Eastern Flank Institute

Ideas for the security and stability of Central and Eastern Europe

How to go from being an importer of weapons to an exporter of security? Prospects for the development of the Polish defense industry

Executive summary of the report (prepared by the Eastern Flank Institute and the Sobieski Institute) in English

Report **"How to go from being an importer of weapons to an exporter of security? Prospects for the development of the Polish defense industry"** is an analytical study based on a cross-sectional analysis of the conditions of the Polish defense industry sector, including the history of the industry, defense policy challenges, and case studies from Israel, France, South Korea, Norway, the United States, and Turkey, among others.

In view of the deteriorating security situation in Poland, experts from the **Eastern Flank Institute**, in cooperation with the **Sobieski Institute**, sought to answer the following questions: *Are public funds allocated in an optimal manner? To what extent do Polish companies benefit from this? Can the defense sector become one of the drivers of the domestic economy?* They presented realistic recommendations aimed at: increasing the degree of Polish armament and national sovereignty, increasing the efficiency of both state and private defense industries, raising the innovativeness of the Polish arms industry, shifting part of defense spending to investments in the economy, and creating high-quality jobs in Poland.

The authors of the report emphasize that building a strong defense industry is not only a matter of security—it is also a matter of innovation, economic development, and an opportunity to join the world's leaders.

How to turn military security costs into economic success?

Russia's invasion of Ukraine has radically changed Europe's approach to its own security. The increase in the spending threshold to 5% of GDP at the recent NATO summit in The Hague reflects new challenges and the changing nature of threats – the growing importance of cybersecurity, critical infrastructure protection, and countering hybrid threats that go beyond traditional military operations. **Defense spending is now an integral part of economic policy, not just a security issue**. In order to ensure competitiveness and develop the capabilities of the Polish defense industry, it is necessary to create a stable financial foundation for it at the national level. Without lasting, systemic cooperation between the state and the

Polish defense industry, based on national budgetary expenditure, its success at the European level, its real influence on defense policy, and its ability to access EU funds will remain limited.

Polish national defense spending is currently among the highest in NATO, exceeding 4% of GDP. In 2024, it amounted to 4.1% of GDP, and the 2025 budget plans for a further increase to 4.7% of GDP, but its structure poses serious challenges. Compared to other allied countries, the high share of personnel costs (1.2% of GDP) is a cause for concern. Poland is moving towards an excessively costly defense spending structure, in which the predominance of personnel costs may limit flexibility and the ability to continue investing in the technological modernization of the armed forces. **Maintaining an appropriate balance between salaries and investments in equipment and innovation will be one of the key challenges for defense policy in the coming years**.

The report also points out that defense policy should not be viewed solely in terms of security, but also as part of industrial strategy. One of its key objectives should be to build a strong and competitive defense sector capable of using financial instruments, generating profits, and reinvesting them in development. **A strong industrial base could not only secure domestic needs, but also increase production for export, which would result in higher tax revenues for the state, new jobs, and an increase in Poland's share in European value chains**.

International benchmark in the defense sector – best practices from selected countries: France, Israel, South Korea, Norway, Turkey, the US, and the Baltic states

Poland has a unique opportunity to develop a strong defense industry. To achieve success, it is worth learning from the experiences of other countries that have followed a similar path, such as France, Israel, South Korea, Norway, Turkey, the US, and the Baltic states (Lithuania, Latvia, Estonia). Despite differences in the history of their defense industries, location, and geopolitical conditions, each of these countries has focused on development and achieved success. An analysis of their actions allows us to draw several conclusions that are key for Poland:

1. **Investments in research and development -** all these countries are committed to the development of technology in the defense sector and, as a result, allocate relatively large funds to research and development. This enables the production of modern military equipment and ensures technological superiority on the battlefield.
2. **Export expansion** - almost all of the countries analyzed (except for the Baltic states) have adopted a decisive model of export expansion. A strong focus on exports strengthens the financial stability of defense companies, reduces production costs, and promotes international technological cooperation.
3. **Institutions supporting the sector** - the countries mentioned have special institutions responsible for industry coordination, export promotion, staff training, and innovation support.

4. **Flexible public procurement system** - a flexible public procurement system, i.e., simplified procedures that enable rapid contract execution and long-term production planning, is an element that facilitates the functioning of companies in the defense sector.
5. **Dual-use technologies** - the experiences of the US, South Korea, and Israel show that investments combining civil and military applications (e.g., drones, quantum technologies, energy systems) allow companies to finance further development.
6. **Specialization in technological niches** - as the example of Norway shows, it is beneficial for countries entering the arms market late to focus on selected, promising areas, which allows them to build an advantage in precisely selected segments.

Why does Poland have difficulty exploiting its industrial potential?

Poland is in a unique security situation, as it is the only NATO country that borders Ukraine, Russia, Belarus, and the Baltic states. Due to its location and military potential, Poland is the strongest NATO member in Central and Eastern Europe, and its armed forces play a key role in the defense of the entire region. Poland's responsibility includes preparing most of the operational capabilities needed for potential defense. The expansion of national defense capabilities is not only a prerequisite for national security, but also the fulfillment of obligations under Article 3 of the Washington Treaty, which requires the maintenance and development of individual and collective capabilities to repel armed aggression.

Following Russia's full-scale aggression against Ukraine, the Polish authorities took steps to urgently strengthen the operational capabilities of the Polish Armed Forces. As a result, Poland became the **leader in defense spending in NATO (4.12% of GDP in 2024), and** the value of the Armament Agency's contracts reached **PLN 540 billion**. Despite this, only **37%** of the funds for modernization go to the domestic arms industry (5% to private entities). Most of PGZ's large contracts are based on **foreign licenses**, which limits the share of Polish technologies.

Although since 2022 the process of technical modernization of the Polish Armed Forces has accelerated to an extent incomparable to previous years, a model has still not been developed to ensure the adequate participation of Polish industry, especially private industry, in this process. Therefore, the authors of the report draw attention to the need to adapt the system of planning and procurement of equipment to the needs of private industry through the wider use of multi-year contracts and the equal treatment of private and state-owned companies. It is also important to develop cooperation between these sectors in order to build resilient supply chains. Improvements are also needed in decision-making, licensing, and financial processes, including those involving private entities. Reform of research and development funding is necessary to increase competitiveness and the pace of work. Poland should also actively participate in the creation of EU instruments supporting the defense industry. **All these activities require systemic changes and better coordination of state administration**.

Recommendations for systemic changes in Poland

At the beginning of this chapter, the experts formulated the following fundamental conclusions:

1. In view of the dynamic changes in the geopolitical environment and the growing importance of security as the foundation for stable development, **a long-term increase in defense and security spending should become a permanent element of Poland's state strategy**.
2. In addition to their protective function, **investments in security can stimulate economic innovation** through the development of dual-use technologies (e.g., AI, cybersecurity, satellite technologies), creating a spillover effect of innovation into the civilian sector.
3. **Strategic investment in defense strengthens the resilience of the state**, supports the development of modern industries, builds technological sovereignty, and increases Poland's competitiveness.
4. **There is a need to build a strong defense industry** that will not only meet the state's defense needs but also achieve commercial success.
5. The defense industry remains a sector dominated by a relatively small number of customers, requiring **multidimensional state support**.
6. Regardless of EU policy, **Poland should retain as much autonomy as possible** in conducting its defense policy and making decisions related to the defense industry.
7. **Planned defense spending at 5% of GDP from 2025 should be permanently included in the state budget** and treated as an investment in security and a stimulus for economic development.
8. **There is a need to coordinate systemic changes** covering the military, political, economic, research and development, and foreign policy dimensions.

In order to implement the above assumptions, the authors proposed the creation of a general legal framework for so-called *flagship initiatives* in the defense sector, based on good legislative practices and appropriate financial preparation. This concept is based on an analysis of foreign experiences and a diagnosis of the situation of the Polish defense industry. The aim is to adapt proven solutions to the Polish economic, administrative, and geopolitical realities. The proposed legislative package will give a strong impetus to the development of the defense industry, and the flagship initiatives, as its components, should be implemented in parallel, as they have been designed as complementary tools.

Recommendations regarding *flagship initiatives*

1. **The defense industry as a strategic responsibility of the entire government** - a framework law and systemic support for the national industrial and technological base;
2. **Unification of the investment support system** for the Polish defense industry - both state-owned and private;
3. **Transformation of the Armaments Agency** from a purchasing institution into a purchasing and development institution
4. **Diversification** of the national defense industry;
5. **Reform of the Polish Armed Forces development planning system** - defense industry perspective;
6. **Reform of the system for the acquisition**, operation, and decommissioning of military equipment.

An effective industrial policy requires a long-term approach and a proactive stance by the government towards the European Commission on issues of state aid. A key element for the development of the defense sector also remains the professionalization of personnel, both in state-owned companies and in public administration. Investments in engineering and management skills and the use of military experience are a prerequisite for building technological superiority and greater state autonomy.

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