measured relative to the total volume of published articles over a given period. To ensure comparability with the pre-1985 period—when a broader set of sources was used in the index construction—this figure employs the historical Geopolitical Risk Index (GPRH). The index is normalised to a mean of 100 over the 1900–2019 reference period. Source: Caldara & Iacoviello 2022

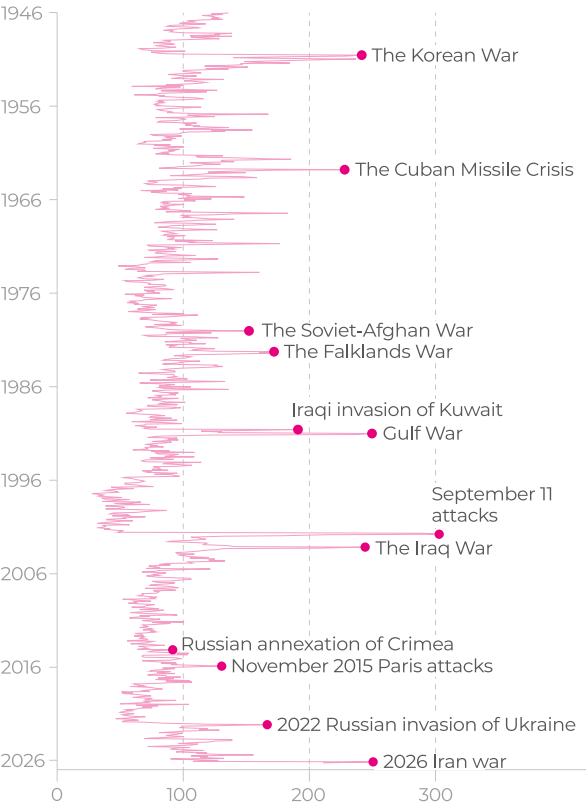
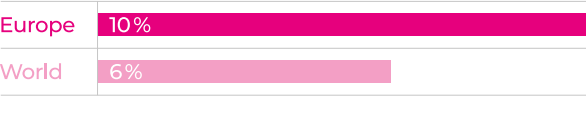


Figure 3
Changes in Defence Industry Turnover in Europe and Worldwide, 2024 Compared to 2023 (%)

Note: Europe – ASD members; World – SIPRI Top 100
Sources: ASD, SIPRI



1.1. Measuring the defence industry

In 2012, defence technology researcher Richard Bitzinger proposed a conceptual model for classifying defence industries based on the depth of their industrial capabilities, highlighting the role of technological specialisation in value-added chains.⁹

This model traces trends in the evolution of defence industries. In 2015, Bitzinger placed only the United States in the highest cate-

gory, Tier 1A, and described China's defence industry as large and broad-based but less technologically advanced. By 2025, however, the International Institute for Strategic Studies assessed both the U.S. and Chinese defence industries as Tier 1A. Over the same period, Europe's more advanced defence industries remained at Tier 1B, meaning they are broad-based and technologically sophisticated but operate on a smaller scale.

Figure 4
Breakdown of Global Defence Industries by Country According to the Bitzinger Model in 2015 and 2025

Sources: Bitzinger, R. 2015., IISS

	2015	2025
1A Large, broad-based, technologically advanced defence industrial bases	 USA	 USA, China
1B Smaller, broad-based, technologically advanced defence industrial bases	 UK, France, Germany, Italy, Russia	 UK, France, Germany, Italy, Japan, Russia, Spain, South Korea
2A Smaller, niche-oriented, technologically advanced defence industrial bases	 Israel, Sweden, Japan, Australia	 Australia, Canada, Finland, Israel, the Netherlands, Norway, Singapore, Sweden, Switzerland
2B Smaller, broad-based, less technologically advanced defence industrial bases	 South Korea, Brazil	 Brasil, Indonesia, Iran, Malaysia, Pakistan, Poland, Taiwan, Türkiye, UAE, Ukraine
2C Large, broad-based, less technologically advanced defence industrial bases	 China, India	 India
3 Smaller, niche-oriented, low technology defence industrial bases	 Mexico, Nigeria, Serbia	 Argentina, Egypt, Serbia, South Africa

In this simplified model, defence industries with quite different profiles can fall into the same Tier. For example, Finland, Sweden, and Norway are all classified at Tier 2A, yet Sweden's defence industry is significantly more advanced than those of the other two, producing complex systems such as the fighter jets and submarines, while Finland

focuses mainly on armoured vehicles and indirect-fire systems.¹⁰ A similar pattern is visible in company rankings: in the Stockholm International Peace Research Institute's list of the world's 100 largest defence companies, Sweden and Norway each have one firm represented, whereas Israel – also classified at Level 2A – has three.¹¹

The defence industries of the Baltic states do not currently fit into either of the categories in Bitzinger's model. The Baltic defence industries are small, at an early stage of development, and primarily focused on dual-use solutions in niche specialisations. Although many of these solutions are technologically advanced, there is still some cau-

tion about their ability to deliver large-scale systems that meet the requirements of the end user.¹² In international assessments of Central and Eastern European defence industries, all three Baltic states are described as concentrating on innovation within specific technological niches.¹³

Figure 5
Comparative Defence Industry Models of Central and Eastern European Countries in 2025
Source: GLOBSEC

Country	Tagline	Dominant Model	Primary Production Focus
Finland	The Nordic Anchor	Public/Private	Armoured Vehicles, Ammo, C5ISTAR
Estonia	The Niche Innovators	Niche	Unmanned Systems, Cyber, C4I
Latvia			MRO, UAVs, Light Vehicles
Lithuania			Ammunition (future), UAVs, C4I
Poland	Industrial Powerhouses	State-led	Heavy Armour, Artillery, Air Defence
Czechia		Private-led	Heavy Industry, Artillery, Small Arms
Slovakia	Central European Partners		Artillery Systems, Ammunition
Hungary		Joint Venture-led	Armoured Vehicles, Ammo, Electronics
Romania	The Revitalising South	State-revitalisation	Ammunition, MRO, Aircraft
Bulgaria			Ammunition (Soviet-cal), Small Arms

As defence spending rises, economic analysis of the defence industry and its contribution to national economies becomes increasingly relevant. Defence industry activity takes place in a specific environment where strategic and security considerations override standard market mechanisms. At the same time, defence industrial development reshapes economic structures by creating specialised supply chains and generating demand for highly skilled labour and advanced technologies.

In the short term, higher defence spending typically operates as a positive demand shock, stimulating economic activity and industrial growth. Over the longer term, positive effects are more closely tied to innovation and productivity gains.¹⁴ However, the overall economic impact depends heavily on the chosen financing model. Increased defence spending can be financed by expanding budget deficits, fiscal adjustment, or by reallocating public resources – including cuts in other areas of government expendi-

9 Bitzinger, R. 2015. New ways of thinking about the global arms industry. Strategic Insights. https://www.files.ethz.ch/isn/194689/SI98_Global_Arms_industry.pdf

10 Kits, R. 2025. *Op. Cit.*

11 SIPRI. 2025. The SIPRI Top 100 arms-producing and military services companies in the world, 2024. <https://www.sipri.org/visualizations/2025/sipri-top-100-arms-producing-and-military-services-companies-world-2024>

12 Škietniece, I. 2025. Kā aug aizsardzības industrija Latvijā? <https://ir.lv/rubrika/tema/ka-aug-aizsardzibas-industrija-latvija.220628>

13 Sklenár, M. 2026. Defence Production Capacity on NATO's Eastern Flank. Annual Battle Readiness on the Eastern Flank. GLOBSEC.

14 Ilzetzki, E. 2025. Guns and Growth: The Economic Consequences of Defense Buildups. Kiel Report No. 2 | February 2025. https://www.kielinstitut.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/7afb0d80-68d0-49ae-8cae-1decc74fd972-Kiel_Report_Ethan.pdf

ture, which may put pressure on social protection, health care, and education.¹⁵ In the Baltic states, all three funding approaches are being used.

Under current geopolitical conditions, closing defence capability gaps is a top priority. When the domestic defence industry cannot meet rapidly growing demand, these gaps are being addressed through increased imports. This, in turn, worsens the current account balance: public debt rises, while the economic stimulus generated by demand flows abroad.¹⁶

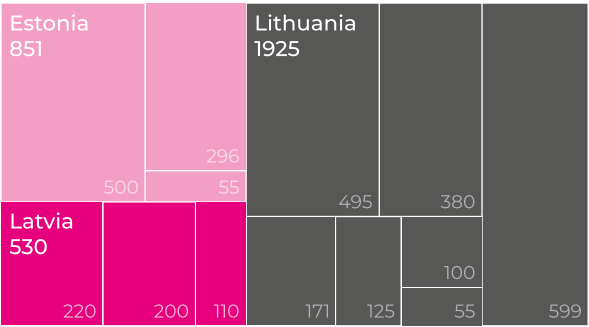
The impact of the defence industry on economic development can be most accurately assessed by establishing a dedicated satellite account for the defence sector within national accounts. A concrete example is Australian Defence Industry Account (ADIA), which measures the defence industry's direct contribution to the national economy. This experimental estimate only covers economic activities directly linked to defence procurement from Australian suppliers, rather than the full scope of a company's operations.¹⁷

Defence industries in the Baltic states do not constitute a distinct sector in statisti-

cal terms, and data on defence industry activity are not recorded within national accounts. However, values for a limited set of indicators can be derived by compiling data for a pre-selected sample of companies. For the purposes of this study, data were collected for samples of roughly 100 companies in each of the three Baltic states whose defence sector activities are publicly documented.

Figure 6
Military Equipment Procurements by Estonia, Latvia, and Lithuania under the U.S. Foreign Military Sales Program 2014–2025 (million USD)

Note: Includes only purchases made under the FMS program; does not include U.S. military assistance under the FMF program
Source: Bruegel



1.2. Baltic approaches to the defence industry

Both Latvia and Lithuania adopted laws on the defence industry in 2024, which define the scope of the sector. Estonia does not have a standalone law governing defence industry development. Rather, defence industry issues are embedded in several other legal instruments, such as the Weapons Act and related regulations.¹⁸

Latvia's defence industry includes all commercial entities and scientific institutions engaged in the development, production, repair, or disposal of military or dual-use technologies or products.¹⁹ A company's af-

filiation with the defence industry is therefore determined by whether its products are supplied to the end user – the armed forces – whether domestic or foreign. For example, Atlas Aerospace, one of Latvia's largest manufacturers of unmanned systems, exports 100% of its output and has no cooperation with local end users, yet it is still considered part of Latvia's defence industry.²⁰

In Lithuania, the scope of the defence and security industry covers all types of economic activity carried out in the country by

natural and legal persons, including research and development, production, maintenance, repair, and modernisation of goods of strategic importance, as well as products and services intended for defence or public safety.²¹

Industry associations play a key role in mapping the defence industrial landscape. Estonia is the only Baltic country where a single umbrella organisation brings together defence as well as security and aerospace industry companies. In Latvia and Lithuania, industry associations likewise represent not only defence firms but also businesses active in the broader security and aerospace sectors.

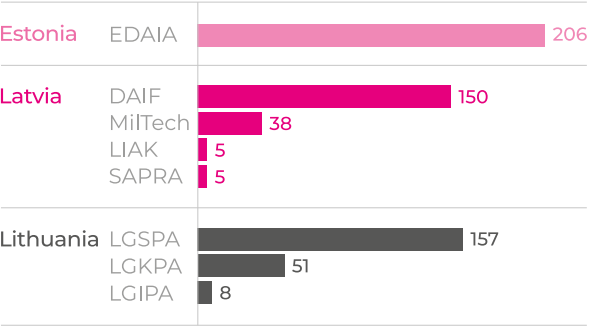
For example, the membership list of Latvia's largest defence industry association – the Security and Defence Industry Federation – is not publicly available; it is the only one of the eight Baltic defence industry associations that does not disclose its member companies. However, its 2023 publication indicates that the federation brings together companies across a wide range of economic activities that extend beyond the defence sector, including manufacturers of interior furniture, gym equipment, and business consultancy services.²² In 2025, Latvia's largest security services companies also joined the federation,²³ and while they are part of the broader security sector, they do not directly contribute to defence capability needs. A similar pattern can be seen in Estonia, where the security company G4S is a member of the Estonian Defence and

Aerospace Industry Association. This illustrates that Baltic defence industry associations often encompass a broader security and commercial ecosystem, rather than a narrowly defined defence-industrial base.

The cooperation among the Baltic defence industry associations stands out as a positive example. The largest defence industry associations in the Baltic states have been organising trilateral meetings since 2014.²⁴ In 2026, these three organisations jointly hosted the first Baltic-wide defence industry conference *DAIMEX Baltic 2026*. It is expected that this conference will be held annually, rotating the venue between the three countries. Such initiatives can help identify potential cross-border partnerships.

Figure 7
Estimated Number of Members of the Baltic Defence Industry Associations by the End of 2025

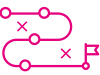
Note: In Lithuania and Latvia, companies may be members of multiple associations, and associations may, as members, participate in other associations
Source: Compiled by the author



1.3. The role of the state

The defence industry is characterised by a strong state presence – unlike civilian sector,

the state plays several significant and inter-related roles in the defence industry.²⁵



Architect of public policy and development strategies



Contracting authority and end user



Owner and builder of national champions



Regulator and supervisor

15 IMF. 2026. World Economic Outlook: Global Economy in the Shadow of War. Chapter 2. Defense Spending: Macroeconomic Consequences and Trade-Offs. <https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026>

16 Ibid.

17 Australian Bureau of Statistics. 2026. Australian Defence Industry Account, experimental estimates. <https://www.abs.gov.au/statistics/economy/national-accounts/australian-defence-industry-account-experimental-estimates/2024-25>

18 EER. 2024. Estonian defmin seeks approval for four defense industry development bills. <https://news.err.ee/1609305186/estonian-defmin-seeks-approval-for-four-defense-industry-development-bills>

19 Defence Industry Law. <https://likumi.lv/ta/id/351123>

20 Zicāns, E. 2025. Izlūkdroni NATO un karā Ukrainā – "Atlas Aerospace" Latvijā brūgē pamatu pasaules virsotnēm. <https://www.lsm.lv/raksts/zinas/ekonomika/17.04.2025-izlukdroni-nato-un-kara-ukraina-atlas-aerospace-latvija-bruge-pamatu-pasaules-virsotnem.a595550/#1>

21 Lietuvos Respublikos Gynybos Ir Saugumo Pramonės Įstatymas. 2024. <https://www.e-tar.lt/portal/lt/legalAct/abdb66e01e5911ef8b14c5bccel36045>

22 Egle-Ločmele, E., Ciganovs, J. & Andžāns, M. 2023. Stories of the Security and Defence Industry of Latvia. Riga: FSDI Latvia., p. 97.

23 Goldbergs, J. 2025. Latvijas lielākie apsardzes uzņēmumi pievienojas DAIF Latvijā. <https://www.db.lv/zinas/latvijas-lielakie-apsardzes-uznemumi-pievienojas-daif-latvija-523338>

24 Egle-Ločmele, E. et. al. 2023. Op. Cit., p. 62

25 Chovačik, M., & Krpec, O. 2026. Defence industrial patterns in Dependent Market Economies. Defence and Peace Economics, 1–26. <https://doi.org/10.1080/10242694.2026.2630900>

Architect of public policy and development strategies

The Baltic states have limited their defence industrial policies to the national level. Over the past year, all three countries have developed strategic-level visions and policy

initiatives, setting ambitious goals for the development of their defence industries, while paying little attention to opportunities for regional cooperation.

Figure 8
Strategic Objectives for the Development of the Defence Industries of Estonia, Latvia, and Lithuania
Notes: Latvia has also set medium-term targets for 2028; if a column in the table is left blank, the corresponding target has not been set
Sources: Compiled by the author, based on Estonia's Defence Industry Policy 2024–2030, Latvia's Defence Industry and Innovation Support Strategy 2025–2036, and Lithuania's "Vytis" Initiative (2025)

Objective	Estonia (2030)	Latvia (2036)	Lithuania (2030)
Export	Annual Export Value €1.4 billion	-	Export Value Tripled Compared to 2025
Revenue and Added Value	Total Revenue of Defence Industry €2 billion	-	Added Value of Defence Industry €1 billion
Contribution to the Economy	Defence Industry Accounts for 2% of GDP	Defence Industry Accounts for 5% of GDP	-
R&D Investment	-	3% of Defence Budget	-
Procurement from Domestic Suppliers	-	30% of Total Defence Procurement	-
New Production Facilities	3 Ammunition Factories, 1 Explosives Factory	5 Factories of Military Equipment	5 Well-Known Foreign Defence Companies Attracted

Setting comparable development goals would be a first step towards better coordination of policies and strategic development directions. A comparison of the goals currently in place points to a low level of coordination. Given that the threats facing the Baltic states are essentially identical, the lack of alignment in defence industry development goals indicates a focus on short-term needs rather than on deliberate, long-term, vision-driven planning.

Despite the ambitious objectives, **reliable and mutually comparable data on how progress towards these goals will be measured are not being collected.** Likewise, there is no shared understanding of what constitutes the defence industry or which group of companies is expected to deliver on the stated goals.²⁶ **Companies in the Baltic defence industry do not constitute a distinct economic sector** – they operate in various sectors, which is why neither sta-

tistical data nor targeted economic policies aimed at ensuring the supply of production factors for the defence industry are in place.

Although the Baltic states have only recently begun to systematically develop their defence industries compared with other European countries, **their current approach already reflects the same structural problems that undermine the global competitiveness of the wider European defence industry** – above all fragmentation, duplication, and weak coordination.²⁷ Despite rapid growth in defence spending and the resulting expansion of defence industrial activity, deeper coordination is lacking because “challenges remain due to national interests”.²⁸ At the same time, the commander of the Estonian Defence Forces is calling for closer integration of the Baltic defence industries: **“our markets are too small – by joining forces, we can be successful.”**²⁹

26 LV PEAK. 2026. Latvijas aizsardzības industrijas attīstība un konkurētspēja.
27 Draghi, M. 2024. *Op. Cit.*
28 Baltic Assembly. 2026. Baltic parliamentarians call for united defence ecosystems. https://www.baltasam.org/BA_Security_2026
29 Sargs.lv. 2025. "Sargs.lv" saruna ar Igaunijas bruņoto spēku komandieri par NATO un Baltijas aizsardzību. <https://www.sargs.lv/lv/viedoklis/2025-10-06/sargslv-saruna-ar-igaunijas-brunoto-speku-komandieri-par-nato-un-baltijas>

The long-term growth of the defence industry is linked to the **creation of higher added value within international supply chains.** This opens up an opportunity to develop complementary, rather than duplicative, industrial competencies at the Baltic level. At the same time, the relatively early stage of growth of the Baltic defence industries pro-

vides a window for timely alignment of industrial policy strategies. Such alignment requires regular dialogue. While the Baltic states have established advisory councils at the national level, these could be expanded to the Baltic level by following the example of the Nordic countries.³⁰

Box 1
Estonian Advisory Council

Interviewed representatives of the Estonian defence industry emphasise that the advisory council facilitates the exchange of up-to-date information between government and industry and helps identify potential cross-border partnerships. The council includes representatives not only from industry, but also from the armed forces, the National Defence Academy, the Ministry of the Interior, and the Ministry of Foreign Affairs. The role of the Ministry of Foreign Affairs in the advisory council is particularly highlighted, as embassies use this coordination platform to inform companies about cooperation opportunities abroad.

Latvia introduced a similar cooperation format in 2025, which has facilitated dialogue between the public and private sectors and improved processes such as establishing a ‘green corridor’ for defence investment projects. However, Latvia’s advisory council was established 12 years later than Estonia’s.³¹ This delay serves as a prime example why timely mutual exchange of information and best practices among the Baltic states would strengthen governance effectiveness.

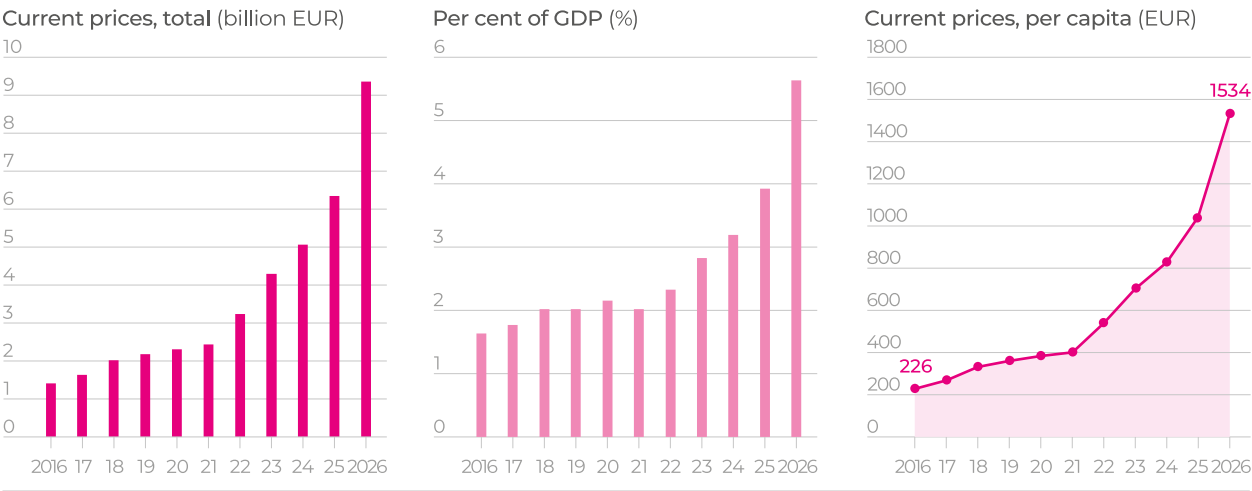
Contracting authority and end user

The recent growth of the defence industry in the Baltic states is closely linked to a sharp increase in defence spending. In 2016, around 225 EUR per Baltic resident was allocated to defence; by 2026, each resident of the Baltic states (including children and

pensioners) will contribute roughly 1,500 EUR over twelve months, or about 4.2 EUR per day. As the primary contracting authority, the state determines the extent to which this rising defence expenditure is channelled into the local market.

Figure 9
Defence Expenditure of the Baltic States 2016–2026

Source: Author's calculations based on data from NATO, European Commission, Eurostat, Ministries of Defence and Official statistics of Estonia, Latvia, and Lithuania



30 Kits, R. 2025. *Op. Cit.*
31 Kaitseministeerium. 2013. Eesti kaitsetööstuse poliitika 2013–2022. https://kaitseministeerium.ee/sites/default/files/elfinder/article_files/eesti_kaitsetoostuspoliitika_2013-2022_0.pdf

The development of the defence industry is marked by mutually conflicting positions. To justify capital investment in expanding production capacity, business leaders urge the main customer – the state – to provide guarantees that the products or services will be procured.³² For its part, the government calls on industry to take risks and first develop products that the state may then decide to procure. These challenges are not unique to the Baltic states; defence industries elsewhere in Europe and beyond face similar dilemmas. Close interaction between the military and business actors is often difficult. While business logic emphasises efficiency and responsiveness, military logic is shaped

by secrecy and a primary focus on collective mission fulfilment.³³

The Baltic states constitute a single operational region – if faced with military aggression, all three Baltic states will be affected in broadly similar ways. **The defence industry, in turn, must become the backbone of the military supply system.** Therefore, strong defence industrial capabilities in Estonia reinforce Lithuania's security, and vice versa. While separate national development of defence industries may yield short-term advantages, long-term development must be based on mutual cooperation.

Owner and builder of national champions

The Baltic defence industry consists mainly of private companies, so the state's role as an owner is relatively limited compared with many other European countries. At the same time, it is important to note that in recent years all three Baltic states have created state-owned companies, primarily to manage and implement large-scale defence investment projects.

Among the three, Estonia has the least state involvement in defence-industry ownership. Estonia has one state-owned defence company, *Hexest*, an explosives manufacturer established in 2025, and a process to select a strategic investor was launched in April 2026.³⁴ As a result, direct government involvement could decrease in the foreseeable future.

Latvia also has one wholly state-owned defence company – the *State Defence Corporation (VAK)*. Established in 2023, the company has been tasked with implementing and managing several large-scale projects, including a modular ammunition plant in Iecava, a 155mm artillery ammunition plant in cooperation with Rheinmetall, and a mine-production facility in partnership with DND.³⁵ However, Latvia's "national champion" LMT is also partially state-owned, and in 2025 the government decided to buy

out the remaining shares not already held by the state. In addition, the state-owned telecommunications technology company *Elektroniskie sakari* is also becoming increasingly active in the defence sector, including by joining the Association of Military Technology, Drones, and Robotics (*Miltech*).

In Lithuania, two state-owned defence industry companies need to be mentioned: the ammunition manufacturer *Giraitės Ginklų Gamykla*, founded in 2000, and the explosives manufacturer *Detonas*. However, other state-owned companies are also gradually adapting to the growing needs of defence manufacturing. For example, the state-owned energy and infrastructure company *ESPO-G* will be a co-owner of both the Leopard 2A8 tank assembly plant and the 155mm artillery ammunition production facility in Lithuania. To improve management efficiency, Lithuania plans to establish a state-owned defence industry holding company that would bring together several state-owned enterprises.³⁶ It should be noted that the implementation of such large-scale investment projects often requires the involvement of the state and state-owned companies, especially given the relatively early stage of development of the Baltic defence industry.

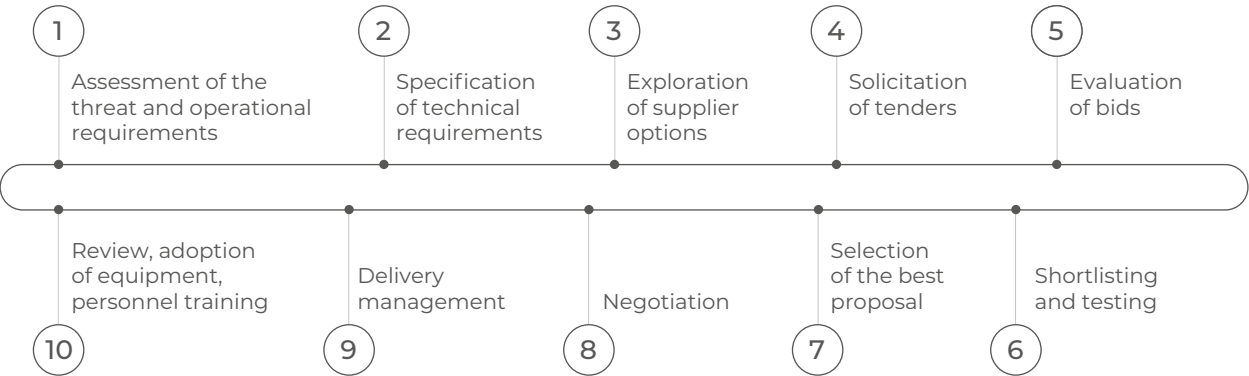
Regulator and supervisor

Finally, the state also functions as regulator and supervisor. This is linked to industrial and information security considerations, the mitigation of corruption risks, and related oversight functions. At the same time, this role is associated with bureaucratic burdens and slow decision-making. Representatives of the defence industry frequently note that bureaucracy and lengthy procurement processes hinder sectoral development.³⁷ Reforming the procurement process is particularly relevant in the context of the development of innovative technologies. Overly rigid requirements in procurement documentation slow procedures and can effectively exclude startups from competition. At present, **large-scale procurement processes tend to take several years, but in modern warfare, innovation development**

cycles are measured in months or even weeks.³⁸

Defence procurement needs to adapt to rapid changes in the threat landscape, which means the process cannot remain strictly linear. At present, procurement typically consists of several sequential, time-consuming stages; as far as possible, these stages should be conducted in parallel. To foster innovation, it would also be advisable to allow for the refinement of requirements during the procurement process so that they can keep pace with technological developments. In practice, this means that specifications and solution designs should not be defined too rigidly, ensuring that as technology evolves, the chosen solution does not fall out of step with the stated requirements.

Figure 10
Defence procurement process conceptual model
Source: Adapted by the author, based on Born, H. 2008.



One way to adapt procurement to security-of-supply concerns, is to include a requirement in technical specifications to use a specified percentage of components manufactured in the Baltic states. Such requirements are already used in some cases to reduce dependence on third countries for critical raw materials.

The state also issues special permits or licences for commercial activities involving goods of strategic importance, as well as military manufacturer certificates. To con-

trol the circulation of military goods, the European Union uses a Common Military List with 22 categories of items, including weapons, ammunition, explosives, combat vehicles, and fire-control systems. Companies engaging in commercial activities involving goods on this list must obtain a special permit or licence, following prior checks on the individuals involved, beneficial owners, and company infrastructure. When foreign nationals are part of a company's structure, the licensing process can take up to a year.³⁹

32 Fenema, P. C., Raab, J. & Groenendaal, M. 2025. Strategic Defence Production: Resource Scaling from an Organizational Network Perspective. In: The art of scaling: Organising swift adaptation to cope with crises and war (pp. 85-106). Leiden University Press.
33 Onnela, H. 2025. Bridging the institutional gap between Military and Business. Aalto University.
34 Ministry of Defence of the Republic of Estonia. 2026. Defence Minister launches tender to find strategic investor for explosives manufacturer Hexest Materials. <https://www.kaitseministeerium.ee/en/news/defence-minister-launches-tender-find-strategic-investor-explosives-manufacturer-hexest>
35 Melbārde, L. 2025. Latvia's defence industry: building for the future. Baltic Business Quarterly, Autumn 2025, pp.38.-39.
36 Adamowski, J. 2025. Lithuania eyes state defense holding to steer all weapons needs. <https://www.defensenews.com/global/europe/2025/12/17/lithuania-eyes-state-defense-holding-to-steer-all-weapons-needs/>

37 MilTech. 2025. Latvijas militāro tehnoloģiju nozarei ir liels eksporta potenciāls. <https://www.miltech.lv/latvijas-militaro-tehnologiju-nozarei-ir-liels-eksporta-potencials>
38 Crebo-Rediker, H. E. 2026. Securing Ukraine's Future in Europe: Ukraine's Defense Industrial Base—An Anchor for Economic Renewal and European Security. <https://www.cfr.org/articles/securing-ukraines-future-in-europe-ukraines-defense-industrial-base-an-anchor-for-economic-renewal-and-european-security>
39 Brinkmane, H. 2025. Aizsardzības ministrijas speciālā atļauja (licence) komercdarbībai ar militārajām precēm. Tiesiskais regulējums un prakse Latvijā. Jurista vārds 22 (1392), pp. 16.-18.

Although obtaining a licence is time-consuming, it is generally seen as an advantage when, for example, participating in joint value chains with firms that lack licences in the relevant category. Not all defence-industry companies need such licences: firms that develop or manufacture dual-use technologies often operate without them. Publicly available information indicates that, in Latvia, more than 120 companies have received special permits or licences for commercial activity involving goods of strategic importance.

1.4. Mapping the landscape

An official mapping will provide key insights into the defence industry's capacity and structure. It also serves as preliminary research material for potential foreign partners, including for meeting localisation requirements in major capability contracts. While national investment agencies, industry associations, and joint conferences play an important role in building partnerships, official maps help to highlight key specialisation niches, making it easier to form cross-border partnerships and shared value-added chains.

The Estonian Defence Directory, published in March 2025 by the Estonian Investment Agency in cooperation with the Defence Industry Association, the Estonian Defence Cluster, and the Ministry of Defence, lists 119 defence-industry companies, research institutions, and cooperation partners, organised into 15 main specialisation niches.⁴⁰ The Lithuanian defence industry portfolio was first published in September 2025 and was developed by the Lithuanian Innovation Agency in collaboration with the Ministry of Economy, the Ministry of Defence, and the Defence Resources Agency. It includes 106 companies and research institutions, classified into 11 specialisation categories.⁴¹

Latvian authorities have assessed the capacity of the local defence industry and identified 240 companies that manufacture military or dual-use products.⁴² However, unlike in Lithuania and Estonia, an official pub-

Figure 11
Number of Companies Licensed by the Ministry of Defence of Latvia 2018–2026
Source: Compiled by the author

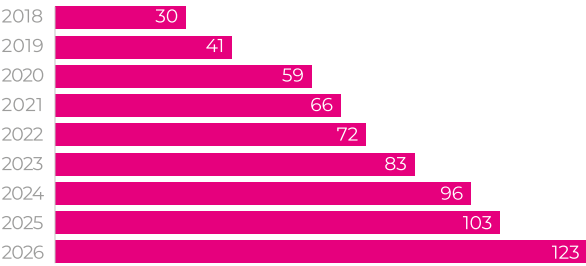


Figure 12
Summary of the Official Defence Industry Mapping of Estonia and Lithuania in 2025
Note: An official mapping of Latvia's defence industry is not publicly available
Sources: Invest Estonia, Inovacijų agentūra

	Estonia	Lithuania
Space	✓	✓
Unmanned systems	✓	✓
Individual equipment and rations	✓	✓
Situational Awareness/ Sensors / Detection, Location, Acquisition and Deception	✓	✓
ICT, Cyber, Software & Computers	✓	✓
DeepTech/Dual-Use / Research & Development	✓	✓
Electronics & Cables / Components	✓	✓
Metalworks, Heavy Machinery & Containers / Ground Vehicles	✓	✓
Shipping / Air/Sea/Ground Support	✓	✓
Armaments & Weapon Systems / Ammunition	✓	✓
Communication and Control Systems	✓	
Medicine	✓	
Security Services	✓	
Training and Simulation Tools	✓	
Other Production & Services	✓	
Explosive Ordnance Disposal		✓

40 Invest Estonia. 2025. Estonian Defence Directory. March 2025. <https://investinestonia.com/wp-content/uploads/estonian-defence-directory-1.pdf>

41 Inovacijų agentūra. 2025. Co-created in Lithuania. Lithuanian defence industry. A growing innovation ecosystem. <https://eksportas.inovacijuagentura.lt/upload/files/2025/09/02/lithuanian-defence-industry-cocreate-internetas-perziurai-08-12-1.pdf>

42 Aizsardzības ministrija. 2026. Latvijas aizsardzības industrija strauji attīstās: 2025. gadā pieauga uzņēmumu skaits, inovācijas un starptautiskā sadarbība. <https://www.mil.lv/lv/zinas/latvijas-aizsardzibas-industrija-strauji-attistas-2025-gada-pieauga-uznemumu-skaits>

lic overview of Latvia's defence industry does not exist. On the one hand, this caution reflects information-security concerns; on the other, **it may place Latvian firms at a disadvantage when attracting foreign partners compared with their Baltic neighbours.**

To identify and compare trends in Baltic defence-industry development, this study mapped 112 companies and research institutions active in Latvia's defence industry. The sample includes entities that have received grants or have entered into research and development contracts from the Ministry of Defence, have successfully participated in calls for proposals from the European Defence Fund, as well as other Latvian companies whose economic activities in the defence sector are publicly known.

The mapping covers major firms, such as *LMT*, *Redwire Defense Tech Riga* (formerly *Edge Autonomy*), *Hansa Matrix*, and *Axon Cable*, as well as a number of startups, such as *Origin Robotics*, *NATRIX*, and *VIC TEC*, and metalworking companies, such as *EMJ Metāls*, which is part of the *Patria* cluster.

Although construction companies that develop military or dual-use infrastructure may be considered part of the defence industry, such companies were not included in the mapping of Latvian companies to ensure that the sample of Latvian companies would be as comparable as possible to the official mappings of Estonia and Lithuania, which do not include construction companies.

At the same time, it should be stressed that this mapping is neither official nor fully comprehensive. During the research, the Latvian authorities responsible for the defence industry declined to verify the selected sample of companies on information-security grounds.

A total of 336 companies and research institutions were identified across the three Baltic states. The sample consists of 300 entities (111 Estonian companies, 96 Lithuanian companies, and 93 Latvian companies that were active in 2024). Higher education institutions are not included, as business and export indicators are not collected for them, and companies founded in 2024 or 2025 are also excluded due to the lack of

available business and export data at the time of the study.

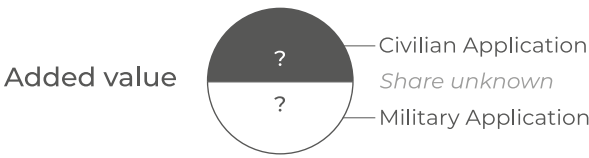
In collaboration with the official statistics agencies of the Baltic states, business indicators were gathered for the selected sample for 2019–2024, including turnover, value added, gross capital investment in tangible assets, number of employees, total wages, and export destinations. The data represent year-end values, so the most recent observations available for the study refer to the end of 2024 (beginning of 2025).

Given that this mapping does not reflect the entire defence industry, **business and export indicators should not be considered absolute and directly comparable aggregates.** Nonetheless, they allow us to identify and contrast key development trends in the Baltic defence industries over recent years.

Comparing selected company-level indicators gives a rough sense of how much added value is intended for defence use. However, **most Baltic defence industry companies focus on dual-use solutions.** For example, Estonia's *Milrem Robotics* manufactures both *THEMIS* combat platforms as well as *Multiscope Rescue* ground robots designed for civilian rescue operations. Meanwhile, Latvia's *LMT* initially operated solely in the civilian market, but since 2017 has been developing information and communication technologies, command-and-control systems, and unmanned aerial systems for military applications.

There are high hopes that dual-use technologies will drive industrial growth and export capacity.⁴³ At the same time, company-level data does not show what share of added value comes from civilian versus military applications, which makes it possible to classify a broad range of technologies as "dual-use," including cases where actual military use is marginal.⁴⁴

Figure 13
Conceptual Model of a Dual-Use Company



43 Rožkalns, K. 2025. Duālās tehnoloģijas ir Latvijas industriālās izaugsmes stratēģiskais virziens. <https://ir.lv/rubrika/viedoklis/dualas-tehnologijas-ir-latvijas-industrialas-izaugsmes-strategiskais-virziens.220379>

44 Chapman, J. 2022. Reliance on Dual-Use Technology Is a Trap. <https://warontherocks.com/2022/09/reliance-on-dual-use-technology-is-a-trap/>

Box 2

“Reliance on Dual-Use Technology Is a Trap” (Jake Chapman)

The term “dual use” has become increasingly popular across Europe. Historically, such technologies were developed first for military purposes and only later found wider applications in the civilian sector (commonly referred to as the spin-off process), with well-known examples including GPS, the microwave oven, and the Internet.⁴⁵ With the end of the Cold War, this pattern shifted: research and development now largely focuses on general, civilian applications that are subsequently adapted for military use (the spin-in process).⁴⁶

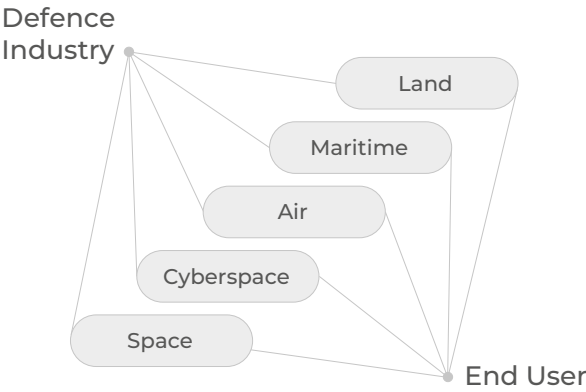
In February 1995, the U.S. Department of Defence published its Dual-Use Technology Strategy, which emphasises that it is precisely dual-use technologies – originally developed for civilian applications – that will ensure U.S. technological superiority, in an era of shrinking defence budgets.⁴⁷ Nowadays, when dual-use technologies are primarily developed for the civilian market first, there is a risk that by the time the solution reaches the military end-user, it is already outdated and unable to achieve the desired effect.⁴⁸

Experts also note that the range of dual-use technologies – which can be used for both civilian and military purposes – is extremely broad, making the use of the term problematic.⁴⁹ On the other hand, an overly strict classification of dual-use technologies is linked both to a slowdown in the pace of innovation and to ethical considerations, particularly in technologies characterised by cross-sector applicability with limited adaptation requirements, such as artificial intelligence, biotechnology, and advanced materials.⁵⁰

The space industry deserves particular attention. Although space companies often do not directly manufacture products or provide services to the armed forces, the space and defence industries are generally viewed as mutually complementary. For instance, at the EU level the responsible commissioner covers both defence and space portfolios, and ASD, Europe's largest industry association in this field, represents the space, security, and defence sectors together.

Since 2019, Space has been recognised at NATO level as one of five operational domains of warfare, alongside land, sea, air and cyberspace.⁵¹ This means space is no longer viewed simply as an enabler, but as a distinct environment in which military operations are conducted.

Figure 14
NATO's Five Operational Domains



45 Caviggioli, F., De Marco, A., Gkostis, P., Scellato, G. & Vezzani, A. 2025. Dual use inventions: identification and characterization using patent data. <https://doi.org/10.1080/10438599.2022.2026221>

46 Leske, A. D. 2018. A review on defense innovation: from spin-off to spin-in. *Brazilian Journal of Political Economy*, 38(2), 377-391. <https://doi.org/10.1590/0101-31572018v38n02a09>

47 USA Department of Defense. 1995. Dual Use Strategy: A Defense Strategy for Affordable, Leading Edge Technology. <https://www.hsd.org/?view&did=712456>

48 Chapman, J. 2022. *Op. Cit.*

49 Keselman, G., Murray, F. 2025. Dual-Use Is a Strategy, Not a Category (Nor a Trap). <https://warontherocks.com/2025/01/dual-use-is-a-strategy-not-a-category-nor-a-trap/>

50 Singer, J., Mueller, E. F. & Kraus, R. 2025. Dual-Use or Omni-Use? Rethinking Technology in a Borderless World. <http://dx.doi.org/10.2139/ssrn.5185227>

51 NATO. 2019. NATO's overarching Space Policy. <https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2019/06/27/natos-overarching-space-policy>

2. DEVELOPMENT TRENDS

2.1. Companies

Looking at the geographic distribution of the Baltic defence industry, the highest concentration of the companies is observed in major cities – Tallinn, Tartu, the Riga metropolitan area, Kaunas, and Vilnius. This is largely explained by the availability of human capital and infrastructure. At the same time, interviews with defence industry representatives indicate ambition to seek talent in the regions as well. A good example is *Defence Partnership Latvia*, which manufactures armoured personnel carriers. Their initial production facility was located in Cēsis but was later moved to Valmiera. In March 2026, the company announced plans to open another production facility in Valmiera, which could double the number of employees in the foreseeable future, reaching 200.⁵²

The number of companies in the Baltic defence industry sample has increased by 30% over the past six years – from 232 companies in 2019 to 300 companies by the end of 2024.

Figure 15
Geographic Distribution of the Baltic Defence Industry Sample in 2024

Note: Company locations are based solely on the legal addresses of the selected firms
Sources: Compiled by the author; administrative boundaries – © EuroGeographics, Eurostat (GISCO), LAU 2024

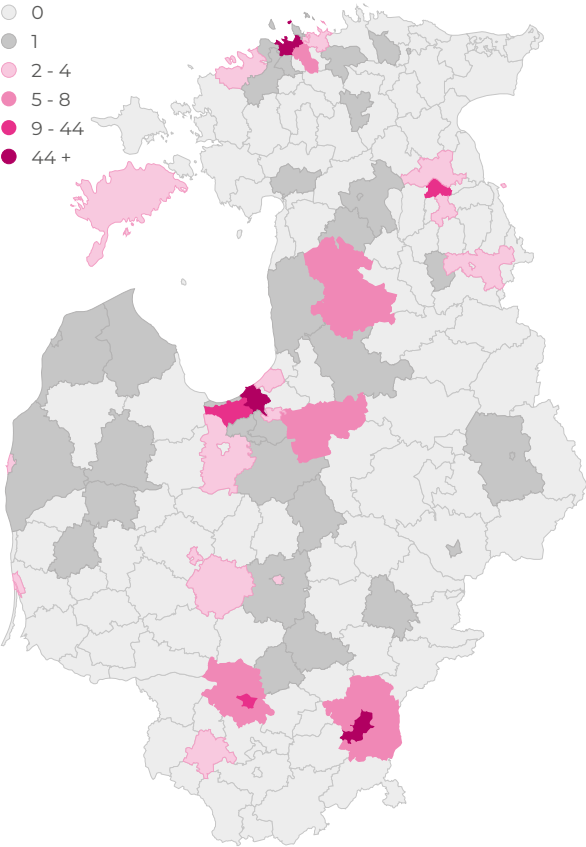
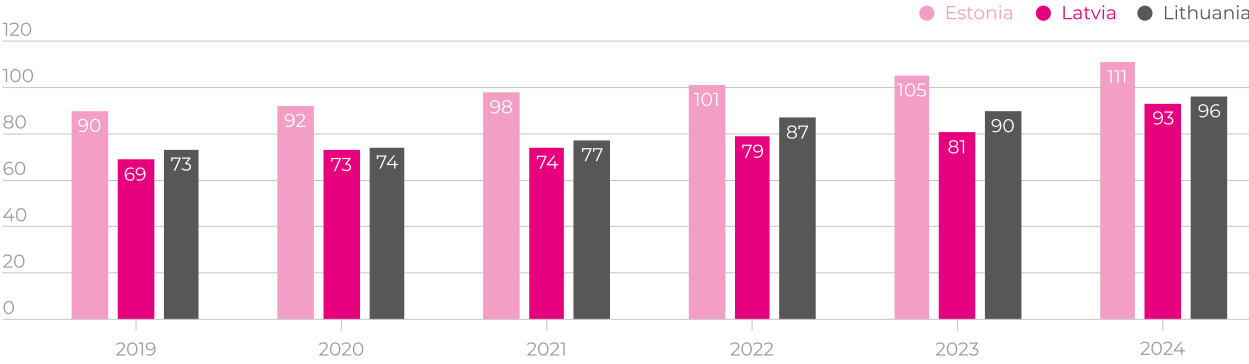


Figure 16
Number of Companies Included in the Baltic Defence Industry Sample 2019-2024

Source: Official statistics



52 Kuncevičs, M. 2026. Bruņumašīnu ražotājs «Patria» Valmierā plāno vēl vienu ražotni; darbinieku skaits nākotnē varētu pieaugt līdz 200. <https://www.lsm.lv/raksts/zinas/ekonomika/27.03.2026-brunumasinu-razotajs-patria-valmiera-plano-vel-vienu-razotni-darbinieku-skaits-nakotne-varetu-pieaugt-lidz-200.a640818/>

2.2. Turnover and added value

In terms of both turnover and value added, the Baltic defence industry has been experiencing growth in recent years. While the total turnover of the sample companies was €1.96 billion in 2019, turnover exceeded €3 billion in 2024, representing approximately 1.94% of the Baltic states' GDP. Total turnover is increasing not only due to the growing number of companies in the sample but also as companies expand the scope of their business operations.

When comparing the defence industries of the three Baltic states, Lithuania shows the fastest growth, with its 2024 turnover being 79% higher than in 2019, while Latvia and Estonia saw increases of 51% and 48%, respectively.

Lithuania's lead is even more pronounced in terms of value-added indicators, which rose by 122% in 2024 compared to 2019. The sample of Latvian companies also shows relatively strong growth figures – a 64% increase over the same period – while the value added generated by the sample of Estonian companies rose by 47%. At the same time, in absolute terms, the sample of Estonian companies maintains its leading position,

generating added value of €616 million in 2024.

In the long term, it is necessary to move toward the development of joint value-added chains, which would both strengthen the region's security and promote an economic breakthrough for the three Baltic states. This can be achieved by establishing new cross-border partnerships and pan-Baltic defence industry companies – i.e., companies operating in all three Baltic states – by pooling expertise and industrial capacity.

Defence innovations require a functional division of expertise. The innovation lifecycle – from idea to mass production – typically involves several companies, enabling each to specialise in its own niche, make better use of available resources, and enhance competitiveness. At the Baltic level, cross-border value chains can be created in which one company focuses on early-stage research and development and prototype design – including cooperation with university laboratories and testing centres – while another specialises in certified, scalable mass production.

Figure 17
Turnover of the Baltic Defence Industry Sample at Current Prices 2019–2024 (billion EUR)

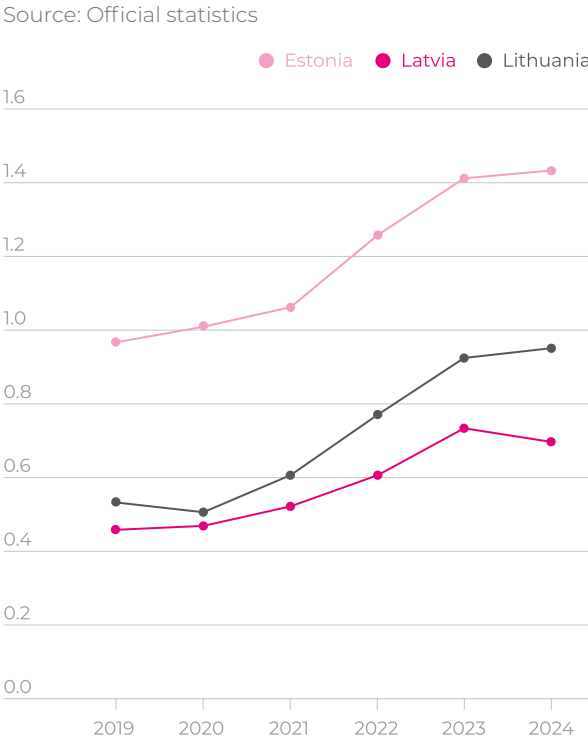
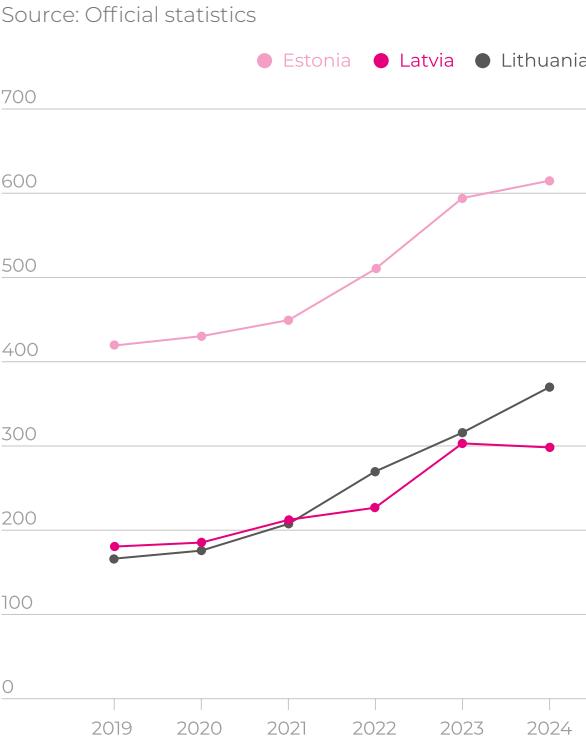


Figure 18
Added value of the Baltic Defence Industry Sample at Current Prices 2019–2024 (million EUR)



Box 3
Pan-Baltic Defence Industry

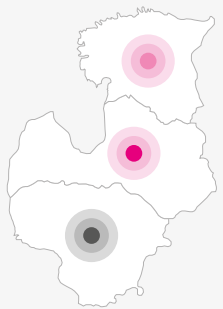
An illustrative example of a Pan-Baltic defence industry company is *Frankenburg Technologies*, originally founded in Estonia. Its strategic leadership includes several former high-ranking officials from the Estonian defence sector. The company's first product – the Mark1 unguided anti-drone missile system – was developed by its Latvian subsidiary, a team comprised of researchers from Riga Technical University. Interestingly, this product was developed in Latvia starting from the earliest stages of technological readiness – the initial concept emerged during a local defence sector hackathon. The company also points out that access to Latvia's military infrastructure was crucial, as it ensured that testing requirements could be met.⁵³ In early 2026, *Frankenburg Technologies* successfully completed a €30 million Series A funding round, laying the groundwork for the company's future development, including the establishment of production lines in Poland and the United Kingdom.

There are also other Baltic-level initiatives that will support deeper integration of the defence industry over the long term. For example, in 2025 the three Baltic technical universities – Riga Technical University, Tallinn University of Technology and Kaunas University of Technology – signed a cooperation agreement on defence technologies. This is a significant step toward aligning innovation ecosystems and creating conditions for identifying areas of specialisation at earlier stages of technological readiness.

It is also worth highlighting several cases where Baltic defence industry companies have joined forces to develop specific defence technology solutions. In this context, the Estonian company *DefSecIntel Solutions* deserves special mention. It has entered into partnership agreements with the Latvian company *Origin Robotics* to develop anti-drone solutions as part of the Drone Wall initiative,⁵⁴ and has also formed a partnership with the Lithuanian companies ADV Defence and Quantum Systems to develop a balloon-based defence solution that addresses the threat which has forced Vilnius Airport to close on several occasions.⁵⁵

Frankenburg Technologies

Founded
2024 in Estonia
Operates
in all three Baltic states



- € 4 million seed funding closed in 2025
- € 30 million Series A funding closed in 2026
- € 10.5 million EDF project in 2026
- € 100 million Series B funding round launched in 2026
- The first mass-production anti-drone missile factory opened in Latvia in 2026

2.3. Production factors

Input materials and capital investments

The total value of goods and services procurement is gradually increasing. At the same time, 2024 was a relatively unsuccessful year after several years of stable growth. The growth rates in Lithuania and Estonia slowed down, while in Latvia's case, they declined compared to the previous year.

Data on gross capital investments in tangible assets, however, show that companies in Latvia and Estonia invested significantly larger amounts between 2019 and 2024. During this period, the sample of Latvian companies made average annual gross capital investments in tangible assets of €70.5 million, while the sample of Estonian

53 Sargs.lv. 2026. "Sargs.lv" saruna: Kādus draudus novērsīs "Frankenburg Technologies" izstrādātās pretzondru raķetes. <https://www.sargs.lv/lt/tehnika-un-ekipejums/2026-01-30/sargslv-saruna-kadus-draudus-noversis-frankenburg-technologies>

54 Labs of Latvia. 2025. Origin Robotics and DefSecIntel Solutions launch partnership to drive the Drone Wall forward. <https://labsoflatvia.com/en/news/origin-robotics-and-defsecintel-solutions-launch-partnership-to-drive-the-drone-wall-forward>

55 Paškovskytė, E., Juozapaitis, L. 2025. „IT logika“, „Teltonika“ ir „Dangaus šviesos“ pasiūlė pažangiausių sprendimus apsaugoti oro erdvę (dar papildytas). <https://bns.lt/naujiena/it-logika-teltonika-ir-dangaus-sviesos-pasiule-pazangiausius-sprendimus-apsaugoti-oro-erdve-dar-papildytas-c6vc3iw>

companies invested an average of €69.3 million, and the sample of Lithuanian companies invested only €22.8 million on average.

Access to capital is a key driver of defence industry development. Alongside EU-level funding instruments, the Baltic states promote access to finance at the national level to support innovation, scale up promising technologies, and increase productivity. **Estonia excels in access to capital for defence innovation.** In January 2025, it established a €100 million Defence Fund to provide direct investments in seed, early-stage, and growth-stage companies developing military or dual-use technologies,

as well as investments in venture capital and private equity funds, thereby diversifying the capital base of the defence industry.⁵⁶ Compared with the other Baltic states, Estonia's broader and quicker access to private capital is one of the main reasons for its leading position in defence innovation.

Such initiatives also have the potential to foster wider regional cooperation. For instance, in April 2026 Poland called for enhanced Baltic–Polish cooperation in financing large-scale defence projects and for exploring opportunities to attract EU funding for the development of the defence industries of these countries.⁵⁷

even in the short term.⁵⁸ Securing a workforce outside major cities is expected to be particularly difficult.

The nature of the defence industry involves additional security requirements, which make it harder to attract employees. **It is particularly challenging to hire specialists from countries outside the EU or NATO,** given the strict migration and security vetting requirements – the European Commission highlighted this issue as early as 2019 in its Vision on defence related skills for Europe today and tomorrow.⁵⁹

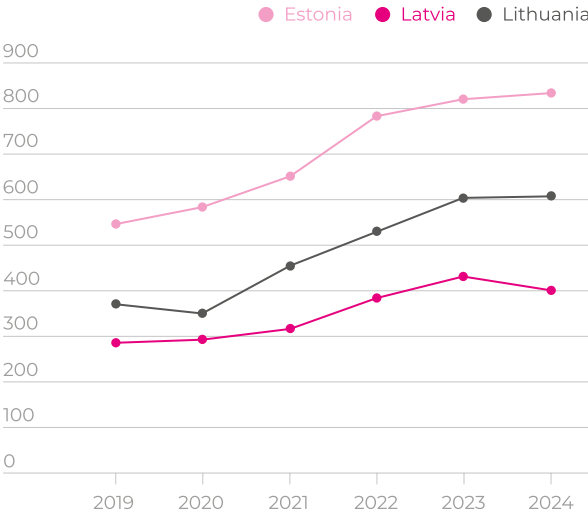
While substantial investments are being made in the development of production capacity (for example, the Latvian government has allocated €40 million for this purpose, creating at least 280 new jobs),⁶⁰ there is a risk that the new job openings may not be filled. The necessary human resources will

need to be mobilised by reorienting workers from other sectors of the economy.

Human capital challenges will grow. Demographic trends indicate that Latvia will lose an average of 18,000 people each year over the next 15 years.⁶¹ Several interviewees from the Baltic defence sector pointed out that it is already difficult to attract both highly skilled specialists as well as vocationally trained workers.

At the European level, particular emphasis is placed on the need for digital skills, data analysis, programming and engineering competences, expertise in autonomy and automation, cybersecurity knowledge, and advanced manufacturing skills.⁶² However, because the defence industry encompasses many sectors of the economy, the skills required are not limited to those listed above.

Figure 19
Total Value of Goods and Services Procured by the Baltic Defence Industry Sample at Current Prices 2019–2024 (million EUR)
Source: Official statistics

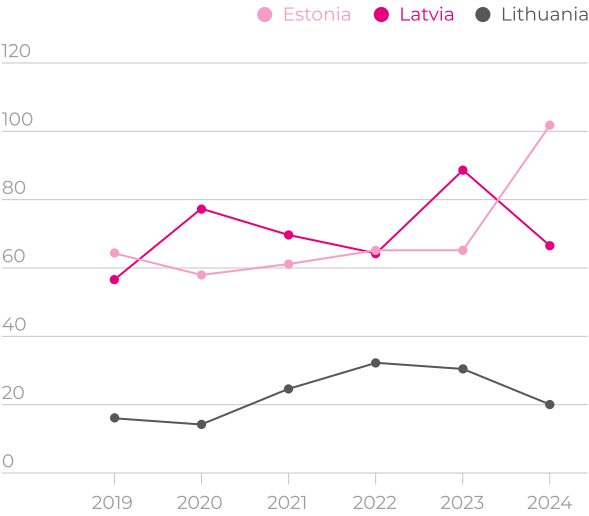


Workforce

Employment in the Baltic defence industry is rising as the sector expands. The number of employees in the company sample used for this study has grown from just under 19,000 in 2019 to more than 21,000 in 2024, with Latvian companies showing the fastest increase – a 36% rise in headcount over five years.

Over the same period, wages and salaries have also risen. Although the total wage bill of the Latvian company sample remains lower overall, it has almost doubled, from

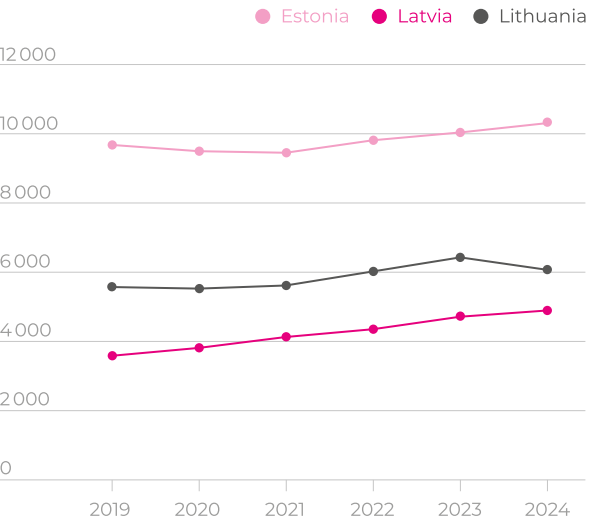
Figure 20
Gross Capital Investments in Tangible Assets by the Baltic Defence Industry Sample at Current Prices 2019–2024 (million EUR)
Source: Official statistics



€68.3 million in 2019 to €129.8 million in 2024. On average, monthly wages paid to employees in the Baltic defence industry have grown from €1,688 in 2019 to €2,522 in 2024.

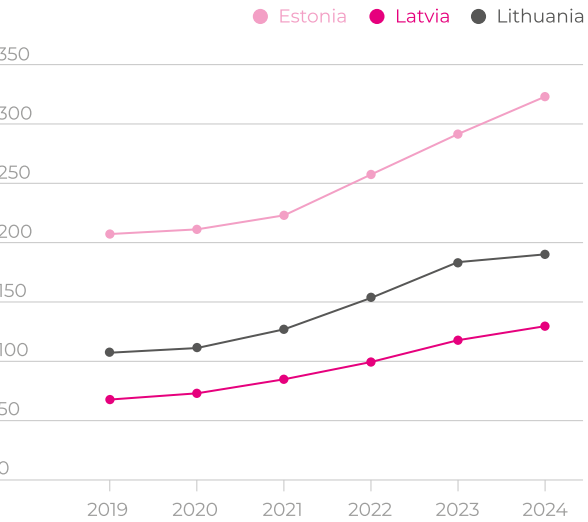
Despite these positive trends, **the availability of human capital will remain a structural challenge** for the long-term development of the Baltic defence industry. Leading representatives of the defence industry estimate that, as Latvia's defence sector expands, an additional 5,000 specialists will be needed

Figure 21
Number of Employees in the Baltic Defence Industry Sample 2019–2024
Source: Official statistics



Future development prospects are shaped by changes in the competencies required of employees. Analytical thinking, resilience and flexibility, creative thinking and technological proficiency are among the most

Figure 22
Wages and Salaries Paid by the Baltic Defence Industry Sample at Current Prices 2019–2024 (million EUR)
Source: Official statistics



in-demand skills. However, estimates by the World Economic Forum suggest that 39% of employees' core skills will change over the next five years, driven primarily by technological developments – especially artificial

56 Trade with Estonia. 2025. Estonia launched €100M Defence Fund. <https://tradewithestonia.com/estonia-launched-e100m-defence-fund/>
57 Górski, M. 2026. What about defence funding? Poland seeks partnership with the Baltic states. <https://defence24.com/defence-policy/what-about-defence-funding-poland-seeks-partnership-with-the-baltic-states>

58 Andrejevs, N. 2026. Vajag vēl līdz 5000 speciālistu un mazināt birokrātiju: apspriež aizsardzības industrijas izaicinājumus. <https://www.ism.lv/raksts/zinas/latvija/20.04.2026-vajag-vel-lidz-5000-specialistu-un-mazinat-biokratiju-apsprie-z-aizsardzibas-industrijas-izaicinajumus.a643759/>
59 European Commission. 2019. Vision on defence related skills for Europe today and tomorrow. <https://ec.europa.eu/docsroom/documents/36238>
60 Ekonomikas Ministrija. 2026. Valdība atbalsta 40 miljonu eiro novirzīšanu aizsardzības rūpniecības projektiem. <https://www.mk.gov.lv/lv/jaunums/valdiba-atbalsta-40-miljonu-eiro-novirzisanu-aizsardzibas-rupniecibas-projektiem>
61 Vārpiņa, Z. 2026. Latvija 2040: demogrāfiskā realitāte un nākotnes scenāriji. <https://domnicalaser.lv/latvija-2040-demografiska-realitate-un-nakotnes-scenariji/>
62 ASD. n. d. Skills in demand in the European defence industry. <https://www.asd-europe.org/news-media/news-events/get-inspired/skills-in-demand-in-the-european-defence-industry/>

intelligence – as well as geo-economic fragmentation, the green transition and demographic trends.⁶³

The ability of companies themselves to invest in developing human capital plays a significant role.⁶⁴ This may include in-house training programmes or paid internship schemes designed to attract students. Admittedly, such measures are primarily feasible for larger, more productive companies. Interviews indicate that smaller firms are actively seeking cooperation partners – including cross-border partnerships – for this reason, so coordinated action at the Baltic level could increase the effectiveness of employee recruitment.

Although the defence industry is regarded as a backbone of military supply systems, including during periods of military threat,⁶⁵ **current efforts to secure workforce availability are focused on peacetime conditions.**

Restrictions apply to citizens employed in government agencies, preventing them

from serving in two capacities at the same time because their duties differ in crises and wartime. For example, a Latvian citizen cannot simultaneously serve as a police officer and as a member of the National Guard. However, such conditions do not apply to employees of defence industry companies. The exception is critical infrastructure companies, but not all defence industry firms fall into this category.

This means that a member of the National Guard or a reserve soldier with clearly defined duties in a crisis or wartime will not be able to continue working at a defence industry company at the very moment when such companies must not only maintain but also increase production to meet the armed forces' growing supply needs. Israel faced precisely this challenge in October 2023, when the large-scale mobilisation of reservists following the Hamas terrorist attacks disrupted civilian employment, including in key sectors.

To ensure an adequate workforce during a crisis or wartime, defence industry companies must designate critical employees with clearly defined peacetime and wartime duties, including an obligation to continue working under crisis conditions. An example can be drawn from the conscription system in Finland, where each reservist is assigned to a specific unit with specific wartime tasks once mandatory military service is completed, rather than simply entering a general reserve.⁶⁶

A compulsory service system could help attract this type of workforce. Specifically, people called up for alternative service would acquire skills needed by the defence industry and be integrated into its personnel structure during times of crisis. Admittedly, employees selected in this way would most likely work for defence industry companies that have special cooperation arrangements (such as strategic partnerships) with the state, or for state-owned enterprises.

Given that all three Baltic states face challenges related to the availability of human capital, **effective policy measures should focus on regional solutions.** To stimulate spe-

cialists' interest in working in the defence industry, it is advisable to create opportunities for career progression not only vertically but also horizontally. Closer integration

of the Baltic defence industries would support this by making it easier for specialists to move between companies across the region.

Box 4
Recruiting Pensioners in the Israeli Defence Industry

One of the cornerstones of Israel's defence system is universal conscription. Most adult citizens are required to complete at least two years and eight months of mandatory military service. As a result, the Israel Defence Forces rely heavily on a large reserve component alongside conscript soldiers, with several hundred thousand reservists and roughly 150,000 conscripts forming the bulk of the force in times of crisis.⁶⁷

Following the Hamas terrorist attacks on Israel in October 2023, the Israeli Defence Forces mobilised a large number of reservists. Among them, approximately 2,000 were employees of Elbit, an Israeli defence and security company, representing about 15% of all the company's staff working in Israel. To ensure it could continue producing the equipment required by the armed forces, Elbit launched an extensive recruitment drive, hiring hundreds of new employees and bringing back more than a hundred retirees. This approach enabled the company to meet the surge in demand for production with an adequate workforce.⁶⁸

Technologies

To promote technological development, a key area of cooperation among the Baltic defence industries is the integration of their innovation ecosystems. Although innovation developers in the Baltic states face very similar challenges, support mechanisms such as grant schemes are largely organised at the national level.

Ensuring access to testing infrastructure and end-user feedback is fundamental for defence innovation, yet a nationally focused approach hinders the efficient use of administrative capacity. Interviews conducted for this study indicate that securing support for testing and end-user expertise is often excessively time-consuming. Moreover, armed forces – and bureaucratic systems more generally – are built around standard-

ised procedures, which can create a degree of resistance to technological innovation.⁶⁹

To address these issues, a joint Baltic-level task force should be established. It would support the development and testing of innovations, thereby relieving the armed forces of part of this burden.

Investments in defence research and development generate long-term productivity gains and create spillover effects in knowledge and human capital,⁷⁰ which makes it important for the Baltic states to keep allocating resources to science and research more broadly. This is particularly relevant for Latvia and Lithuania, which, in proportional terms, devote significantly fewer resources to research and development than Estonia.

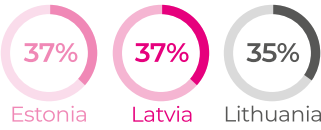
Figure 23
Core Skills in 2025 (%)

Note: Share of employers who consider the stated skills to be core skills for their workforce
Source: WEF



Figure 24
Disruption to skills 2025-2030 (%)

Note: Share of workers' core skills that will change in the next five years
Source: WEF



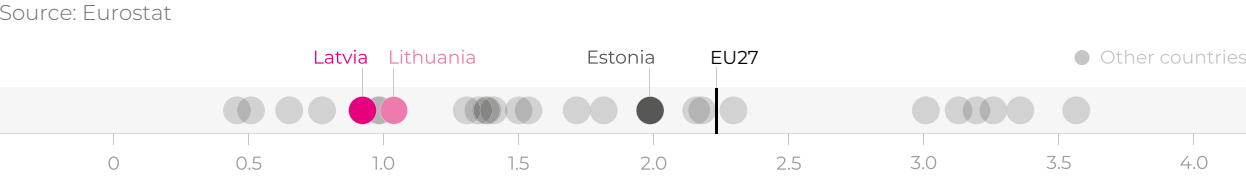
63 World Economic Forum 2025. Future of Jobs Report. Insight Report January 2025. <https://www.weforum.org/publications/the-future-of-jobs-report-2025/>

64 Hāka-Rikarde, Ž. 2025. Militārjā ražošanā gaida jaunus darbiniekus – kādas prasmes ir pieprasītas? <https://www.delfi.lv/bizness/56234200/eiropas-zinas/120087484/militaraja-razosana-gaida-jaunus-darbiniekus-kadas-prasmes-ir-pieprasitas>

65 Aizsardzības ministrija. 2025. Aizsardzības inudstrijas un inovāciju atbalsta stratēģija 2025-2036. <https://www.mod.gov.lv/lv/aizsardzibas-industrijas-un-inovaciju-atbalsta-strategija-2025-2036>

66 Naapila, S. 2024. Reservissä ON voimaa! – Asevelvollisuuden kautta osaavaa ja motivoitunutta reserviä. <https://yhdyismies.fi/reservissa-on-voimaa-asevelvollisuuden-kautta-osaavaa-ja-motivoitunutta-reservia/>

Figure 25
Research and Development Expenditure of the Baltic States in 2024 (% of GDP)



67 Bob, Y. J. 2024. Lack of manpower: IDF reservists service jumps from 25 to 136 days a year. <https://www.jpost.com/israel-news/article-829126>

68 Habib-Valdhorm, S. 2023. Elbit Systems brings back retirees to meet war demand. <https://en.globes.co.il/en/article-elbit-systems-brings-back-retirees-to-meet-war-demand-1001463617>

69 Hill, A. 2015. Military Innovation and Military Culture. Parameters, 45(1). <https://doi.org/10.55540/0031-1723.2809>

70 Moretti, E., Steinwender, C., & Van Reenen, J. 2025. The intellectual spoils of war? Defense R&D, productivity, and international spillovers. Review of Economics and Statistics, 107(1), 14-27. https://doi.org/10.1162/rest_a_01293

The development of defence innovation should be promoted by reforming public procurement processes. **Innovative companies need to be involved from an early stage.** In the Baltic states, this implies integrating the innovation ecosystem by ensuring that startups from all three countries are equally engaged in procurement, combining existing expertise while at the same time fostering competition to develop the best technological solutions.

Finally, **particular attention must be paid to standardisation.** Although innovative

technologies are evolving rapidly, it is important to participate in standard-setting early on, as in the long-term companies' ability to deliver solutions that comply with standards will be a prerequisite for competitiveness. As highlighted by Lithuanian drone manufacturer RSI Europe, standardisation should be understood as a layered process that covers not only individual technological components but also their integration into existing systems, such as command-and-control architectures.⁷¹ Otherwise, opportunities to scale up production will be significantly constrained.

2.4. International dimension

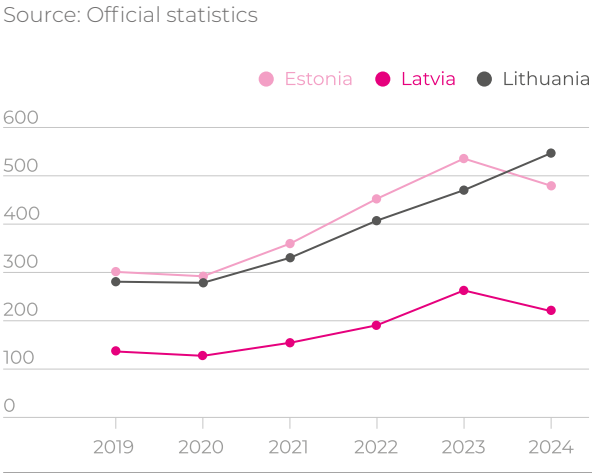
Export

Domestic market demand in small countries is limited, so defence industry companies should prioritise export capacity rather than relying solely on domestic orders. Data from the Estonian Defence and Aerospace Industry Association indicate that exports account for around 70% of its members' total turnover.⁷² At the same time, data from a sample of Baltic defence companies show that, between 2019 and 2024, exports of goods and services accounted annually for 29–38% of total turnover for Estonian companies, 27–36% for Latvian companies and 51–57% for Lithuanian companies.

Lithuania's defence industry sample was the only one of the three to increase its export volume in 2024, while the samples of Latvian and Estonian companies recorded declines compared with the previous year. In 2024, the Lithuanian company sample also surpassed Estonia's export figures for the first time, even though Estonia had previously held the leading position among the Baltic states.

A similar trend can be seen in the total export figures for unmanned aerial vehicles across the Baltic states. Although Latvia

Figure 26
Export Value of Goods and Services from the Baltic Defence Industry Sample 2019–2024 (million EUR)



71 RSI Europe. 2026. Drone Standardisation: Which Directions Make Strategic Sense? <https://rsieu.com/drone-standardisation-which-directions-make-strategic-sense/>
72 Hellrand, M. 2025. Estonian defence industry targets €2 billion turnover. <https://tradewithestonia.com/estonian-defence-industry-targets-e2-billion-turnover/>

remains in the lead in 2025, the volume of drone exports has declined slightly over the past year, mirroring the situation in Estonia. In contrast, Lithuania's unmanned aerial vehicle exports have grown rapidly during this period, slightly exceeding Estonia's figures.

Estonian companies are primarily oriented toward the Nordic market, with Finland and

Sweden remaining their two main export destinations throughout the 2019–2024 period. Germany is an important export destination for the entire region: over the same period, it was the top export market for the Latvian company sample, the second-largest export destination for the Lithuanian sample and the third-largest export destination for the Estonian sample.

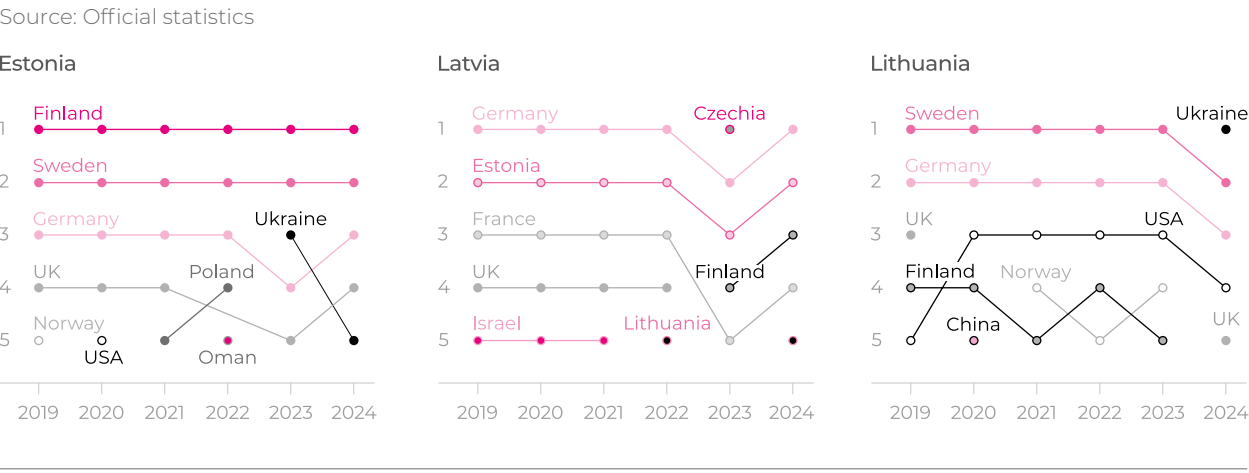
Box 5
Lithuania's Cooperation with Ukraine

"We in Europe have to get out of the mindset that it's only us helping Ukraine. We have to ask ourselves the question, how can Ukraine help us?" says Finnish President Alexander Stubb, emphasising that Ukraine is the only country in the Western world that has truly adapted to the realities of modern warfare.⁷³ In defending itself against a full-scale Russian invasion, Ukraine has developed a defence innovation ecosystem characterised by extremely rapid, iterative testing of new technologies and direct feedback from end users, enabling it to build capabilities suited to modern warfare and to a highly adaptive defence industry.⁷⁴

The defence industries of all three Baltic states actively cooperate with Ukraine, including by testing prototypes and gathering feedback under real combat conditions, but Lithuania is particularly active in this regard. In 2025, Lithuania and Ukraine formalised their cooperation on joint defence production, with a specific focus on long-range systems and unmanned aerial vehicles.⁷⁵ Meanwhile, *UkrOboronProm*, a state-owned defence industry conglomerate in Ukraine, has been collaborating with Lithuanian companies – *NT Service*, *Brolis Semiconductors*, *DMEXS*, and *RSI Europe* – since 2024.⁷⁶ A representative of *RSI Europe* has noted that most of the drones manufactured by the company are currently being supplied to Ukraine.⁷⁷

Successful cooperation with Ukraine is a key reason why Lithuania's drone industry – and its defence industry more broadly – is recording the fastest export growth among the Baltic states. On the basis of the defence industry company sample used in this study, Ukraine was the main export destination for Lithuania's defence industry in 2024.

Figure 28
Top Export Partners for Goods and Services from the Baltic Defence Industry Sample 2019–2024



73 Kyiv Post. 2026. Europe Must Learn from Ukraine's War Experience, Finnish President Says. <https://www.kyivpost.com/post/75411>
74 Miroshnichenko, K. 2025. Wartime Ukraine Defence Innovation Ecosystem Formation through Drone Technologies. Graduate School, School of Business, Economics and Law, University of Gothenburg, Sweden
75 Ministry of Defence of Ukraine. 2025. Denys Shmyhal: Ukraine and Lithuania to jointly manufacture defence products. <https://mod.gov.ua/en/news/denys-shmyhal-ukraine-and-lithuania-to-jointly-manufacture-defence-products>
76 Palyvoda, N. 2024. UkrOboronProm starts partnership with four foreign companies. <https://mind.ua/en/news/20268060-ukroboronprom-starts-partnership-with-four-foreign-companies>
77 Kuzyk, V. 2025. Lithuania's FPV drone ecosystem is taking shape: market size estimated at €10–15 million. <https://military.com/en/news/lithuania-s-fpv-drone-ecosystem-is-taking-shape-market-size-estimated-at-e10-15-million/>

Raw material import

Strengthening the resilience of supply chains could become a key area for closer integration of Baltic defence industries. In 2025, China not only controlled more than half of the global extraction and processing capacity for the 34 critical raw materials identified by the European Commission but also actively imposed export restrictions on several of them.⁷⁸ At the European level, efforts are under way to reduce strategic dependence on third-country suppliers of raw materials essential for defence production, notably through the Critical Raw Materials Act,⁷⁹ but progress is slow because building extraction and processing capacity for critical raw materials is a lengthy process.

Dependencies on raw materials arise not only in relation to critical minerals but also in the field of energy-related inputs. Nitrocellulose, which is essential for the production of gunpowder and explosives, is widely seen as a significant vulnerability for Europe because it is made from cotton fibres, and Europe relies heavily on cotton linters as feedstock, more than 70% of which are supplied by China.⁸⁰

The Baltic states are also exposed to these risks. Interviews with defence industry representatives indicate that active efforts are under way to reduce dependence on raw materials sourced from outside the European Union, but this typically entails significantly higher production costs and

end-product prices. Lithuania has banned its armed forces and state institutions from using Chinese-made technologies, and the local drone manufacturing industry is gradually working to eliminate dependence on raw materials of Chinese origin.⁸¹

A creation of raw material and manufacturing component reserves at the Baltic level will strengthen supply chain resilience and closer defence industrial integration. Regular dialogue is necessary to coordinate the building of raw material reserves, which is typically a national-level issue. **Establishing consultative council format at the Baltic level would lead to an efficient management of supply chain resilience risks.**

The Baltic states are well placed to take the initiative in producing critical raw materials and components. For example, in 2025, a rare-earth magnet factory operated by the Canadian company *Neo Performance Materials* opened in Estonia; it is the largest facility of its kind in Europe and is estimated to be able to meet approximately 10% of total European demand.⁸² Meanwhile, the Lithuanian company *Teltonika* is investing in a new high-tech manufacturing facility, including semiconductor production.⁸³ However, close coordination is essential to avoid overlapping efforts and to minimise supply risks.

Figure 29
China's Refining Capacity for Defence-Critical Raw Materials in 2025
(% of Global Refining Capacity)
Source: EUISS

Raw Material	Application	China's Refining Share
Heavy Rare Earth Metals	Permanent magnets, drone propulsion systems, laser technologies, night vision devices	100%
Gallium	Semiconductors, radars, electromagnetic warfare weapons, communication equipment	98%
Germanium	Infrared optical solutions, night vision devices, thermal cameras	93%
Bismuth	Ammunition, thermoelectric generators	82%

78 Teer, J. 2025. European Ministers of Defence - Save Europe, invest in mining! <https://www.iss.europa.eu/publications/commentary/european-ministers-defence-save-europe-invest-mining>

79 European Commission. 2024. Critical Raw Materials Act. https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/critical-raw-materials-act_en

80 Sklenár, M. 2026. *Op. Cit.*

81 Broga, K. 2024. Drone producers will phase out Chinese components this summer – defmin. <https://www.delfi.lt/en/politics/drone-producers-will-phase-out-chinese-components-this-summer-defmin-120018969>

82 Meredith, S. & Kang, C. 2025. Inside Europe's biggest rare earths factory on Russia's doorstep. <https://www.cnn.com/2025/12/04/taking-on-china-from-russias-border-inside-neos-rare-earths-factory.html>

83 Ministry of the Economy and Innovation. 2026. EIMIN initiative accelerates implementation of Teltonika's strategic semiconductor factory project. <https://eimin.lrv.lt/en/structure-and-contacts/news-1/eimin-initiative-accelerates-implementation-of-teltonikas-strategic-semiconductor-factory-project-yD12/>

Participation in international initiatives

Estonia emerges as the clear leader among the Baltic states in participation in international mechanisms – notably EU and NATO frameworks – that support defence innovation.

A key initiative is the European Defence Fund (EDF), which, through its five calls for proposals (2021–2025), has supported 3,171 European companies and research institutions in 282 projects, with total funding of €5.2 billion.⁸⁴ The EDF promotes the development of Europe's defence technological and industrial base through cross-border cooperation, as projects must involve at least three EU member states.

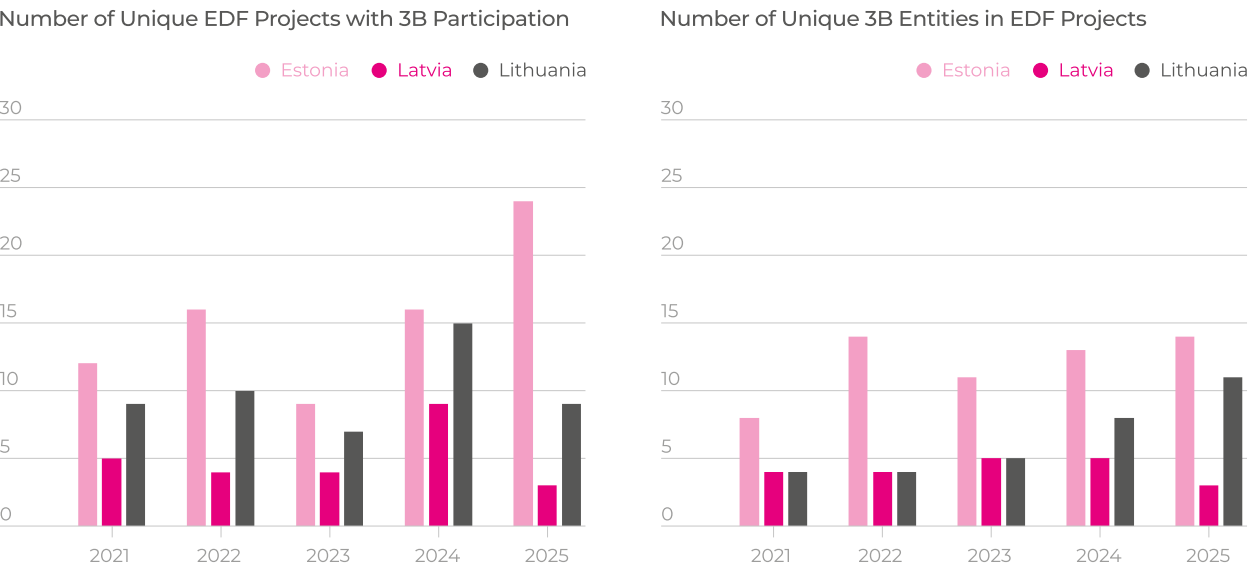
Estonia holds a lead within the EDF and its advantage over the other Baltic states continues to grow. In the 2025 EDF call for proposals, Estonian organisations were represented 33 times – more than Latvia and Lithuania combined, at 4 and 14 representations respectively.⁸⁵ Estonia is also the most

active in project leadership: across the five calls, its companies and research institutions have coordinated nine projects, compared with three for Latvia and two for Lithuania. Estonia's strength in project coordination is evident at the EU level as well. Among all EU member states, only five countries – France, Spain, Greece, Italy and Germany – have coordinated more EDF projects than Estonia.⁸⁶

The Lithuania-based *Baltic Institute of Advanced Technology* (BPTI) has been involved in 30 EDF projects making it the undisputed leader in the Baltic States in terms of the number of unique projects. At the same time, BPTI's successful participation in the EDF creates a misleading impression regarding the involvement of the rest of Lithuania's defence industry in the EDF. It is therefore important to look not only at project counts, but also at the number of unique companies participating in EDF calls for proposals.

Figure 30
The Baltic Defence Industry in European Defence Fund Projects 2021–2025

Note: The figure on the left shows the number of projects whose consortia include at least one company or research institution from the respective country. The figure on the right shows the number of unique companies and research institutions from each country that were involved in EDF project consortia in the given year. Sources: European Commission, Fiott, 2026, Palavenis, 2025.



84 Fiott, D. 2026. From Inertia to Innovation? Five Years of the European Defence Fund, 2021-2025 <https://csds.vub.be/publication/from-inertia-to-innovation-five-years-of-the-european-defence-fund-2021-2025/>

85 Note: This breakdown shows the total number of company and research-institution representations across EDF projects. If the same company participates in two projects, it is counted as two representations. Likewise, if two companies from the same country participate in the same project, they are counted as two separate representations.

86 Fiott, D. 2026. *Op. Cit.*

Finally, it should be noted that partners in EDF project consortia represent only part of the defence industry involved in these projects. Data on the number of subcontractors participating in project implementation are not available; however, companies sometimes disclose their involvement themselves. For example, the Latvian engineering services company *WeMPS* indicates that it is participating as a subcontractor in the EDF project FAMOUS2, which is developing next generation armoured platforms.⁸⁷

Although Baltic companies are relatively underrepresented in NATO's Defence Innovation Accelerator for the North Atlantic (DIANA), Estonia's leadership is evident here as well. Unlike Latvia and Lithuania, Estonian companies have been selected in every cohort. Two of them – *Telearmy*, a developer of remotely controlled ground systems, and *Wayren*, a startup specialising in secure communication technologies – were among the 15 finalists, selected from a pool of 2,613 competitors.⁸⁸ Tallinn hosts NATO DIANA's Regional Hub at the *Tehnopol* startup incubator, which also serves as the NATO DIANA accelerator site in Estonia. Since 2026, a NATO DIANA accelerator site has also been operating in Latvia, managed by *UniLab Defence*, a unique partnership bringing together all four of Latvia's research universities.

The European Union also launched its Defence Innovation Accelerator programme in 2025, and so far, two calls for propos-

als have been carried out, featuring startups from the defence industries of all three Baltic states. The first cohort included one startup from each country: Lithuania's *Luna Robotics*, which specialises in night-vision equipment for FPV drones; Latvia's *Ascent Lumina*, which generates synthetic data for artificial intelligence and develops computer-vision and AI solutions; and Estonia's *Vegvisir*, a mixed-reality technology company that develops situational-awareness solutions for armoured vehicles.⁸⁹ In the second cohort, the Baltic states are represented by two Estonian startups: *HexTech*, which is developing a system to coordinate and integrate various anti-drone sensors, and *Falconers*, which is developing sensors to detect threats with low visual and thermal signatures.

Figure 31
Baltic Defence Industry Companies in NATO DIANA 2024–2026

Note: The number of companies included in the NATO DIANA cohort for the respective year is shown
Source: NATO DIANA

	Estonia	Latvia	Lithuania
2024	1	–	2
2025	2	–	–
2026	3	1	–

⁸⁷ Aizsardzības ministrija. 2025. CATALOGUE: ENTERPRISES & ORGANISATIONS from (related to) LATVIA. https://www.mod.gov.lv/sites/mod/files/document/Latvijas_uznemumu_katalogs.pdf

⁸⁸ Invest Estonia. 2025. Two Estonian startups excel in NATO's defence innovation accelerator. <https://investinestonia.com/two-estonian-startups-excel-in-natos-defence-innovation-accelerator/>

⁸⁹ DG DEFIS. 2025. Introducing the Top 20 selected Companies for EUDIS Business Accelerator. https://defence-industry-space.ec.europa.eu/introducing-top-20-selected-companies-eudis-business-accelerator-2025-05-28_en

3. INDUSTRY SPECIALISATION

The most successful companies in the Baltic defence industry specialise in specific technological niches, generating high added value. Some of these specialisations are unique to individual countries, while others are areas in which companies from all three Baltic states are competing to gain market share.

Defence-industry development can be promoted by building on the existing economic base – established companies, technological competencies and supply chains. Knowledge and manufacturing capacity ac-

cumulated in civilian sectors can be adapted for defence needs, helping to reduce development costs and timelines. A concrete example can be found in Finland, in Uusikaupunki, where *Valmet Automotive*'s civilian automotive plant is being converted to full-cycle production of Patria 6x6 armoured personnel carriers, with output expected to reach hundreds of vehicles per year and employment in the wider subcontractor network equivalent to around 240 people per 100 vehicles produced by early 2027.⁹⁰

3.1. Structure

Companies in the Baltic defence industry operate across a wide range of sectors, providing goods and services to the armed forces. **The defence industry is not limited to original equipment manufacturers; it also includes component manufacturers, raw material suppliers, research institutions, and others.** At the same time, public and expert debate tends to focus on several dozen companies, most of them well-known original equipment manufacturers that serve as the most visible representatives of the sector.

Although the statistical classification of economic activities, NACE Revision 2.1,

introduces the category 84.22 “Defence activities” and has introduced new classes related to military production – for example “30.13 Building of military ships and vessels” and “30.40 Manufacture of military combat vehicles” – most defence-industry companies list other sectors as their primary economic activity.

It should be noted that this chapter does not cover all areas of economic activity but focuses instead on a selection of illustrative examples that show how the Baltic defence industry has specialised in the development of specific goods, services and technological niches.

3.2. (Counter-) unmanned systems

Drawing lessons from the war in Ukraine, all three Baltic states have in recent years placed emphasis on developing unmanned systems. Analysing how Baltic governments and political elites justify the need to invest in drone technology, researchers conclude that this is framed primarily in terms of strengthening national capabilities and

prestige, rather than as an opportunity for regional or European-level cooperation.⁹¹

Expertise in the production and development of unmanned aerial vehicles in the Baltic states had begun to take root even before targeted defence-industry development policies were launched. A prime ex-

⁹⁰ Malyasov, D. 2026. Finland scales up armored vehicle output with new factory deal. <https://defence-blog.com/finland-scales-up-armored-vehicle-output-with-new-factory-deal/>

⁹¹ Lingevicius, J. 2025. Frontiers of digital sovereignty: drones and military security in the Baltic States. *Journal of Contemporary European Studies*, 1-21. <https://doi.org/10.1080/14782804.2025.2525142>

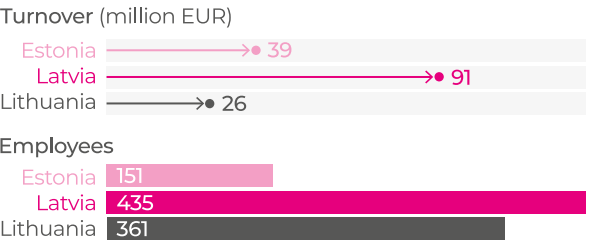
ample is the largest drone manufacturer in the region, *Redwire Defense Tech Riga*, founded in 2009. Its products are used by customers in 80 countries, and in 2024 the company generated revenue of €68.7 million and employed 235 people, accounting for the overwhelming majority of total turnover reported by Latvian companies in NACE category 30.30, “Manufacture of aircraft, spacecraft and related equipment”.

The second-largest company in this category is Estonia-based *Threod Systems*, with turnover of €38 million and 133 employees; its products are used in 27 countries worldwide. The company offers not just drones themselves but also other system elements. For example, in March 2026, the UK Ministry of Defence purchased a pneumatic launch system from *Threod Systems*, which can be used to launch various unmanned and autonomous systems.⁹²

In all the Baltic countries, there has been rapid growth in the number of drone manufacturers and related technologies, as well as in the scale of these companies’ business operations. Particularly noteworthy are companies like *Origin Robotics*, which since its founding in 2022 has supplied its products not only to the Latvian armed forces, but also to those of Estonia, Belgium, France and other countries, and whose turnover increased from €1.8 million in 2024 to €8.65 million in 2025. Meanwhile, the Latvian startup *Eraser* founded in 2024, generated a turnover of more than €6 million in 2025, with a profit of €1.76 million.

Figure 32
Aircraft Manufacturing in the Baltic States in 2024

Note: Data refer to NACE Rev. 2 category 30.30 “Manufacture of air and spacecraft and related machinery”
Source: Orbis



It is important to note that Latvia’s drone industry includes not only original equipment manufacturers but also suppliers of manufacturing components and developers of anti-drone solutions. For example, in 2025 the Ministry of Defence signed research and development contracts with four Latvian companies – *Origin Robotics*, *SAF Tehnika*, *Frankenburg Technologies*, and *WeMPS* – for the development of anti-drone solutions, with each company working on its own technology: an interceptor drone, an electromagnetic warfare device, an air-defence missile and a remotely controlled weapon.

Similarly, components needed for drone manufacturing – such as batteries and motors – are being developed in Latvia. Drone batteries are produced by *Pērkons Energy*, which began full-scale production in 2024 and exported its products to 20 countries in 2025.⁹³ *Artiteh Magnetics*, meanwhile, manufactures high-performance brushless motors – one of the key components of unmanned aerial vehicles.

In the current security context, the ability to scale up drone production is crucial. Although several new unmanned aerial vehicle companies have been established in Estonia since 2022, the main added value in drone technology continues to be generated by two companies – *Threod Systems* and *Krattworks*.⁹⁴

In several areas, companies in the Baltic states are working on very similar solutions. In 2026, for example, the Lithuanian company *LTMilTech* announced plans to invest in the production of high-performance brushless motors for drones, comparable to those already being produced and deployed in Latvia.⁹⁵ At the same time, the Estonian startup *Thistle* is developing a remotely controlled anti-drone system, similar to one currently under development in Latvia. On the one hand, diversifying production capacity is important, as it strengthens the resilience of supply chains. On the other hand, this leaves the potential for regional cooperation untapped, and parallel efforts risk fragmenting the market in the future and making it more difficult to scale innovative solutions.

3.3. Ammunition and explosives

Ammunition is a crucial component of military supply. After Russia’s full-scale invasion of Ukraine in 2022, the issue of ammunition shortages, caused by persistently low defence spending and the resulting reduction in industrial capacity, has been brought to the forefront of Europe’s defence industrial policy.⁹⁶

Ammunition production in Latvia and Lithuania has primarily focused on small arms (4.6 mm–12.7 mm). The Lithuanian state-owned company *GGG* is the largest ammunition manufacturer in the Baltic states; founded in 2000, it generated a revenue of €22.9 million – twice as much as Latvia’s largest manufacturer of small-arms ammunition, *Ammunity*, whose turnover reached €9.4 million in 2024, and which was acquired in 2025 by the Swedish company *Scandinavian Astor Group*.

Two other Latvian ammunition manufacturers need to be mentioned – *Baltic Bullets* and *D Dupleks*. In the case of *Baltic Bullets*, the increase in turnover from €467 thousand in 2024 to €5.7 million in 2025 is particularly noteworthy. Although the Latvian company *Vladcom* also manufactures small arms ammunition components (cartridges and bullets), the company lists freight rail transport as its core business and is therefore not included in the comparative chart.

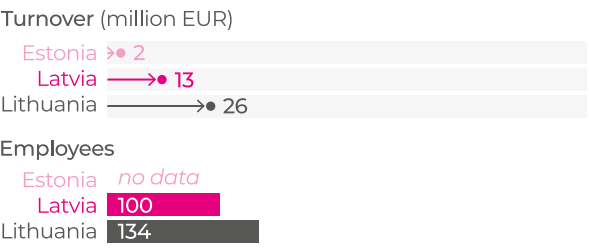
Data on the Estonian company *Nitrotol* show that it had a turnover of €1.5 million in 2024; however, data on the number of employees during this period are not available. At the end of 2025, the company began manufacturing explosives and mines in Emari,⁹⁷ and Estonia’s figures in this category are therefore expected to increase.

Contracts for the establishment of production facilities for explosives, ammunition, and their components at the Estonian Defence Industry Park have been signed not only with *Nitrotol*, but also with *Frankenburg Technologies*, *Infinitum Strike*, *Odin Defence* (subsidiary of *Thor Industries*), and the Turkish company *ARCA*.

The expansion of ammunition production capacity, particularly for battle-decisive ammunition, is evident in all three Baltic states. For example, the German prime contractor *Rheinmetall* will establish 155 mm artillery ammunition production facilities in both Lithuania and Latvia, in close cooperation with state-owned companies – *the State Defence Corporation* in Latvia and *GGG* and *Epsco-G* in Lithuania.⁹⁸

Figure 33
Weapons and Ammunition Production in the Baltic States in 2024

Note: Data refer to NACE Rev. 2 category 25.40 “Manufacture of weapons and ammunition”
Source: Orbis



The State Defence Corporation is implementing several projects to develop ammunition production facilities in Latvia. For example, a modular powder propellant charge facility for artillery ammunition is developed in cooperation with defence industry companies from Italy, France, Norway and Finland, with co-financing from the European Union. Another example is an anti-tank mine production facility, created in partnership with the German company *Dynamit Nobel Defence* for the Skorpion 2 scatterable anti-tank mine-laying system.

The Lithuanian state-owned company *GGG*, in collaboration with the U.S. defence industry giant *Northrop Grumman*, plans to develop 30 mm ammunition production capacity for infantry fighting vehicles, with Nordic company *NAMMO* also involved in the project.⁹⁹

At the same time, *Hanwha Aerospace*, a South Korean defence prime, plans to invest

92 Singsit, J. 2026. UK MoD selects Threod Cata launcher for British Army’s ASGARD programme. <https://www.army-technology.com/news/uk-mod-threod-cata-launcher/?cf-view>
93 DAIF Latvija. 2026. DAIF Latvija pasniedz "Latvijas Aizsardzības un drošības industriju gada balvas 2026". <https://federacija.lv/jaunumi/daif-latvija-pasniedz-latvijas-aizsardzibas-un-drosibas-industriju-gada-balvas-2026>
94 Salu, M., Allik, H., Pulk, M. & Veltman, M. 2025. OHT ÜLALT) Eesti droonitööstuses tehakse huvitavaid asju, aga mastaabihüpet veel ei ole. <https://www.postimees.ee/8304689/oht-ulalt-eesti-droonitoostuses-tehakse-huvitavaid-asju-aga-mastaabihupet-veel-ei-ole>
95 LTMilTech. 2026. LTMilTech is investing in the production of brushless drone motors in Lithuania. <https://ltmiltech.com/en/news/ltmiltech-is-investing-in-the-production-of-brushless-drone-motors-in-lithuania>

96 Satta, M. 2025. The Strategic Ammunition Gap: NATO’s Industrial Lag Risks Deterrence. <https://atlasinstitute.org/the-strategic-ammunition-gap-natos-industrial-lag-risks-deterrence/>
97 EER. 2025. Estonian company Nitrotol begins producing military explosives at Ämari. <https://news.err.ee/1609878391/estonian-company-nitrotol-begins-producing-military-explosives-at-amari>
98 Holgers, R., Makaraitytė, I., Jemberga, S. 2026. Spilēs starp politiku un izdevīgumu. Kā "Rheinmetall" ienāk Baltijā. https://www.delfi.lv/bizness/37264250/biznesa_vidē/120108255/spiles-starp-politiku-un-izdevigumu-ka-rheinmetall-ienak-baltija
99 Northrop Grumman. 2025. Northrop Grumman Expands Medium Caliber Ammunition Co-Production with Lithuania. <https://news.northropgrumman.com/armaments/northrop-grumman-expands-medium-caliber-ammunition-co-production-with-lithuania>

€100 million in Estonia, of which €25 million will go towards establishing a 40 mm ammunition production facility in cooperation with the Estonian defence industry.¹⁰⁰ Meanwhile, the Turkish company

ARCA plans to invest €300 million in developing a 155 mm ammunition factory.¹⁰¹ Consequently, **ammunition production in the Baltic states is expected to increase significantly in the coming years.**

3.4. Metalworking, mechanical engineering, and CNC

Metalworking, mechanical engineering, and computer numerical control (CNC) play a crucial role in the development of the defence industry. Although processing and manufacturing companies in these fields often remain outside the broader public eye, they form the core of the component and service supply base on which the defence industry depends. The Baltic states are active exporters of such goods. For example, in 2025 Lithuania exported metal products worth more than \$1.2 billion, while all three Baltic states have been particularly active in exporting electrical equipment.

The Estonian Defence Directory lists 24 companies in the category “Metalworking, Heavy Machinery, and Containers”, the largest of which is *HANZA Mechanics*, part of the international manufacturing group *HANZA*. *HANZA Mechanics* operates in Tartu, Tallinn,

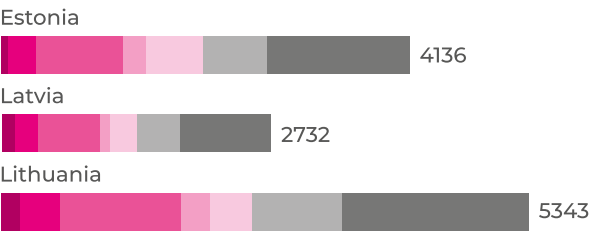
and Narva, and is registered as a separate company in each of these cities. *Hanza Mechanics Tartu* is most closely linked to the defence sector; it specialises in full-cycle manufacturing, including for defence needs, and in 2024 had a turnover of €71.8 million, of which €63.4 million came from exports.

Lithuania’s official defence industry mapping lists 32 companies as components manufacturers, including several metalworking and CNC firms. However, Lithuania’s specialisation in laser technologies is especially unique. Among component manufacturers, there are seven laser technology companies, the largest of which – *Ekspla* and *Altechna* – reported turnovers of €19.59 million and €15.04 million, respectively, in 2024, with exports accounting for approximately 90% of their turnover.

Figure 34
Export Value of the Manufacturing and Mechanical Engineering Sectors in the Baltic States in 2025 (million USD)

Source: UN Comtrade

- 62 | Rubber manufactures, n.e.s.
- 67 | Iron and steel
- 69 | Manufactures of metal, n.e.s.
- 71 | Power generating machinery and equipment
- 72 | Specialised machinery
- 74 | Other industrial machinery and parts
- 77 | Electrical machinery, apparatus and appliances, n.e.s.



The “Detection, Location, Acquisition and Deception” section of Lithuania’s official mapping includes other laser technology companies, such as *Aktyvus Photonics*, *Brolis Semiconductors*, and *Quantum Light Instruments*. These companies are also strongly export-oriented, as exports accounted for 80%–90% of their revenue. Of

particular note is *Brolis Semiconductors*, whose turnover was €17.85 million in 2024 and reached €48.47 million in 2025. The electro-optical devices manufactured by the company are used by the armed forces of Lithuania, Estonia, Poland, Finland, Denmark, Belgium, Spain, Australia, Canada, and other countries.¹⁰²

100 Invest Estonia. 2026. Hanwha Aerospace to invest €100M in Estonia’s defence industry. <https://investinestonia.com/hanwha-aerospace-to-invest-e100m-in-estonias-defence-industry/>
101 Invest Estonia. 2026. Estonia to receive €300M defence industry investment. <https://investinestonia.com/estonia-to-receive-e300m-defence-industry-investment/>
102 Lithuania Co-Create. 2026. Lithuanian Firm Brolis Semiconductors to Supply Electro-Optical Sights to Belgian Armed Forces. <https://lithuania.lt/news/business-and-innovations-in-lithuania/lithuanian-firm-brolis-semiconductors-to-supply-electro-optical-sights-to-belgian-armed-forces/>

Although the list of companies in Latvia’s defence industry is not publicly disclosed, the mapping by the Association of Mechanical Engineering and Metalworking Industries of Latvia identifies key specialisations. It shows that the largest share of the sector’s turnover comes from the manufacture of finished metal products and electrical equipment.

Figure 35
Structure of Manufacturing Industry in Latvia by Turnover According to the Statistical Classification of Economic Activities in 2025 (%)
Source: MASOC

9	Base metals
37	Metal products
21	Electrical equipment
16	Machinery and equipment
11	Automotive, trailers, semitrailers
6	Other transport vehicles

Military vehicle manufacturers play a key role in supporting capability development, as mobility is essential for mission effectiveness and unit survivability. The specifics of military vehicle manufacturing, maintenance, and repair differ slightly among the Baltic states.

At the end of 2024, six Baltic companies were registered under the NACE category 30.40, Manufacture of military and combat vehicles; however, only two of them were actively conducting business operations and generating revenue. Both of these companies were registered in Latvia – *LV-Teh* and *Defence Partnership Latvia* (the manufacturer of *Patria* 6x6 armoured personnel carriers). Both companies have continued to grow, and their turnover increased from €1.13 million and €2.1 million in 2024 to €4.09 million and €3.9 million in

2025. Furthermore, it should be noted that *Patria Latvia*, which is registered as a separate company and represents the Finnish company *Patria* in Latvia, has also increased its turnover from €1.88 million in 2024 to €3.18 million in 2025.

The largest manufacturer of military ground vehicles in the Baltic states is Estonia’s *Milrem Robotics*, which develops ground drones and autonomous systems; in 2024, it had a turnover of €26.8 million and employed 278 people. Since 2023, the company’s majority shareholder has been the United Arab Emirates-based *EDGE Group PJSC*. The company has classified its primary activity under NACE code 29.10, “Manufacture of motor vehicles.”

Meanwhile, *Lithuania Defence Services*, founded in 2022 by two German defence industry companies, *Rheinmetall* and *KNDS Germany*, classifies its primary activity under NACE category 45.20, “Maintenance and repair of motor vehicles.” This company had a turnover of €5.3 million in 2024. By 2028, with an investment of €50 million, it plans to create up to 100 new jobs related to the maintenance and repair of Leopard 2A8 tanks in Lithuania.¹⁰³

Alongside major investments in military equipment, all three Baltic states have recently reported that several international partners plan to establish maintenance and repair centres for the systems they supply. In Latvia, *Diehl Defence*, in cooperation with *Ripo Remonta Centrs*, intends to set up a maintenance and repair centre for the IRIS-T medium-range air defence system. In Estonia, maintenance centres for the HIMARS and Chunmoo long-range artillery systems will be established in cooperation with *Lockheed Martin* and *Hanwha Aerospace*, respectively. Although Lockheed Martin has announced similar plans in Lithuania,¹⁰⁴ there has so far been no public information on how these will be implemented.

The establishment of centres for the maintenance and repair of military equipment illustrates industrial specialisation in various categories of metalworking and mechanical engineering. Data show that these technological niches differ across the Baltic states.

103 Ministry of National Defence of the Republic of Lithuania. 2025. Leopard 2 A8 agreements signed by the MoD and international defence industry partners. <https://kam.lt/en/leopard-2-a8-agreements-signed-by-the-mod-and-international-defence-industry-partners/>
104 BNS. 2026. Lockheed Martin exploring investment opportunities in Lithuania – minister. <https://www.lrt.lt/en/news-in-english/19/2873091/lockheed-martin-exploring-investment-opportunities-in-lithuania-minister>

For example, **Estonia has relatively stronger machining capabilities (turning and**

milling), while Lithuania performs better in treatment and coating of metals.

Figure 36
Turnover in the Metalworking and Mechanical Engineering Manufacturing Sectors in the Baltic States in 2024 (million EUR)

Source: Orbis



Although Lithuania leads in automobile production capacity, €58.2 million of turnover in this category comes from *ALTAS komercinis transportas*, which manufactures specialised civilian vehicles such as ambulances. In Estonia, €20.45 million of the total €55.7 million turnover is generated by *Milrem Robotics*, a producer of unmanned ground vehicles. Latvia's largest military vehicle manufacturers – *Defence Partnership Latvia* and *LV-Teh* – are classified under NACE 30.40 ("Manufacture of military combat vehicles") and are therefore excluded from this comparison.

This chapter highlights only a few of the Baltic defence industry niches. Existing capacities should be purposefully directed towards developing goods and services needed for the defence of the entire region. As many defence-industry companies manufacture components rather than end products,¹⁰⁵ mutual cooperation can help align production with the needs of the end user.

Given the tense security situation, there is growing debate in Europe about shifting industrial capacity onto a war footing to strengthen material support for the armed forces.¹⁰⁶ This implies that not only original equipment manufacturers, but the wid-

er economy, must adapt to rising demand in the defence sector. In this context, closer integration of the Baltic economies could prove particularly important if supply chains are disrupted.

Although the Baltic states have a well-developed mechanical engineering and metalworking base, interviews indicate that this potential is often underused, creating unnecessary dependencies on suppliers outside the EU. To support defence-industry development, **procurement processes – including the drafting of technical specifications – should be better aligned with these strategic goals.** For example, tenders could require that certain manufacturing components be produced in the Baltic states, thereby strengthening supply-chain resilience. While such practices already exist, they remain isolated precedents rather than elements of a coherent, targeted policy.

Despite active efforts to develop the local defence industry, a large share of defence investments – including off-the-shelf procurements – still goes to suppliers outside the EU. This reflects both the need for very short delivery times and the limited capacity of the Baltic defence industry.

CONCLUSION

Targeted and mutually coordinated development of the Baltic defence industry strengthens military readiness and economic competitiveness. EU-level mechanisms such as the SAFE (Security Action for Europe) instrument are expected to foster closer coordination and cooperation in building defence capabilities and industrial capacity. At the same time, the European Union Institute for Security Studies argues that the most effective approaches are usually driven by small clusters of countries that share a common perception of threats and a common understanding of the objectives to be achieved.¹⁰⁷

Because of their small economies, the Baltic states cannot secure the long-term growth of their defence industries on the basis of domestic demand alone; developing strong export capacity is essential. As the geopolitical situation deteriorates, almost all European countries are expanding their own defence industries and prioritising procurement from domestic suppliers. Within this environment, the Baltic states must identify and develop distinct niches in European and global markets to realise their ambitious export-oriented defence-industry goals.

Building on Ukraine's experience of resisting Russia's full-scale war of aggression and creating an innovative, competitive defence sector, it is vital for the Baltic states to intensify cooperation with Ukraine, as well as with their closest regional partners, Poland and Finland. This kind of strategic partnership can help them access technologies, markets and operational know-how that would be difficult to attain on their own.

Since the Baltic states' defence-industry specialisations largely overlap, a more effective path forward is targeted coordination and cooperation, including the development of cross-border partnerships. A joint Baltic-level platform for defence-industry cooperation and supply-chain risk manage-

ment is needed, modelled on the advisory councils that already exist at national level. Such a platform should be underpinned by a shared vision for defence-industry development and by concrete measures to mitigate key risks, particularly those linked to human capital and to the availability of critical raw materials and manufacturing components.

For integration of the Baltic states' defence industries to become structural, it is essential to pursue a common energy policy, coordinate infrastructure investment, and build capabilities through joint procurement. The coordinated development of human capital should involve the largest universities in the Baltic states, which – through closer cooperation – can help meet the growing demand for highly qualified specialists. In the longer term, the Rail Baltica railway line could serve as the backbone of regional labour mobility, provided the project is successfully completed.

To foster innovation, the relationship between government and the defence industry also needs to be reconsidered. As technology advances faster than regulatory and organisational structures can adapt, industry development must occur in close collaboration with end users. A striking example is Türkiye, where the design of innovative, operationally tailored solutions has been enabled by embedding industry representatives alongside end users – training with them, living in the same barracks and receiving continuous feedback.¹⁰⁸

At the same time, it would be advisable to establish a dedicated testing task force capable of rapidly meeting the testing needs of innovative defence-industry companies, thereby relieving the armed forces of functions that lie outside their core mission. This would help startups to overcome the "valley of death" and ensure that new solutions are commercialised in a timely manner.

105 Kazlauskas, J. & Mankevičienė, R. 2026. Gynybos ir saugumo pramonės Lietuvoje problematika. <https://data.kurkl.lt/wp-content/uploads/2025/10/Lietuvos-gynybos-pramonės-problematika.pdf>
106 Kayali, L. 2026. France wanted a war economy. Here's why Macron's big plan fizzled. <https://www.politico.eu/article/france-wanted-war-economy-got-blame-game-instead/>

107 Scazzieri, L. 2026. The power of the few: How clusters can strengthen European defence. <https://www.iss.europa.eu/publications/briefs/power-few-how-clusters-can-strengthen-european-defence>
108 Çam, M. M. 2023. Breaking Down Bureaucratic Politics in the Turkish Aerial Defense Industry: From Hürkuş to Bayraktar. In: Military Innovation in Türkiye (pp. 56-75). Routledge.

RECOMMENDATIONS

Cooperation platform

The Baltic states currently organise national-level consultative forums bringing together relevant government agencies, defence-industry representatives and the non-governmental sector to support defence-industry development. A regional framework for information exchange and policy coordination would foster cross-border partnerships and enable effective management of supply-chain resilience risks. We recommend establishing a trilateral defence-industry cooperation platform that would include representatives from the

ministries of defence, foreign affairs and the economy of the Baltic states, as well as defence-industry companies and industry associations. A similar cooperation format already operates among the Nordic countries. This platform would not require the creation of new institutions, such as a permanent secretariat; instead, it should build on existing national-level mechanisms to form an ad hoc Baltic defence-industry cooperation framework convened to address specific issues, ensuring flexibility and the ability to take timely decisions.

Human capital strategy

The availability of human capital is a critical factor for the long-term development of the Baltic defence industry. Among the companies included in this study, employment increased by approximately 13% between 2019 and 2024. While Baltic defence firms already report difficulties in attracting the required workforce and skill sets, these challenges are likely to intensify as defence investments grow and production capacity expands. One potential solution is to reallocate workers from other sectors of the economy, as opportunities to employ third-country nationals in the defence industry are constrained

by security and immigration restrictions. However, negative demographic trends make it essential both to explore options for horizontal growth – particularly by enhancing the mobility of skilled workers within the Baltic states – and to reform higher education models. For example, this could include requiring that one academic year at the bachelor's level be dedicated to an industry internship. To ensure a sustainable pipeline of talent aligned with long-term strategic needs, a joint Baltic defence industry human capital development strategy is required.

Joint reserves

For the defence industry to effectively support the armed forces in carrying out their missions and to strengthen supply capabilities in both peacetime and wartime, latent industrial capacity must be developed. Defence companies need the ability to rapidly scale up production volumes in response to changes in the security environment and rising demand for military goods. Achieving this requires the timely establishment of reserves of critical raw materials

and manufacturing components. However, building and maintaining such reserves entails additional costs, and in the absence of guaranteed order volumes, companies have little incentive to do so. Given the relatively small production scales of individual Baltic states, it would be advisable to develop these reserves jointly, thereby achieving economies of scale. This study outlines the main groups of critical raw materials identified at the EU level. Nevertheless, the spe-

cific types, quantities, and associated costs of raw materials and components required by the Baltic defence industry should be determined separately through close cooperation between policymakers and industry associ-

ations. At the same time, decisions regarding the financing model for such reserves must be taken at the political level, including through a tripartite agreement on the principles governing their management.

Testing capacities for innovation

Defence innovation relies on regular, iterative prototype testing and the effective incorporation of end-user feedback. Although the Baltic states are developing testing capacities, interviews with companies indicate that the current system is not functioning optimally. The testing process could be organised at the Baltic level through the establishment of a dedicated task force. Such

a body would relieve the armed forces of non-core functions, coordinate administrative and logistical requirements, and, over the longer term, contribute to the integration of Baltic defence innovation ecosystems. This task force could draw on national expertise or be structured as an independent group of international specialists.

Defence industry satellite accounts

The defence industries of the Baltic states do not currently constitute a separate economic sector in statistical terms. Most companies operate in the field of dual-use products, and the share of value added attributable specifically to defence purposes remains unclear. Although industry associations collect data on their members, these data are not comparable across associations and do not capture the full scope of the defence industry. Moreover, national approaches to measuring the sector and identifying development trends differ across the

Baltic states. To accurately assess the gross value added generated by the defence industry, as well as employment and the number of companies directly linked to defence contracts, it would be necessary to establish a dedicated satellite account within the system of national accounts, following the example of Australia. A joint methodology for measuring the defence industry is a prerequisite for setting common, deconflicted strategic objectives for its development and for ensuring that policymaking is based on evidence.

AUTHOR

Roberts Kits

LaSER researcher specialising in defence and security. He is currently a PhD researcher at the University of Latvia, Faculty of Economics and Social Sciences, where his research focuses on defence innovation ecosystems in small European states. Roberts holds an MA in Diplomacy and a BA in Political Science from the University of Latvia. He has also studied at the Institute of Political Studies of Lyon (*Sciences Po Lyon*), Naval Postgraduate School, and the Baltic Defence College. His research interests include defence technology and innovation, modern warfare, military readiness and societal resilience, and the development of European Defence Technological and Industrial Base.

